

Regional Integration and Linking Farmers to Markets: New Dimensions, Dynamics and Realities

Larry C.Y. Wong

Visiting Fellow ISIS Malaysia/

Visiting Senior Research Fellow MDRI-CESD/

Co-Founder Myanmar Praxis Pte Ltd

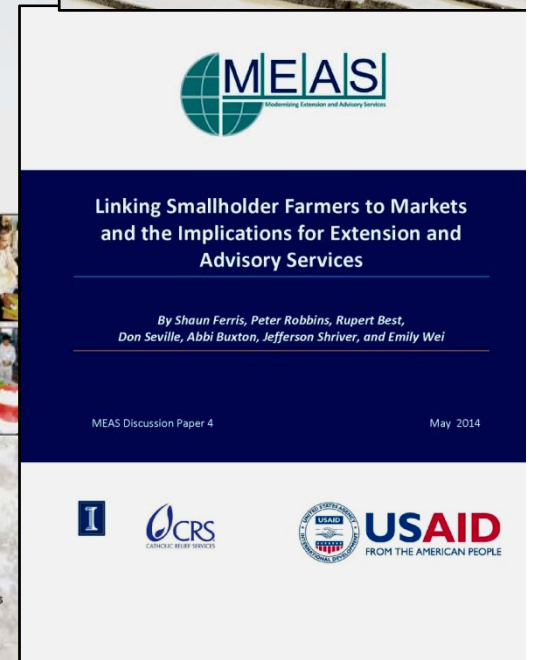
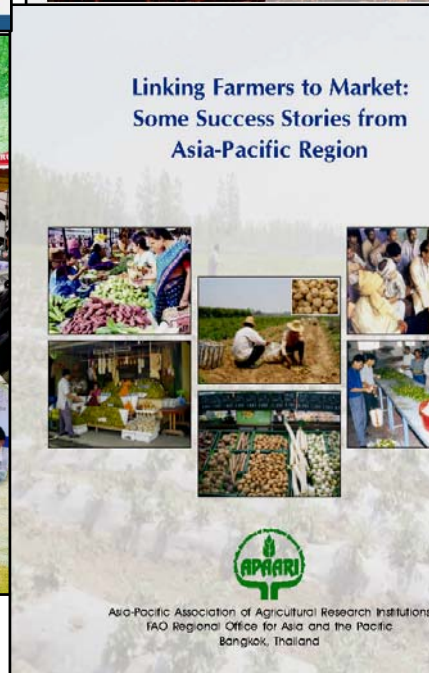
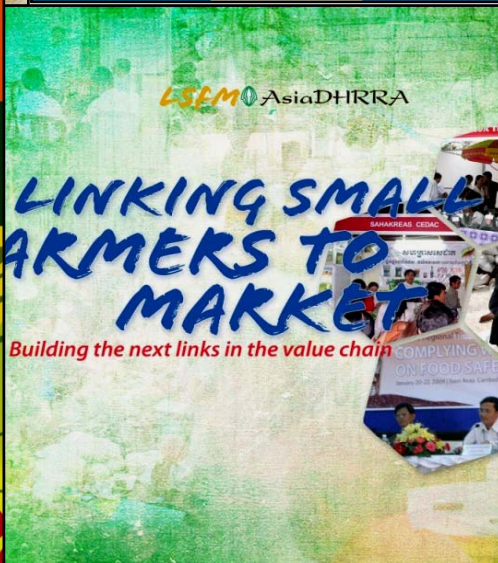
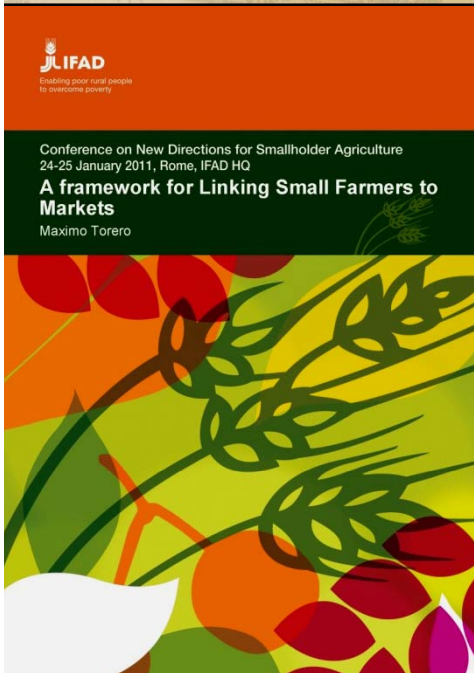
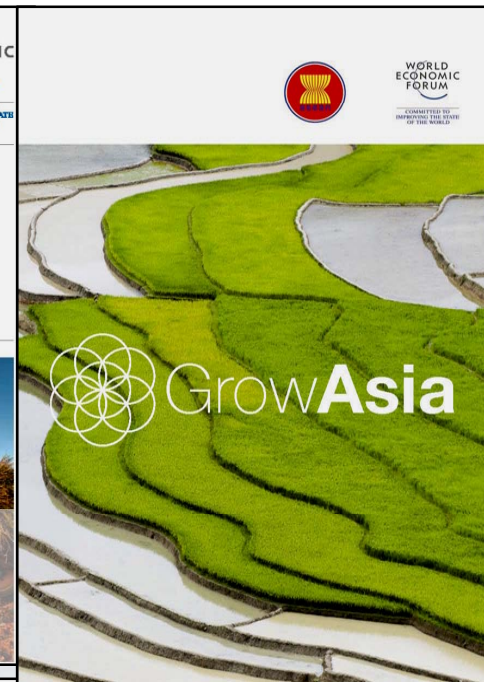
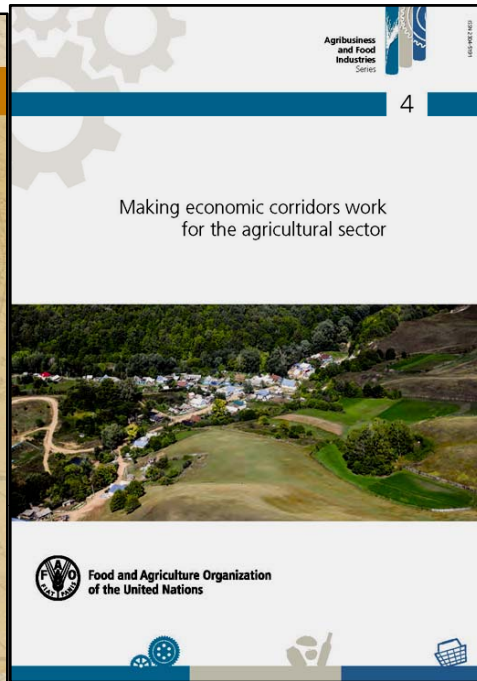
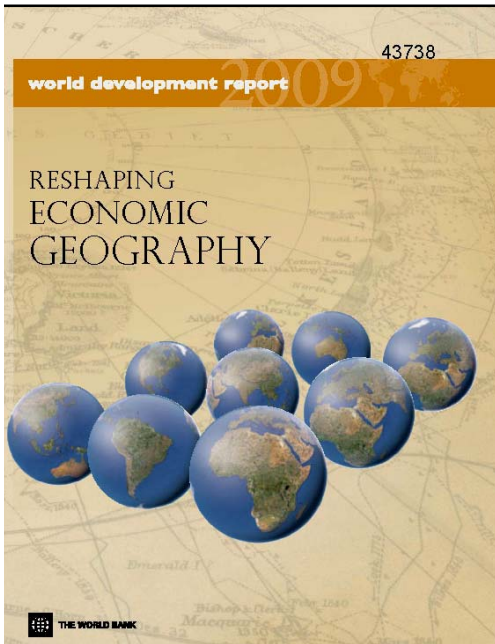
A SEMINAR ON 'REGIONAL INTEGRATION: LINKING FARMERS TO MARKETS'

May 20-22 2015, Mekong Institute, Khon Kean, Thailand

OUTLINE:

- 1. Introduction** – Purpose; Underlying theme
- 2. Backdrop** – Building on salient points from Asia Pacific Agricultural Policy Forum and recent ADBI, ADB and World Bank Studies that author was involved – consider new dimensions, dynamics and salient points distilled
- 3. Highlight private sector's increasing role, perspective and initiatives at local, regional and global levels** – WEF, Inclusive Business, Business for Development, etc – compelling reasons for more holistic Supply Chain Management Approach. Evolving Agri-food Supply Chains and Trading Networks in **AEC, GMS, Asia** – New Realities: connectivity, economic corridors and border-trade – **China's 'One Belt and One Road'** initiative and **AIIB** – New normal, challenges and opportunities
- 4. The Way Forward and Key Take Home Messages**
- 5. Conclusion**

NEED TO TUNNEL FROM BOTH ENDS



INTRODUCTION:

- **Purpose:** Two fold. (i) Tunneling from the **Regional Integration** end, build on key **salient points** from various **APAP Forum and Roundtables** and related **ADBI, ADB and World Bank studies** on enhancing regional integration via supply chains and trading networks development and management, with a **private sector and rice slant**, and (ii) Given the objective and orientation of this Seminar, to **stimulate discussion at this meeting and beyond**
- **Underlying theme:** policy makers, researchers, and stakeholders should understand **'why do companies do what they do more recently'** (New Vision for Agriculture, Grow Asia and Business for Development, etc) as well as understand that there are **compelling reasons to adopt an overarching, more holistic Supply Chain (and trading network) Management Approach** – given the tremendous potential benefits from increasing connectivity and transforming trade patterns and markets that **emerging regional economic corridors** bring.

Key Messages:

- ❖ **Dynamics** of Global and regional **agri-food** (e.g.rice) **markets and trade – shifting** – **China** hike in imports resulted from raising price subsidy over last few years (expected to import > 4 million MT in 2014/15 – coupled with **ASEAN and GMS connectivity** and China's ambitious '**One Belt and One Road**' initiative and establishment of **Asian Infrastructure Investment Bank (AIIB)** – enhancing regional agr-food/rice supply chains and trading networks holds **more compelling benefits, far beyond traditional linking farm to market (and food security) considerations.**
- ❖ Under the radar and in the lead up to AEC, **increasing incidence of cross-border investments** in continental ASEAN and **increasingly regional agri-food supply chains and trading networks are forming** (transfer of technology, management system, export platform) and signs of integration and convergence

Key Messages (Cont'd):

- ❖ **Private sector can be the solution and lubricant** in enhancing integration of regional agri-food/rice supply chains and trading networks. **BERNAS' experience from 1996-2004 provides glimpse of possibilities** - 'enlightened private sector' – increasing incidence of 'Inclusive Business', 'Business for Development' and 'Business for Peace'. Like **Adam Smith's invisible hand**, will increase net social benefit as well as lead to **more sustainable and inclusive growth** in individual countries and the region as a whole.

- ❖ **Future options, prospects and considerations:**
 - **B2B Initiated** and driven , **G2G facilitated** (Governments can take credit for success - but need to ensure sustainability and Business not overtaken by greed) – evolving dynamics favour **Agri-food/Rice Diplomacy?**
 - Who can/should provide **regional policy guidance and oversight?**

SALIENT POINTS DISTILLED FROM APAP FORUM AND RECENT STUDIES:

1. At beginning of ADBI study in 2012, all CLMV targeted to export more rice in future – but by end of study, on-going **policy debate** at national level is **how much rice to produce and export?** – in view of **extensive nature, water requirement and low comparative profitability** of rice. So recognize increasing importance of **Supply Chain development and management (vertical diversification)** and **crop/enterprise choice or mix (horizontal diversification)** – rice-based farming system
2. Except for **Viet Nam** (exports around **30-40% of total rice production**), **CLM export < 10%** of production (much much less than what they consume domestically). **Cautionary note:** disproportionate emphasis on rice exports supply chain – **domestic spatial and temporal arbitrage supply chains equally important** especially for food security, employment generation, poverty reduction, and inclusive growth – key is to **develop and manage supply chains to expanding markets, BOTH domestic and overseas**

SALIENT POINTS: (Cont'd)

4. **Dynamics** of Global and regional **rice markets** – **shifting trade and market segments** – China hike in imports result from raising price subsidy over last few years (likely major importer in future) – coupled with **ASEAN and GMS connectivity** increasing importance of **Border Trade** and **cross-border investments**. Also **new markets with preferential treatment** - EU (EBA) – for Cambodia, Lao PDR and Myanmar
5. **Productivity enhancement** - along entire supply chain – **beyond efficiency and cost of production**, but also cost of **milling/processing (electricity, capacity utilization), transportation, export processing, financing**. A recent comparison across countries – CLM lagging, much room for improvement
6. With the exception of **Vinafood I and II in Viet Nam**, **CLM have rolled back the involvement of SOEs**, - Myanmar Agriculture Produce Trading (Myanmar) and State Enterprise for Food and Crop Promotion (Lao PDR) – now playing minor role or restructured – **future of SOEs (in exporting as well as importing countries) and G to G trade?** G to G facilitated but B to B executed

SALIENT POINTS: (Cont'd)

7. Significant **FDI in mills** and processing – **pivotal role for transforming upstream and downstream segments** – development of comprehensive supply chains and sub-chains – investments in **input supply, modern distributive trade**, especially supermarkets – various forms of **contract farming** and modalities of **provision of agri-support services and foundation for enhancing productivity** – financing, technology and business organization and market access.
8. Need to **get basics, balance and leveraging right** in order to **support ASEAN Equitable Economic Development and enhance regional food security** – intuitively private sector driven – but for regional or cross-border P-P-P and within national borders, **role of Government still important** – especially in terms of governance and dispute settlement

SALIENT POINTS: (Cont'd)

9. Floated Recommendations

- **Policy issues** – sequential strengthening of identified **weak links in rice supply chains** – strength of a chain is determined by the weakest link
- **Coordinated initiatives/emphasis on green food** (low chemicals, traceable, food safety - food scare, absence of heavy metals);
- **Development of more high-value end-uses** – transmission of **better prices to farmers/producers**;
- **Proactive in attracting FDI** (technology transfer, management system, export platform);
- **More organized border trade** – leveraging on increasing GMS and ASEAN connectivity – especially neighbour's (China and Thailand's) superior infrastructure and linkages (springboard) to other countries
- **New Markets with preferential treatment** – EU - EBA and possibility China and Russia – **need to be more proactive**
- **Scalability and Replicability of innovative approaches** – adaptation, sharing and shoring – **Private Sector more adept/capable in this** – hence can be the solution rather than traditionally held view of being the cause of socio-politico-economic ills

New Vision for Agriculture - Creating Shared Value

A global agriculture system that harnesses the power of markets and multi-stakeholder collaboration to feed the world, protect our planet and create prosperity

FOOD SECURITY

Meet nutritional demands while providing affordable choices across the food value chain

Provide food security for all...

ENVIRONMENTAL SUSTAINABILITY

Conserve or enhance the quality and quantity of natural resources; meet the challenges of changing climate

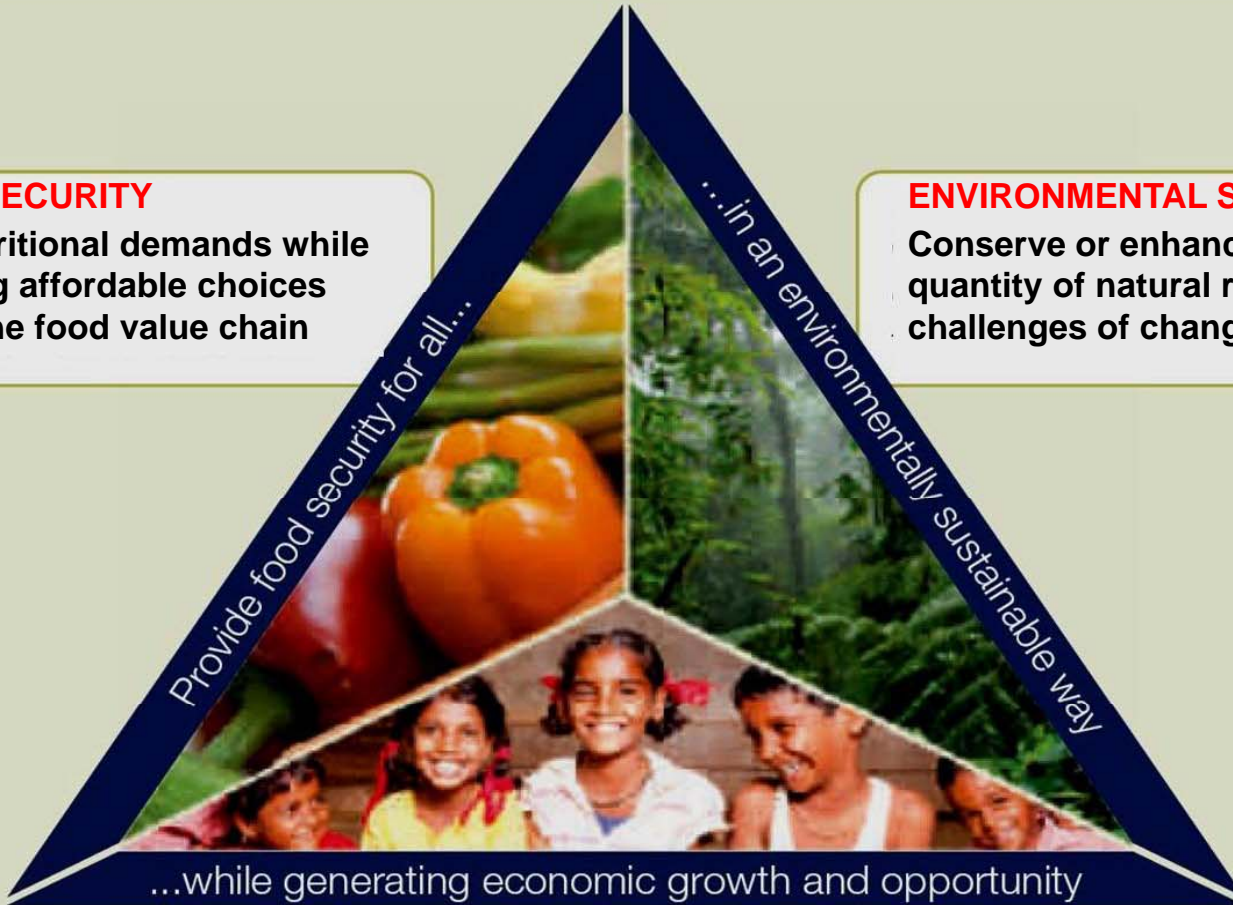
...in an environmentally sustainable way

...while generating economic growth and opportunity

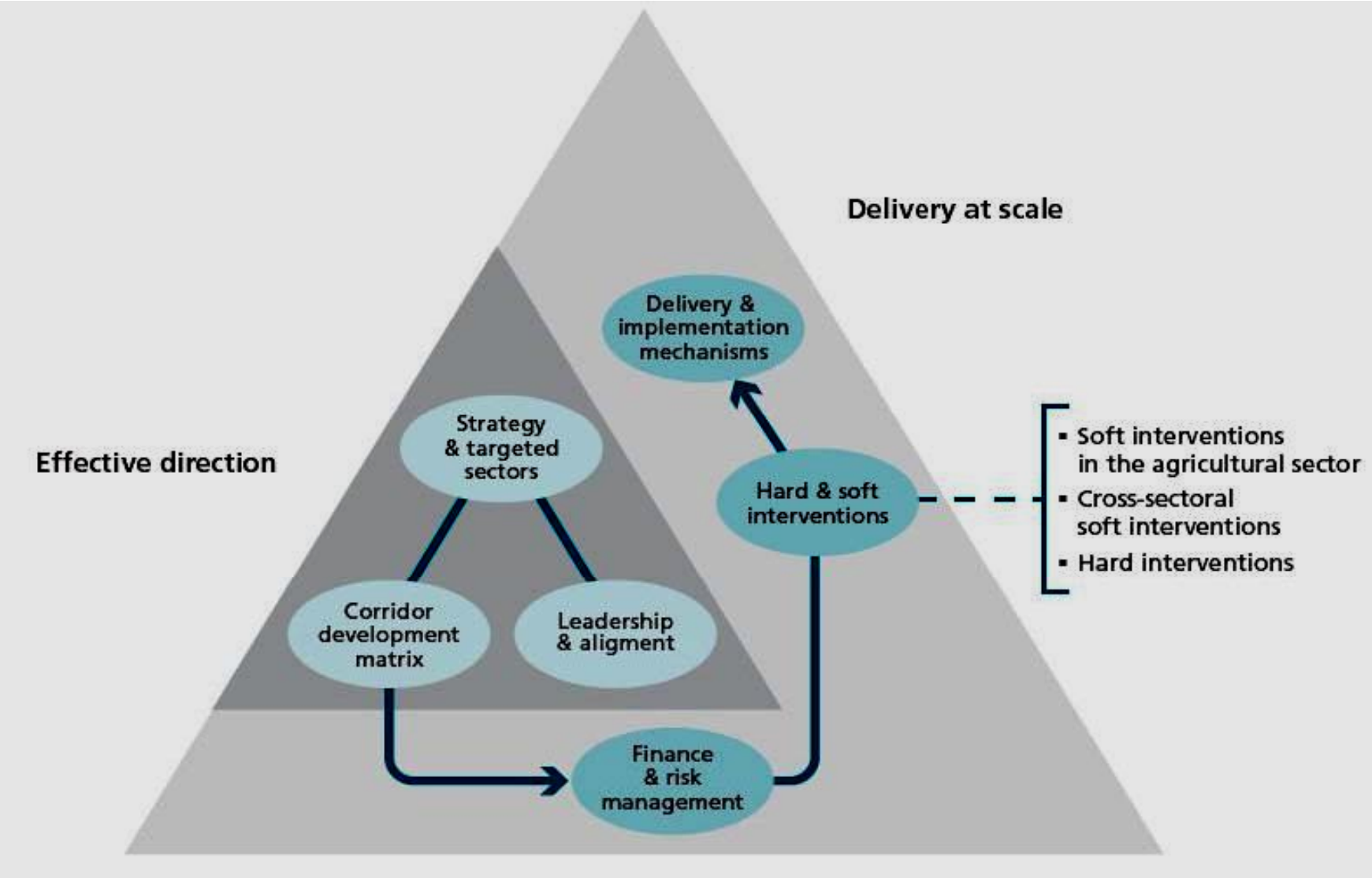
ECONOMIC OPPORTUNITY

Drive rural and national economic development around the globe with well-targeted investments

Source: WEF, 2010

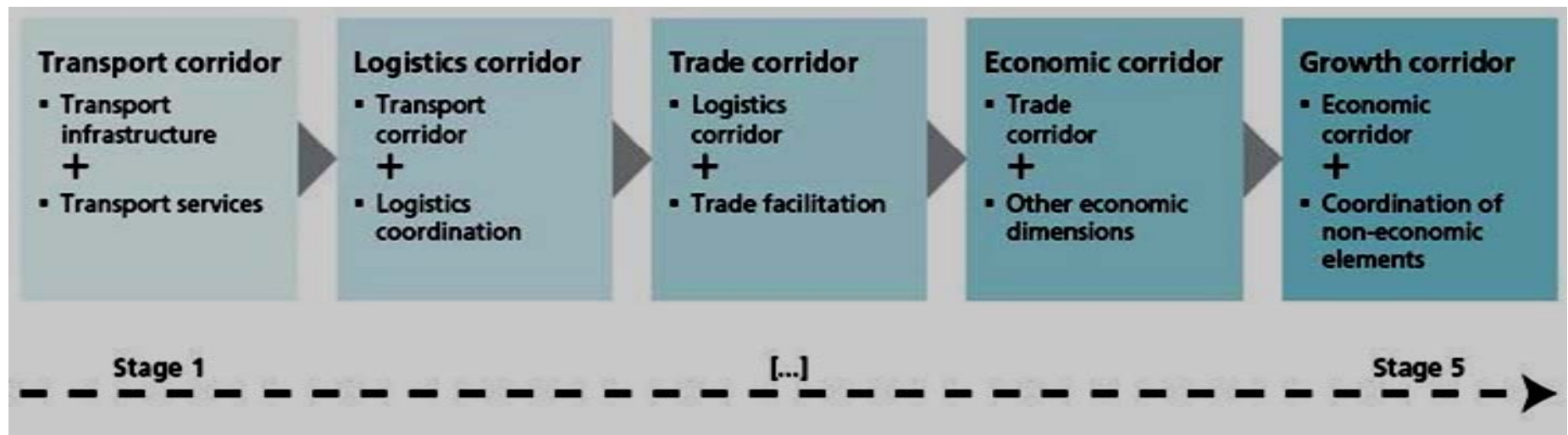


Relatedly, World Development Report 2009: Reshaping Economic Geography and increasing efforts at developing Economic Corridors – Closer Look in relation to AEC and GMS - A framework for economic corridors – Spatial Development



Types of Economic Corridors and Potential Development Path

Geographic scope	<ul style="list-style-type: none"> * Urban corridor vs urban-rural corridor * Subnational-level corridor * Transnational or regional (supranational) corridor
Sectoral scope	<ul style="list-style-type: none"> * Monosectoral corridor (e.g. agriculture and transport) * Multisectoral corridor
Driver	<ul style="list-style-type: none"> * Public-led corridor * Donor- or international financial institution (IFI)-led corridor * Private-led corridor * Multistakeholder partnership corridor or public-private partnership (PPP) corridor



Sectors targeted by the GMS cooperation programme and their corresponding plans

Targeted sector	Support strategy or programme	Flagship project(s)
1. Agriculture	Core Agriculture Support Programme (CASP)	Flood control and water resource management
2. Energy	GMS Energy Roadmap	Regional power interconnection and trading arrangements
3. Environment	Core Environment Programme and Biodiversity Conservation Corridors Initiative (CEP-BCI)	Strategic environment framework
4. Human resources development	Phnom Penh Plan for Development Management (of human resources)	Development of human resources and skill competencies
5. Investment	Strategic Framework for Action on Trade Facilitation and Investment (SFA-TFI)	Enhancement of private sector participation and competitiveness
6. Telecommunications		Telecommunications backbone
7. Tourism	GMS tourism sector strategy	GMS tourism development
8. Trade	Action Plan for Transport and Trade Facilitation	Facilitation of cross border trade and investment
9. Transport	Cross-Border Transport Agreement (CBTA)	North-South Economic Corridor (NSEC) East-West Economic Corridor (EWEC) Southern Economic Corridor (SEC)

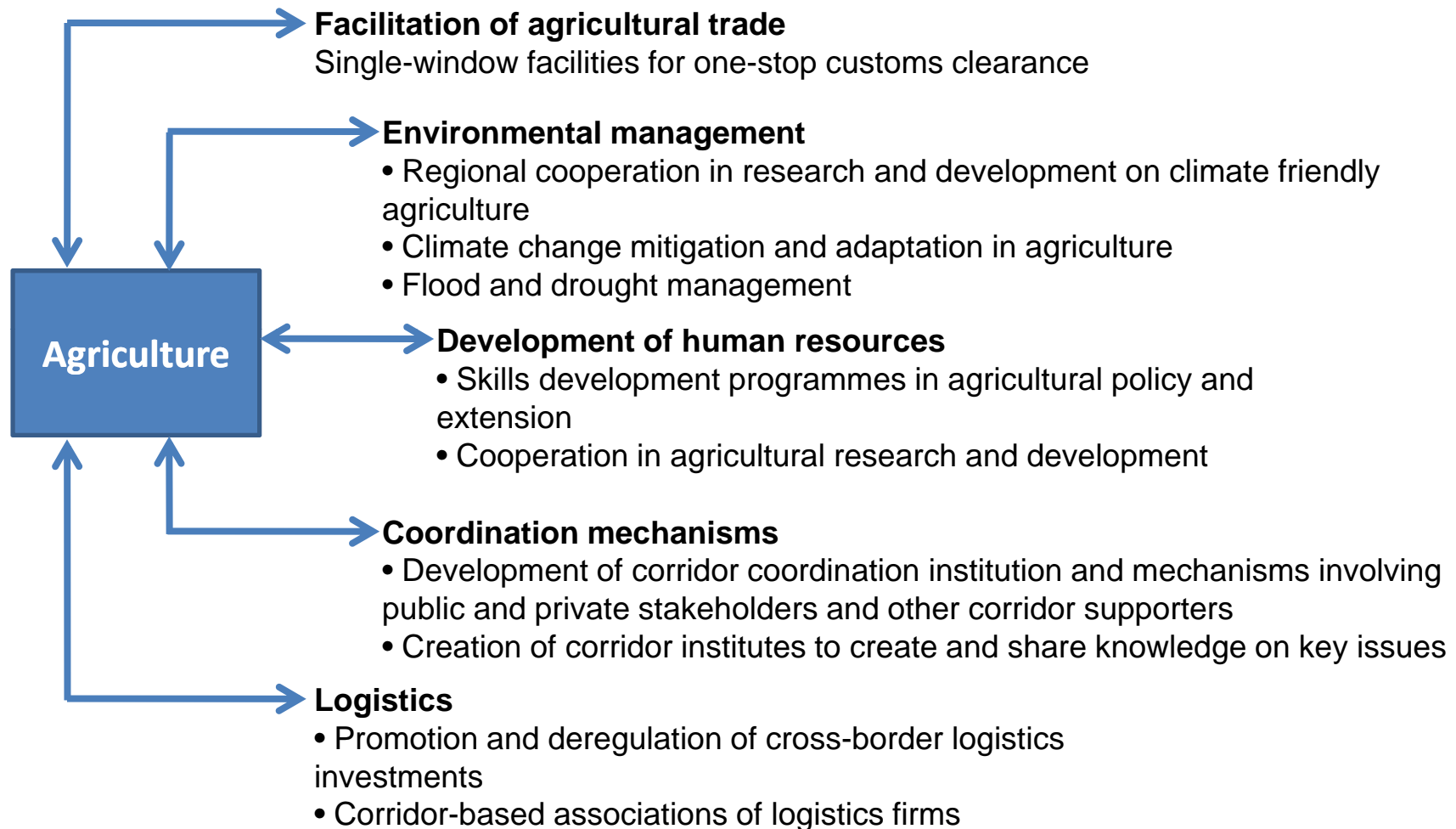
Source: www.adb.org [last accessed April 2015].

ASIDE: Contract farming experiences in GMS agrifood chains

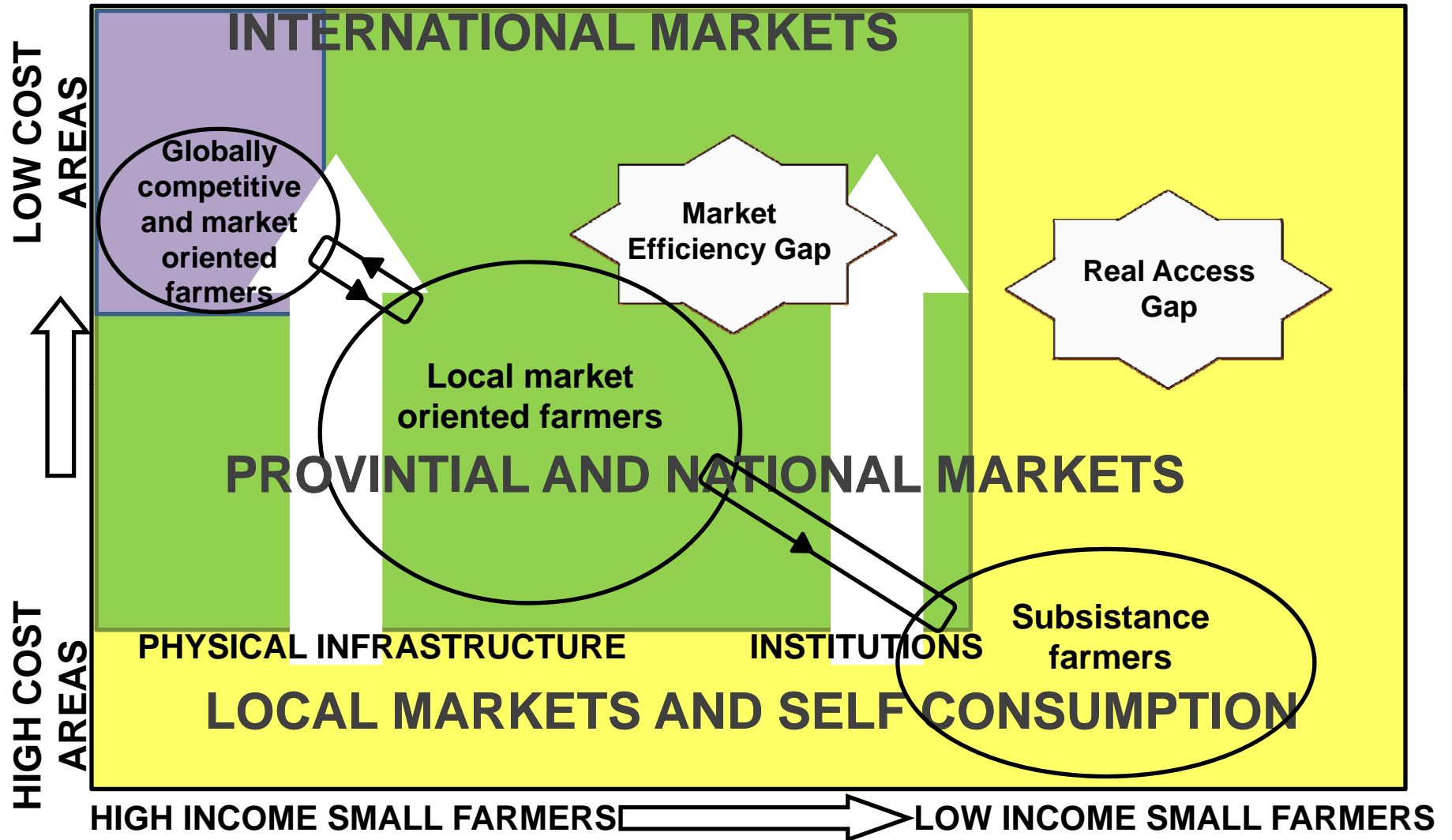
Corridor	Participating countries	Subsectors and value chains
NSEC	Lao PDR, Myanmar, China and Thailand	<ul style="list-style-type: none"> * Rubber, tea and maize (northern Lao PDR/China) * Cassava and sugar (Guangxi/Viet Nam) * Sugar cane, maize, watermelons, bananas, cabbages, tamarind and other horticultural products (northern Lao PDR/Thailand) * Forest products * Agricultural machinery and equipment * Biofuel production <ul style="list-style-type: none"> -- Biofuel from cassava, jatropha and sugar cane (China) -- Biodiesel from jatropha and oil palm (Thailand) -- Bioethanol from maize, cassava and sweet sorghum (Myanmar)
EWEC	Lao PDR, Myanmar, Thailand and Viet Nam	<ul style="list-style-type: none"> * Beer, sugar, beverages and milk production (Viet Nam) * Pinewood oil, beer and sugar (Lao PDR) * Rice (Thailand and Viet Nam) * Organic food
SEC	Cambodia, Thailand and Viet Nam	<ul style="list-style-type: none"> * Maize (Cambodia and Thailand) * Ethanol from cassava and sugar cane * Rubber * Rice * Pulses * Fruit and vegetables (e.g. durian, pepper)

Sources: ADB (2007a; 2009; 2010b; 2010c); ADBI (2008a; 2008b); Nguyen and Ha-Duong, 2009; Malik et al., 2009; Shepley et al., 2009; USAID, 2009; Manorom et al., 2010.

Examples of corridor soft-side interventions aiming to promote regional integration

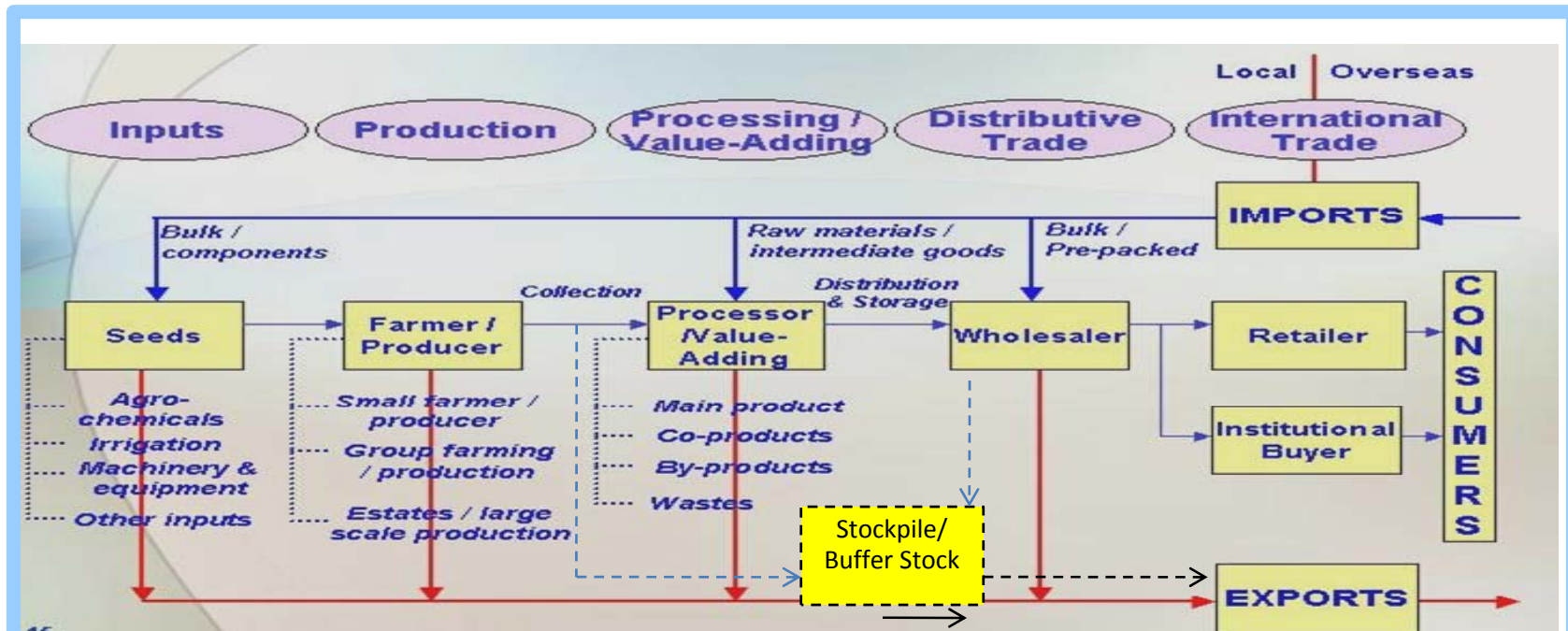


Source: Nogales (2014)

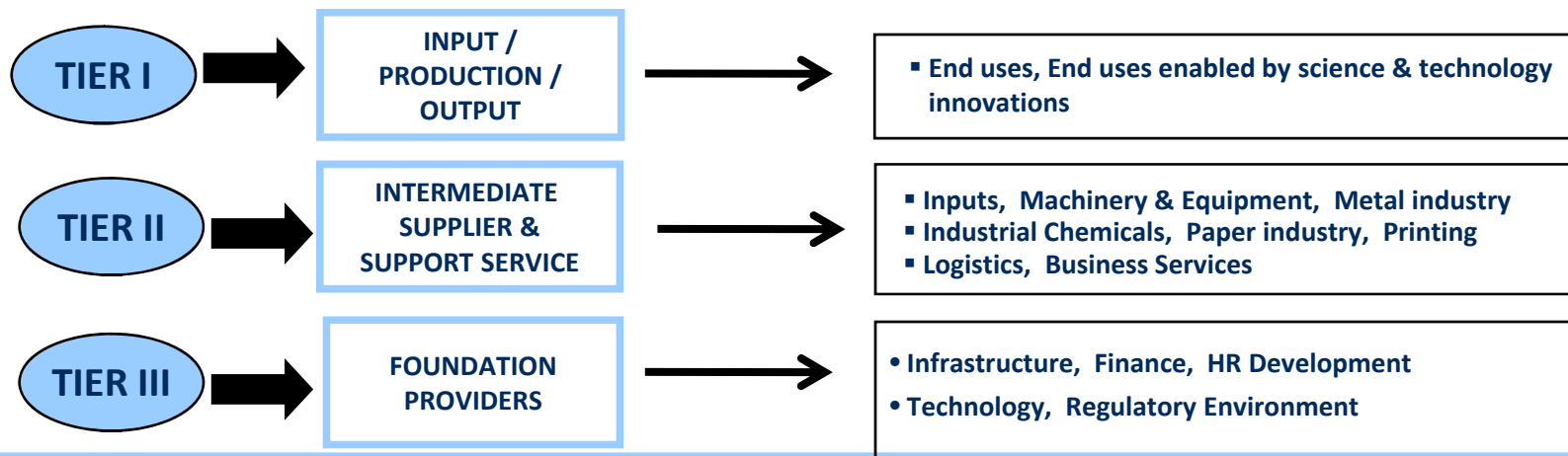


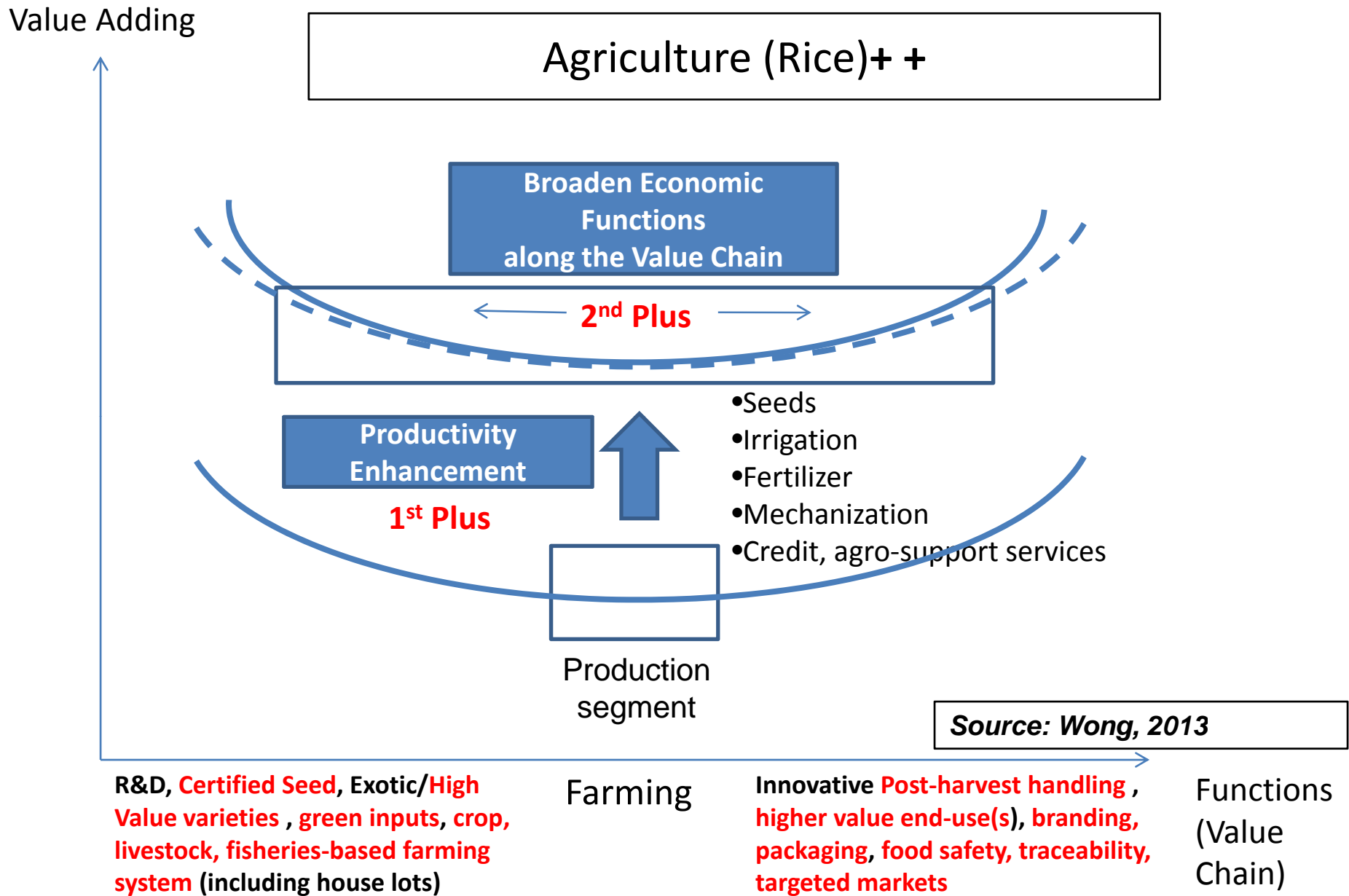
DYNAMICS IN LINKING FARMERS TO MARKETS – Spatial and Temporal

HOLISTIC SUPPLY CHAIN MANAGEMENT APPROACH – Economic Activities Along Supply Chain: basis for Agriculture as ‘Engine of Growth’



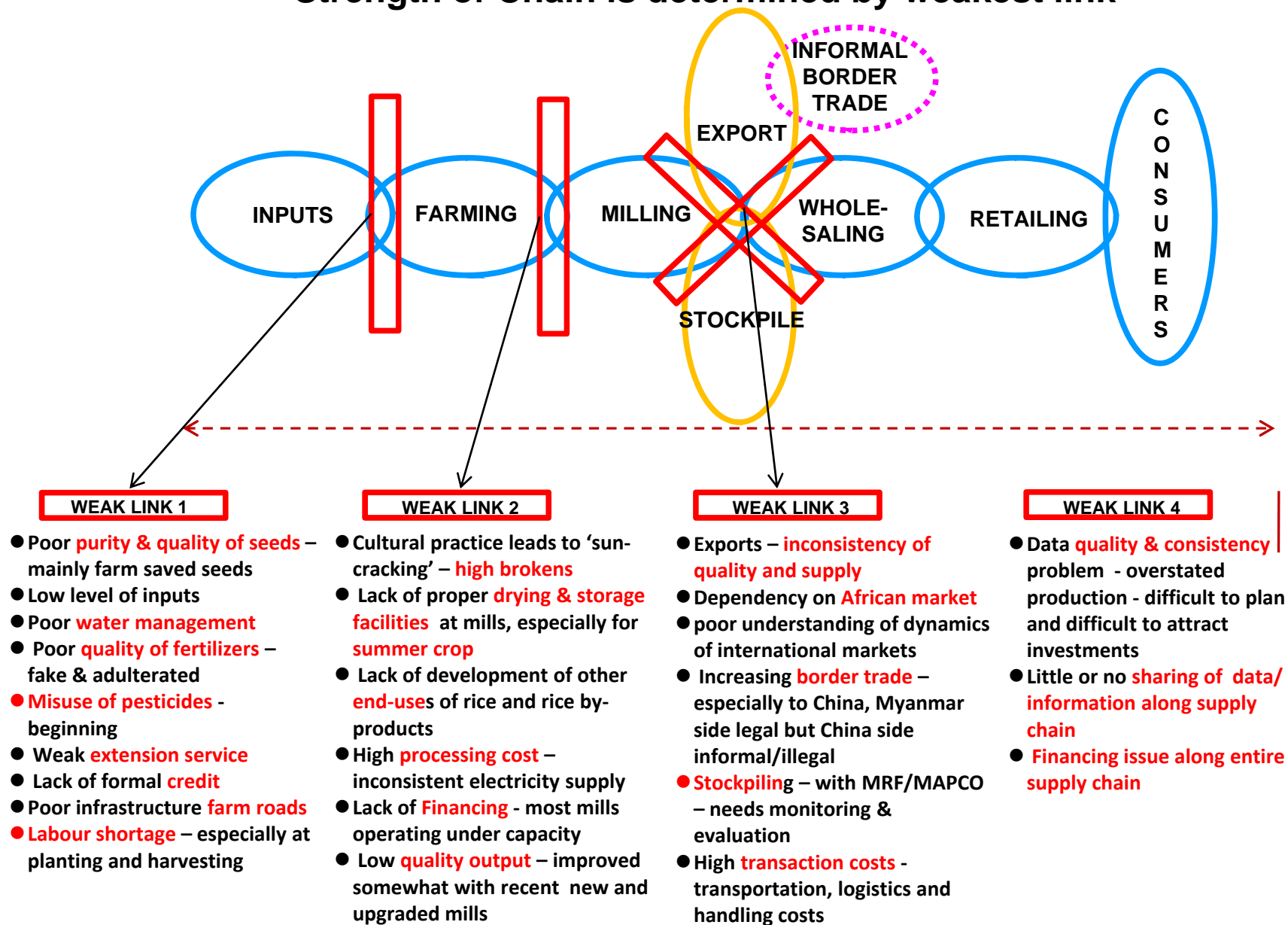
CURRENT/FUTURE OPPORTUNITIES



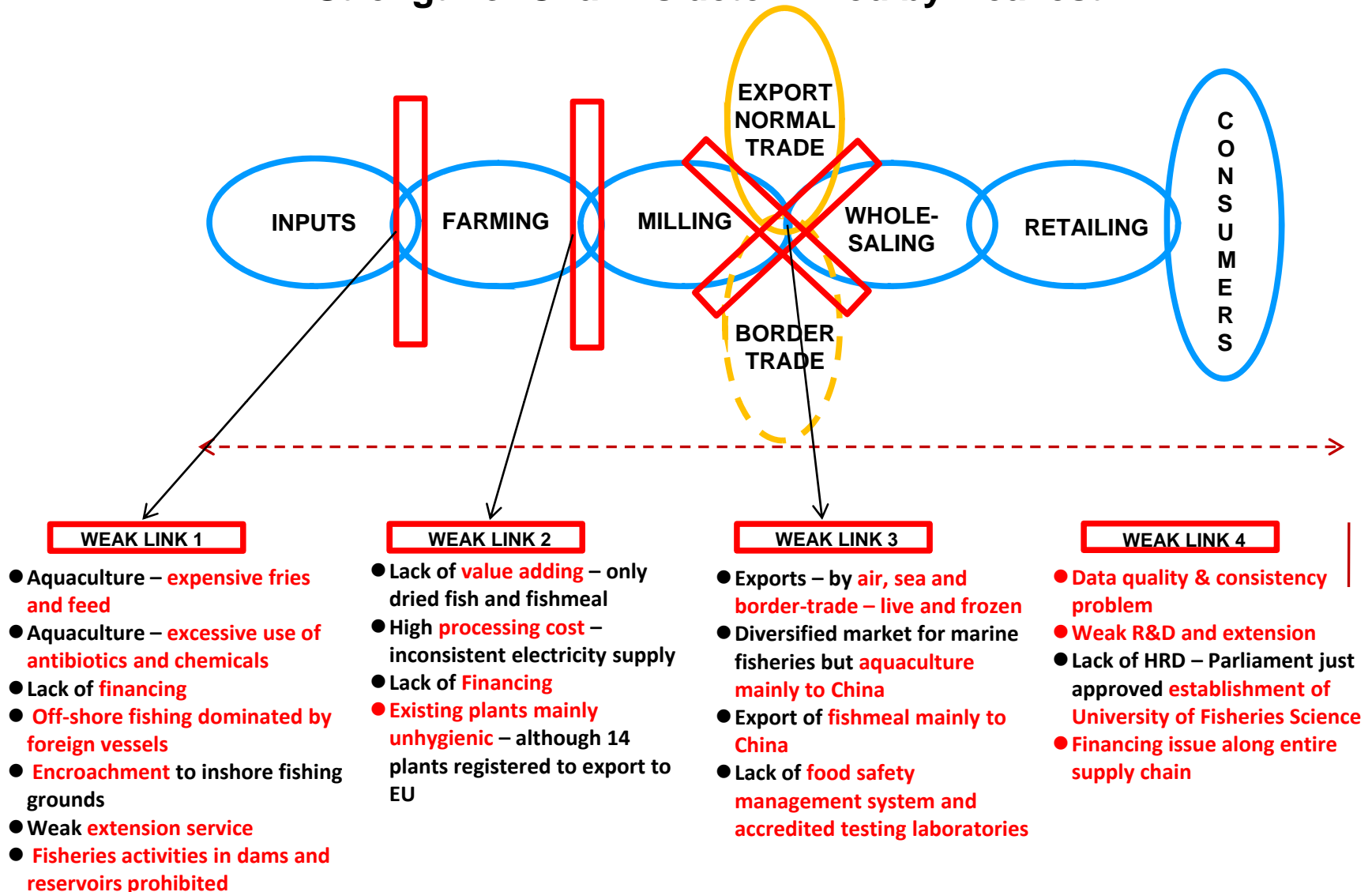


n.b. Adapted from Malaysian Second Industrial Master Plan – Manufacturing ++

Prioritizing and sequencing interventions – Myanmar Rice Supply Chain : Strength of Chain is determined by weakest link



Prioritizing and sequencing interventions – Myanmar Fisheries Supply Chain : Strength of Chain is determined by weakest link



Seemingly Unrelated Events (SURE) : Key Importers Changing - Opportunities

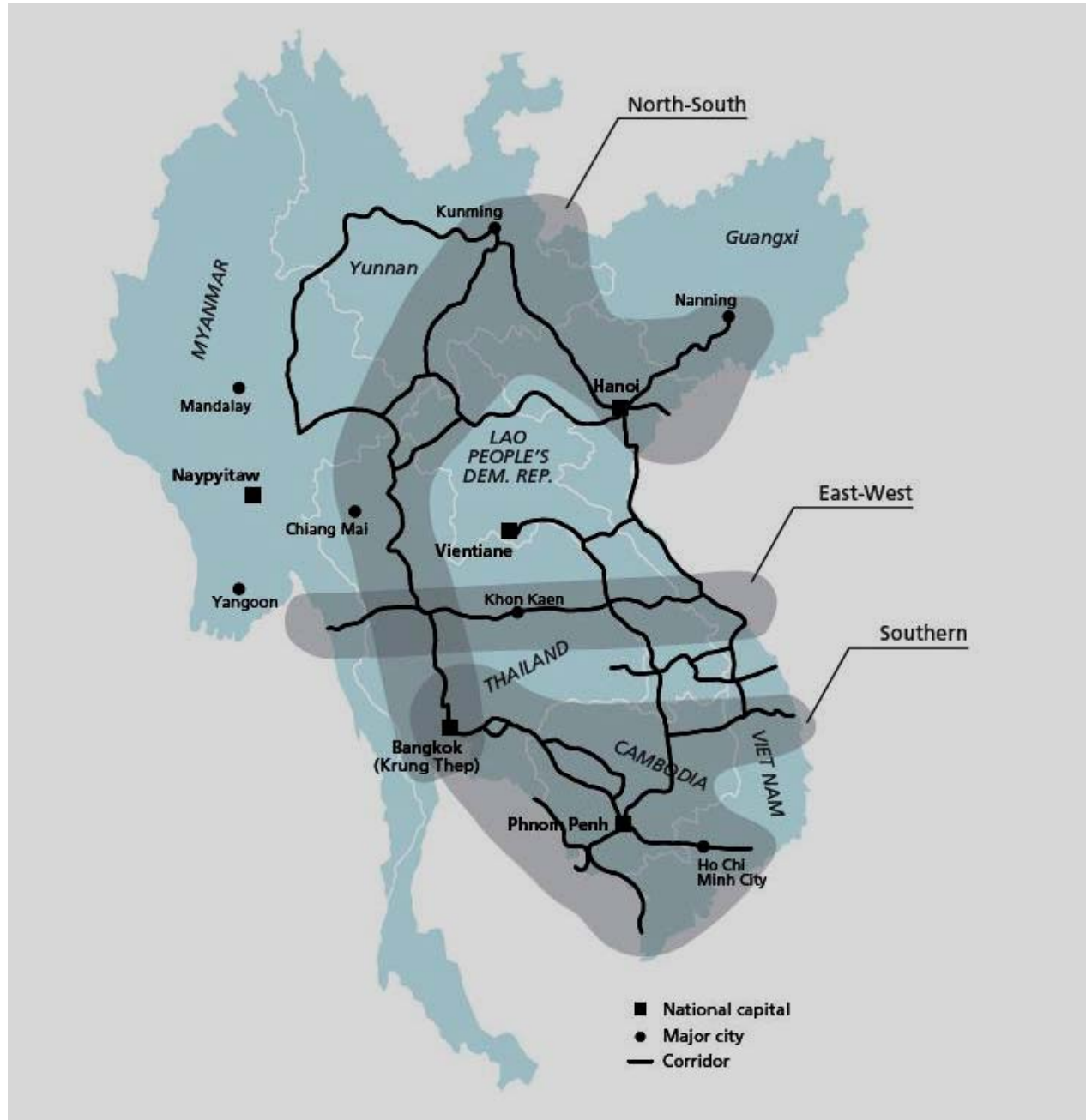
Imports by Key Markets (million tons)				
	2011	2012	2013	2014
Bangladesh	1.49	.05	.30	0.70
China	.58	2.90	3.00	4.30
Indonesia	3.10	1.96	1.50	1.30
Iran	1.87	1.70	1.50	1.65
Iraq	1.04	1.48	1.40	1.15
Ivory Coast	.94	1.45	1.15	1.20
Nigeria	2.55	3.40	2.90	3.20
Philippines	1.20	1.50	1.50	1.70
Senegal	.81	1.20	1.00	1.20
Others	22.69	23.51	25.75	26.52
TOTAL	36.25	39.15	38.60	42.90

China: Increasing Paddy support prices- 2012 \$381/MT, 2013 420/MT (~620/MT rice wholesale); TRQ – 5.32 MMT (duty 1% cf outside TRQ 65%)

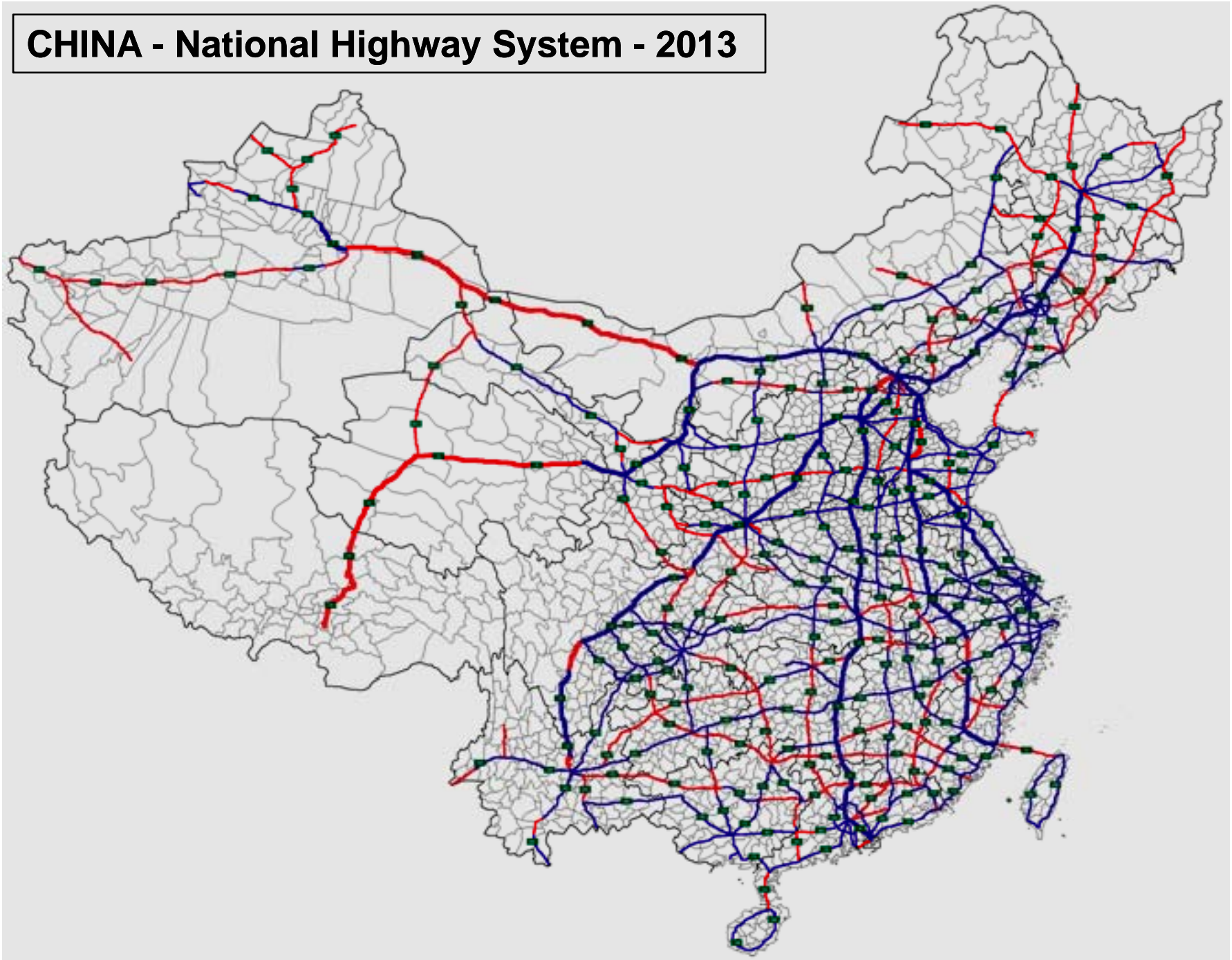
EU: imports 1.5MMT/annum; EBA – duty free, quota free; 2013 – E175 or USD228/MT

Source: Tom Slayton and USDA

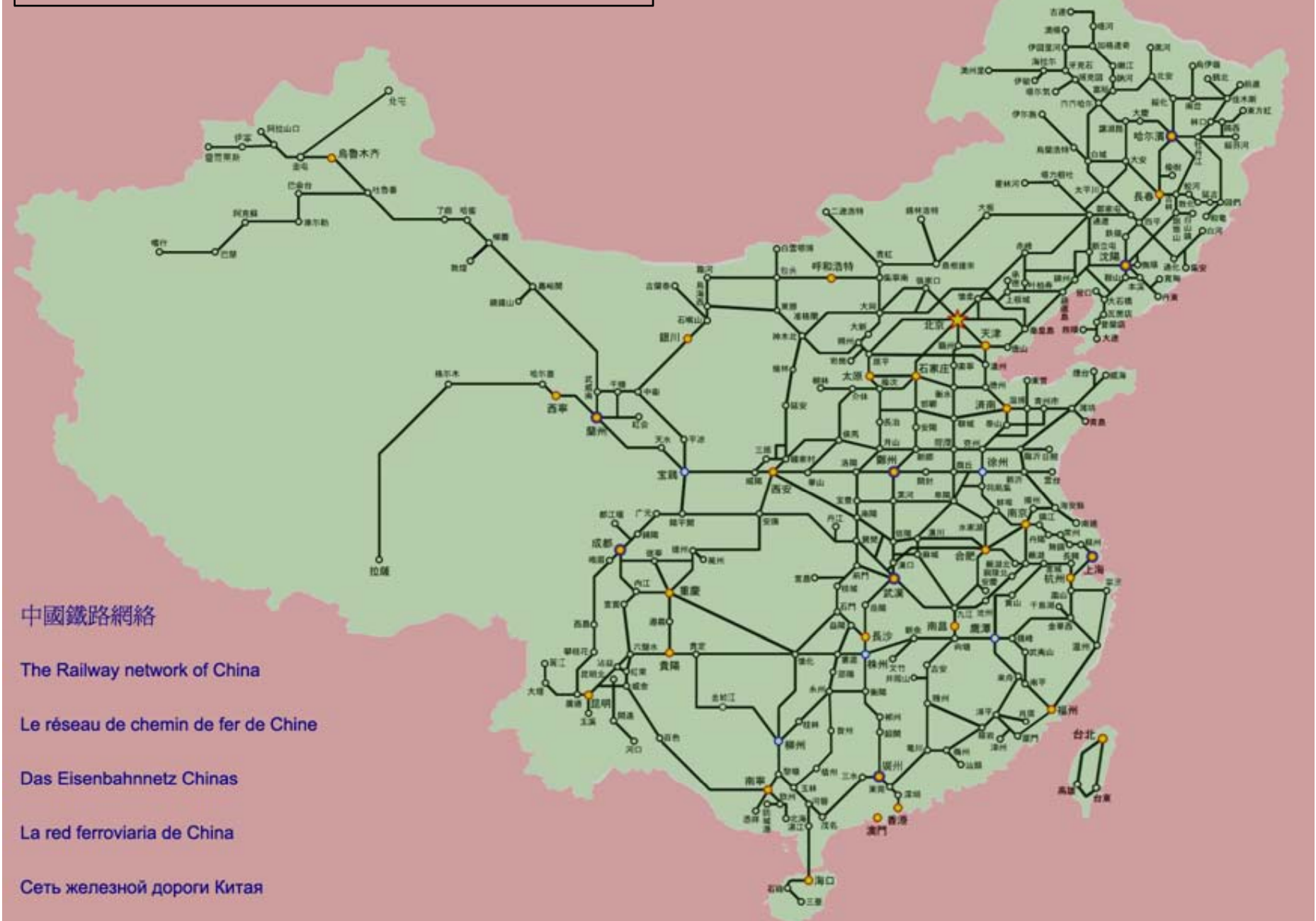
GMS Connectivity - The three GMS corridors



CHINA - National Highway System - 2013



Current Railways in China, 2013



中國鐵路網絡

The Railway network of China

Le réseau de chemin de fer de Chine

Das Eisenbahnnetz Chinas

La red ferroviaria de China

Сеть железной дороги Китая

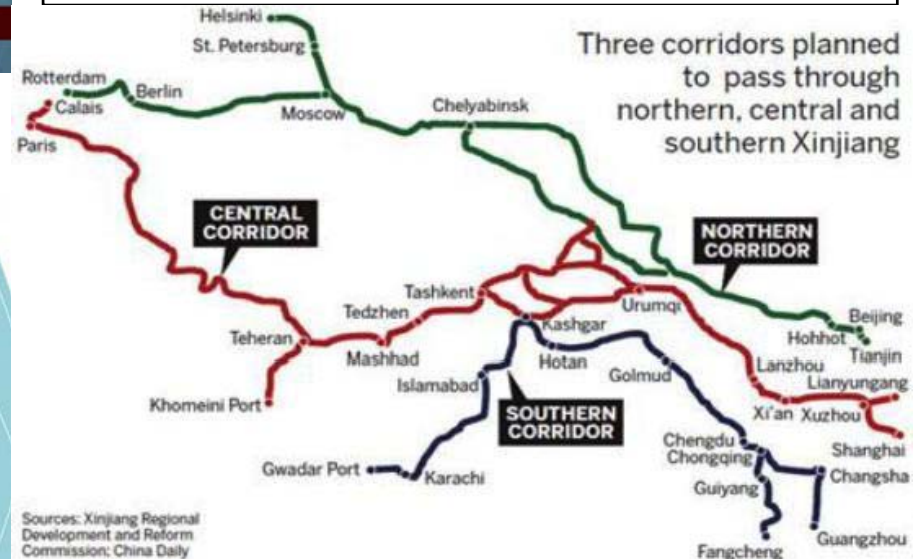
China's 'One Belt, One Road' (Silk Road Economic Belt and 21st Century Maritime Silk Road) overarching development strategy was put forward by President Xi Jinping in 2013.

- The **'One Belt'** links China with Europe through Central and Western Asia (by rail and road) while the **'One Road'** represents a maritime road through the Strait of Malacca to Myanmar, Bangladesh, India, Middle East and East Africa.
- The startling thing is the speed with which seeming unrelated past efforts/initiatives are falling into place and integrated by more recent 'big bang' initiatives like the proposed setting up of the Asian Infrastructure Investment Bank (AIIB). Such initiatives include:
 - **Pan-Beibu Gulf (PBG) Economic Cooperation Forum** was first held in July 2006 in Nanning, Guangxi Zhuang Autonomous Region, involving China, Brunei, Indonesia, Malaysia, Philippines, Singapore and Vietnam. Over subsequent forums, the **'Two Wings and One Axis'** was developed and then fleshed out and linked to the '21st Century Maritime Silk Road' at the 8th PBG Economic Cooperation Forum in May, 2014
 - China with Central Asian countries – framework of the **Shanghai Cooperation Organization (SCO)**, established June 15, 2001 in Shanghai involving China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan
 - .China with EU – **Strategic Agenda 2020 for China-EU Cooperation**

China's 'One Belt and One Road'

China's efforts at **Modern Silk Routes** and recent ambitious '**One Belt and One Road**' initiative spanning Eurasia – linking **60 countries, 4.4 billion people, accounts for 29% of world's GDP** – expected to be completed by 2025

Asian Infrastructure Investment Bank (AIIB) – 24 Oct 2014 - 21 countries signed - 22 Mar 2015 – 36 countries (incl non-regional members) - starting with \$50 Bil. (both expected to increase significantly)



Sources: Xinjiang Regional Development and Reform Commission; China Daily

2011 – Chong Qing to Duisburg (Germany)

2014 - Yiwu (near Shanghai) to Madrid 13,000 km, 82 containers, 1,000MT, 21 days

REGIONAL AGRI-FOOD SUPPLY CHAIN AND TRADING NETWORK INTEGRATION – ALREADY HAPPENING

- **Dynamics** of Global and regional **markets** – coupled with **ASEAN and GMS connectivity** – increasing involvement of **private sector** in treating **ASEAN as a production and market base ahead of 2015**.
- **Productivity enhancement** - along entire supply chain – **beyond efficiency and cost of production**, but also cost of **milling/processing (electricity), transportation, export processing, financing**.
- **Significant cross-border investments in mills and processing** - **pivotal role in transforming upstream and downstream segments** – development of comprehensive supply chains and trading networks - investments in **input supply, modern distributive trade** (especially supermarkets) – various forms of **contract farming** and modalities of **provision of agri-support services** and foundation for **enhancing productivity and international trade**.

Notable Examples of Cross-Border Investments

Viet Nam – 2000s – Golden Resources (Hong Kong); Kitoku (Japan) JV with Angimex in An Giang province

2007 – Vinafood JV with Iraqi Company in Cantho;

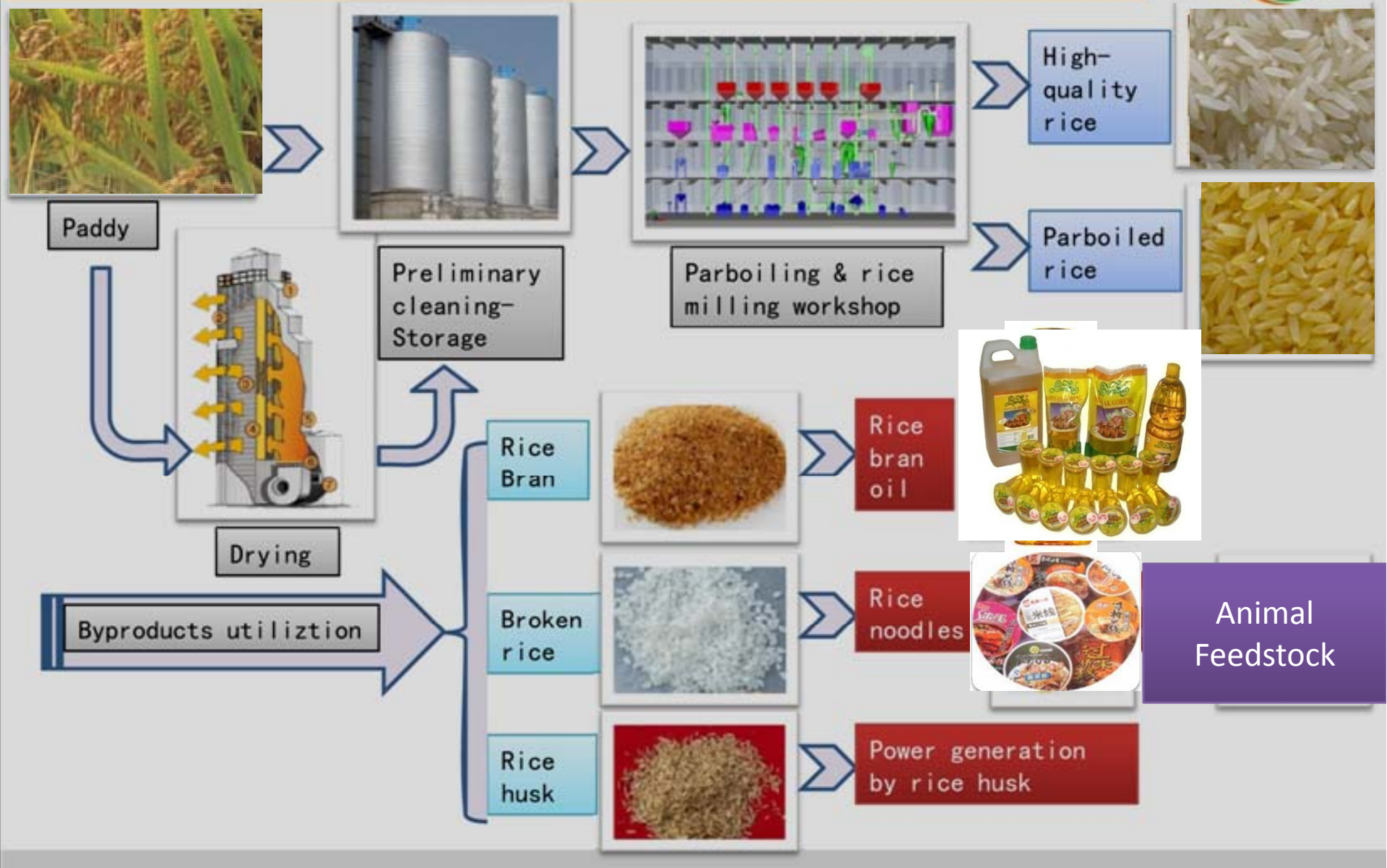
2012 – Vinafood JV with Singapore company in Dong Thap

Cambodia – CCAD – JV with Sinograin & Yunnan Pan Asia Ag Cooperation & Development Co; Long Grain Co – JV with UK and Indian investors; Batambang Rice Investment Co (BRIC) – JV with Singapore investor; Crystal Rice Kampuchae – JV with Asia Golden Rice (Thai) in Kampot

Lao PDR – Lao World Co Ltd (French); Sengarhit Development Co Ltd (French); Daum Agro Sole Ltd (Korean); Fu Teng (China) strategic alliance with Dao Phet Group

Myanmar – Myanmar Japan Rice Industry Co Ltd – JV between MAPCO and Mitsui; JV Siacom (French) with XY Trading Co Ltd in Ayeyarwaddy; CP (Thai) with Amari; CAMC Engineering (China) MOU with Myanmar Rice Mill Company

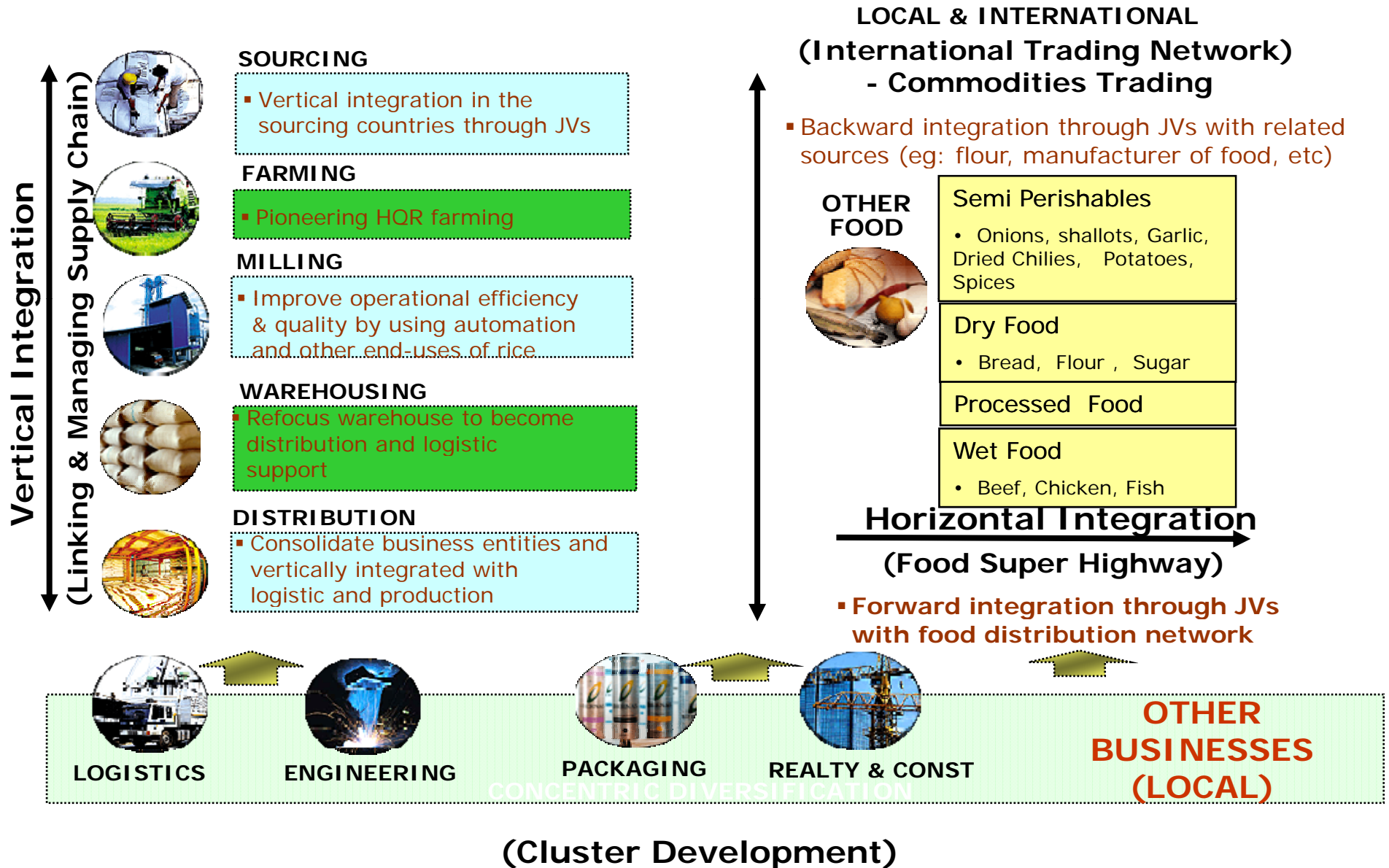
Targeting Multiple end-uses - MAPCO-Mitsui JV in Myanmar



Example: Rice and its extended value products

Plant part	1st Stage Product (PRIMARY)	2nd Stage Product (SECONDARY)	<i>3rd Stage Product</i>
Panicle (Grains)	Milled rice Brown Rice Hull (Husks) Embryo and/or Endosperm	Human food staple, Flour Human food staple Fuel, Briquettes Bran, Bran Oil	<i>Alcoholic drinks, etc.</i> <i>Noodles, etc.</i> <i>Silica-based products</i> <i>Tocotrienols, Vitamin E</i> <i>Antioxidants</i>
Leaves	Straw Phytochemicals	Fuel, Paper, Medium for mushroom growing Purified compounds	
Culms (Stems)	Straw Phytochemicals	As above As above	
Roots	Straw		

BERNAS' Business Strategy/Experience (1996-2004)



WAY FORWARD: Supply Chain Management Facilitation

Livelihood Strategy

What investments could increase gain and reduce risk?
Ensure sustainable Production?

Upgrading Strategy

What is need to meet the product requirements? To include asset poor farmers?

Intermediary Model

What new is needed? Are there services and practices that support smallholder inclusion, benefits, risk mitigation?

Lead firm business model

What products, strategies, or purchasing practices can promote smallholder inclusion?

Farmers

(Productivity, income, quality)

Aggregator, Trader

Processor

Branded Firm

Public Investment

(NGO, Govt., foundations)

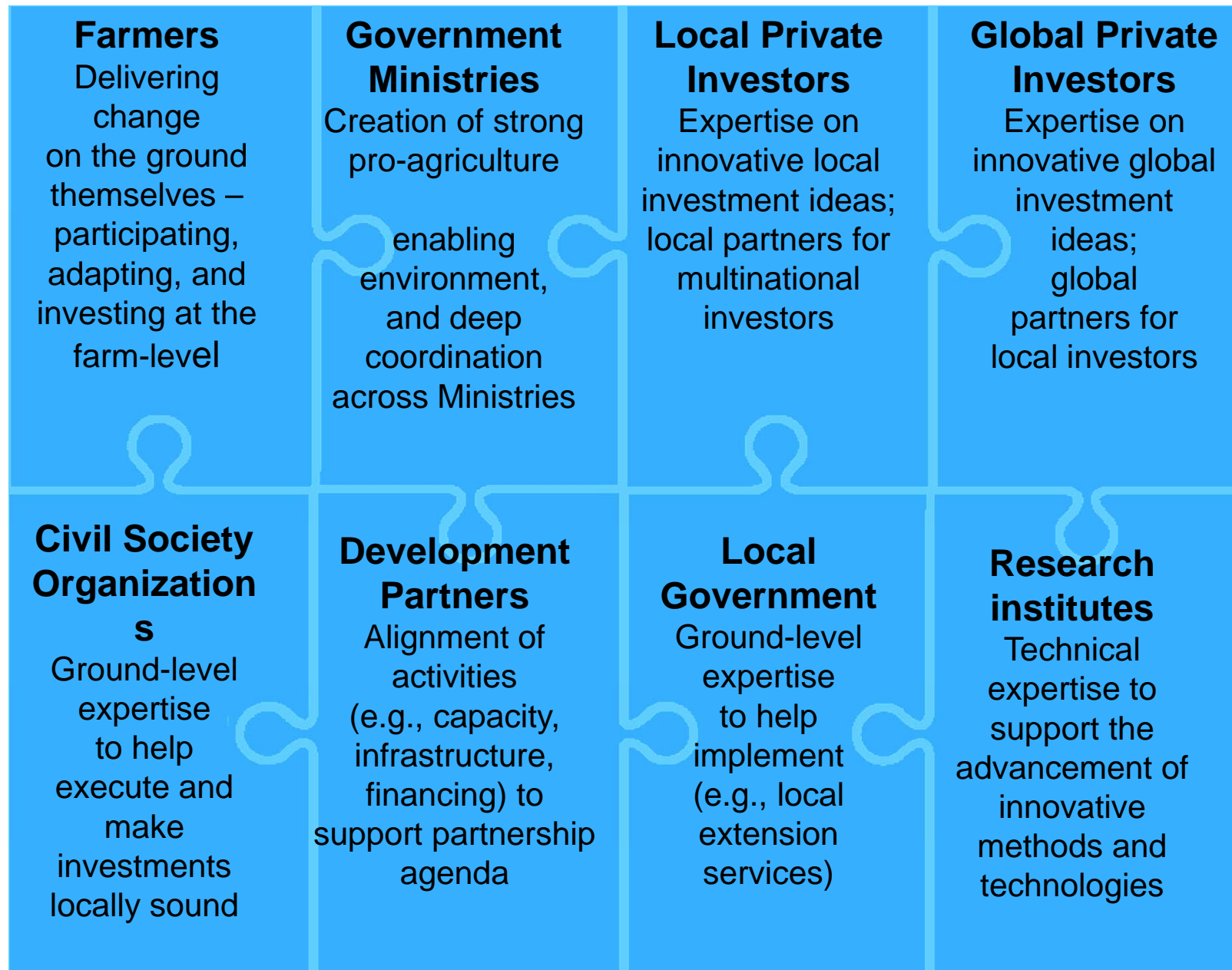
Co-Investment

(businesses and donor)

Value chain services and practices

Business Strategy

Dynamics in Roles and Responsibilities of Multi-stakeholders



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Key Messages (Cont'd):

- ❖ **Private sector can be the solution and lubricant** in enhancing integration of regional agri-food/rice supply chains and trading networks. **BERNAS' experience from 1996-2004 provides glimpse of possibilities** - 'enlightened private sector' – increasing incidence of 'Inclusive Business', 'Business for Development' and 'Business for Peace'. Like **Adam Smith's invisible hand**, will increase net social benefit as well as lead to **more sustainable and inclusive growth** in individual countries and the region as a whole.

- ❖ **Future options, prospects and considerations:**
 - **B2B Initiated** and driven , **G2G facilitated** (Governments can take credit for success - but need to ensure sustainability and Business not overtaken by greed) – evolving dynamics favour **Agri-food/Rice Diplomacy?**
 - Who can/should provide **regional policy guidance and oversight?**

CONCLUSION:

- ❖ Finally, it bears reminding that in development economics, as in politics, there is **no such thing as a final word**.
- ❖ Consequently, this presentation and the examples therein, as in the numerous case studies that will be shared in this workshop, **do not in any way suggest the superiority of one approach over the other**.
- ❖ Hopefully, its usefulness lies in **emphasizing the need for a more holistic overarching framework afforded by Supply Chain (and Trading Network) Management** as well as considering the various **new dimensions, dynamics, and realities (new normal?)**.
- ❖ In this respect and to end with a touch of Zen, it merely acts as a **'finger pointing to the moon'**. As always, the usefulness of the finger is in pointing away from itself to the light which illuminates finger and all.

THANK YOU!

larry@isis.org.com / larry.cesd@gmail.com