

Making Connectivity Work: Contract Growing Along the Lao PDR–Thai Border

By Benny Rayco¹

- **Cross-border trading benefits from a well-defined agreement and organized demand and supply chains.**
- **A Lao PDR–based company shifted from trading timber to farm produce, in the process boosting agricultural cross-border trading between exporters in the Lao People’s Democratic Republic and importers in Thailand.**

Challenges

The Pakxong Development Enterprise Export-Import Company used to buy timber from the Government of the Lao People’s Democratic Republic and sell to Thai enterprises across the border. But the timber ran out and the company had to develop a new trade. It found its next opportunity in an open market in the Thai province of Ubon Ratchathane.

In that market, farmers from Lao PDR’s province of Champasak were often forced to sell their vegetables at disadvantageous prices—they did not know what vegetables were preferred by Thai consumers and at what prices. With no transport facilities to look for other markets, they disposed of their produce cheaply rather than return home with no sale.

Thai traders were in a similar bind. They had to buy vegetables that do not have premium markets at home or had to buy at volumes that would not enable them to optimize earnings. There was little option other than going back empty-handed and foregoing the investments they had made in attempting to trade in Lao vegetables.

The issue was clear to the Lao-based Pakxong company. Trading was not efficient enough to enable both sellers and buyers to optimize earnings.

Clearly, trade support services had to be provided along with institutional arrangements to link the primary producers and markets more effectively and efficiently in the food supply chain.

Approach

With support from the Asian Development Bank’s Technical Assistance for Expansion of Subregional Cooperation in Agriculture in the Greater Mekong Subregion, the Pakxong company began to organize a value chain of people, goods, and processes.

The company talked to Thai traders and found out what vegetables would sell in the near future and at what volumes and



The delivery center near the Lao PDR–Thai border

prices. It then tried to organize vegetable production by planning the planting date with farmers so that a regular supply of vegetables could be sold at volumes that would satisfy the Thai traders.

However, vegetable farms are located in various agro-climatic production zones. Naturally, planting schedules diverge across areas and seasons. To incorporate all these into production planning would complicate the plan.

So, the company decided it was more appropriate to just indicate the volume needed for each delivery in advance and let farmers plan the growing of vegetables.

After much discussion and consultation, a multilateral cross-border trade agreement was sealed between Thai buyers (importers) and Lao sellers (exporters), with endorsements from the commerce authorities of Ubon Ratchathane province on the Thai side and Champasak province on the Lao PDR side.

This cross-border trade agreement specified minimum prices and volumes for 14 kinds of vegetables to be purchased by the Thai from Lao farmers through the company.

The next step was to organize the supply chain.

Pakxong company hired 12 field agents, all of whom were also vegetable and fruit farmers. Each was responsible for a different production zone. The field agents would plan with farmers in their respective zones how each zone’s quota would be filled. Each farmer was expected to purchase his own seeds and inputs.

To support the farmers, the company deposited 10 million baht with the agricultural bank in Champasak province, which the bank could then lend to the farmers in the form of production credits.

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The bank used the interest payments paid by the farmers to cover administrative and overhead costs. The bank pays no interest to the company although it has to prepare and submit annual reports on how the fund was spent.

At harvest time, individual farmers deliver their produce to designated points along the main road where the company's trucks pass by at designated hours to weigh and load the vegetables, with the weight of the farmer's produce recorded. When the trucks reach the delivery center near the Lao PDR–Thai border, the produce are downloaded, trimmed, packed, weighed, and then transferred to the trucks of the Thai buyers.

The Thai traders pay cash for their purchases based on contracted prices. They also inform the field agents and the company of their exact requirements for the next round of trading. The field agents then return to their respective zones to distribute the cash paid for the farmers' produce.

Each delivery to Thai buyers is also recorded by Pakxong

company staff. These records become part of the company invoice issued to Thai buyers who then pay additional fees to the company. The invoice also serves as export–import documents required for customs clearance.

Results

In August, when peak harvests are brought in, Pakxong company trades around 600 tons of vegetables each day. The lowest volumes are harvested in January when the firm trades an average of only 240 tons a day.

The company estimates that 100,000 tons of vegetables are traded across the border in this fashion. From this trade, an estimated 500 farmers benefit from higher, more stable incomes.

From dealing in felled logs, Pakxong company has gone “green” in its new trade with vegetables, facilitating trade support services and boosting productivity and investments in commercial agriculture.

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