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### **How can Mekong Region maximize the benefits of Economic Integration: A Cambodian Perspective**

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**Cambodian Institute for Cooperation and Peace**

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**Abstract:**

Endowed with abundant but relatively unexploited natural resources and a large potential market, the greater Mekong Subregion (GMS) has a significant potential to be a growth center in the Asia-Pacific region. However, there is a huge development gaps among the members. Therefore, it requires joint effort to narrow down the gap. The paper focused on challenges faced by the GMS and how to maximize the benefit from economic integration with a Cambodian perspective. According to the paper findings, the main challenges include poverty, development gap, pressure to the environment, lack of resources, complicated procedure in trans-border transportation, competition. In order to maximize the benefit countries of GMS should wisely use resources, promote regional production linkages, improve trade and investment climate, accelerate reform programs, speed up infrastructure and transportation links, speed up economic integration with others regional mechanism, encourage private Participation and develop human resources.

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# How can Mekong Region maximize the benefits of Economic Integration: A Cambodian Perspective

By Chap Sotharith\*

## 1. Introduction

Mekong region is officially named Greater Mekong subregion or GMS. Linking the Mekong riparian members of ASEAN (Cambodia, Laos, Myanmar, Thailand and Vietnam) with Yunnan Province of the People's Republic of China, the Greater Mekong Subregion (GMS) comprises approximately 300 million people, 2.6 million square kilometers of land and an overall Gross Domestic Product of about US \$300 billion and is estimated to grow to US\$863 billion by the year 2010.<sup>1</sup> The average per capita GDP in the GMS in 2003 was US\$787.<sup>2</sup>

Table 1: GDP per capita in GMS

	1996	1997	1998	1999	2000	2001	2002	2003	2004
Cambodia	317	320	265	295	291	283	296	310	320
Lao, PDR	396	360	259	285	332	328	333	362	390
Myanmar	109	100	144	189	210	162	175	179	...
Thailand	3,134	2,656	1,900	2,046	2,029	1,887	2,050	2,291	2,540
Viet Nam	337	361	361	374	403	415	439	481	550
China						890		1,100	1,290
Average GMS						661		787	

*Note: ASEAN data from ASEAN secretariat website, ADB Outlook, 2003, 2005 and ADB (2006)*

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<sup>1</sup> source: <http://www.adb.org/GMS/about.asp>

<sup>2</sup> ASEAN data was from ASEAN secretariat website and data of China from ADB Outlook 2005

The Mekong River, which defines the sub-region, stretches over 4,800 kilometers from the Tibetan plateau to the delta in southern Vietnam before reaching the South China Sea. The GMS economies are predominantly based on subsistence agriculture, but they are gradually diversifying into several modern economic sectors and rooted in a more transparent, market-based system.

Endowed with abundant but relatively unexploited natural resources and a large potential market, the subregion has a significant potential to be a growth center in the Asia-Pacific region. It is therefore attracting international attention to the future development of this subregion. The countries of the GMS could indeed benefit from more focused and coordinated development assistance efforts among the donors and international agencies in addressing such areas as maintaining macroeconomic stability and creating an enabling policy environment, promoting trade and investment agencies with the participation from the private sector. The rich human and natural resource endowments of the Mekong region have made it a new frontier of Asian economic growth. In this sense, many interested international agencies, especially Asian Development Bank (ADB), World Bank and the United Nations' Economic and Social Commission for Asia and the Pacific (ESCAP) are helping these countries to work together through coordination and technical assistance as well as providing grant and loan to conduct feasibility studies and to finance some of the projects. Private sector is also expected to play a very important role in investing in the projects within the Mekong framework.

## **2. Dimension of GMS**

The GMS Program is aimed to promote closer economic ties and other forms of economic cooperation among the six countries that share the Mekong River. When the GMS Program began in 1992, relations among the six member countries were still strained and trade and other forms of cooperation were very limited. However, peace and economic reforms in the subregion provided a window of opportunity to draw the countries more closely together through a program of regional economic cooperation. ADB took up the challenge and initiated inter-country consultations leading to establishment of the GMS Program (ADB, 2000).

In the highly sensitive context then prevailing, the GMS Program first focused on basic infrastructure that would help link the subregion and enable development of the resource base. Transportation and energy infrastructure were the main preoccupation. In this manner, the Program contributed to both the freer flow of people and goods and to sharing of resources key to industrial development and modernization. It also led to international recognition of the subregion as a growth area.

The dimension of the program has been increasingly expanded to other sectors. Transportation projects involving bilateral or multilateral agreements among GMS countries are now either being implemented or are close to implementation, complementing earlier projects that embodied subregional benefits but which were implemented on a purely country basis. Energy projects involved bilateral agreements from the outset, but these were essentially commercial agreements concerning electricity purchases from specific hydropower sites. Now member countries are discussing power market and trade possibilities that would rationalize electricity supply and use on a subregional basis. Progress has also been made concerning the identification of communications “loops” for the subregion, enabling the telecommunications industry to more efficiently invest in connecting major centers.

Increasing attention under the GMS Program has also been given to other sectors: human resource development, tourism, the environment, investment and trade. Human resource development initiatives have included attention to training standards and accreditation/certification, and to ways for mitigating the transborder spread of communicable diseases. Subregional initiatives in tourism access, promotion and product development have been highly successful, supported by active involvement of the private sector. Environmental cooperation - in addition to careful scrutiny of individual development projects - is increasingly concerned with broader transborder issues, such as the cumulative effects of development in the subregion. Very importantly, the Program includes initiatives to resolving policy, regulatory and other non-physical barriers to the cross-border traffic, complementing investment in transportation infrastructure.

### **3. Rationales and Objectives of the GMS**

Regional economic cooperation is an important element of development strategy for all countries. Although the main focus for developing countries is normally on policy and regulatory reforms, institutional strengthening, infrastructure investment, and human resource development, they must also build the connections allowing them to trade effectively with international markets. These markets include those next door, with neighboring countries. Also, many development opportunities can only proceed if neighboring countries cooperate. This includes cooperation to ensure that environmental effects are properly addressed (Chap, 2005).

Over the past decade or more, much of the Mekong Subregion has been experiencing a double transition: from subsistence farming to more diversified economies, and from command economies to more open, market-based economies. This double transition, spurred by foreign direct investment and donor assistance, has led to rapid expansion of commercial relations among the six Mekong countries. Peace and security in the subregion has encouraged the process of economic integration - including cross-border trade, investment, and labor mobility. Increasingly, natural resources, such as agricultural land and hydropower and petroleum resources, are being developed and utilized on a subregional basis.

The GMS Program has played a catalytic role. The participating countries have shaped the Program to contribute to shared goals, notably sustainable economic growth, improved living standards and poverty reduction. The primary strategy for realizing these goals is to let the market forces of demand and supply function more freely, and to reduce government intervention and state ownership in the allocation and use of human, natural and capital resources. Market liberalization has led to industrialization and modernization, and greatly expanded trade and investment. To be competitive, the six Mekong countries must utilize their natural resources wisely and employ their human resources efficiently. Subregional economic cooperation facilitates this. It also facilitates the resolution of environmental and other transborder issues, better ensuring that economic growth will be sustainable.

The GMS Program is result-oriented, designed to serve the interests of the participating countries in greater economic cooperation. The projects selected for inclusion in the Program generally have one or more of the following objectives or results:

- facilitating subregional trade and investment: clearly, improvements in transportation and telecommunications systems linking the subregion has this result;
- facilitating subregional development opportunities: subregional cooperation is a necessary condition for many energy projects; it is also a facilitating factor for tourism promotion, access, and product development;
- facilitating resolution of trans-border issues: cooperation in protecting critical watersheds, in mitigating the trans-border spread of communicable diseases, and in harmonizing training standards and accreditation/ certification illustrates the types of projects involved;
- facilitating fulfillment of common resource or other needs: this is illustrated by cooperation in meeting training needs and in developing an environmental data base for the subregion; subregional cooperation is prompted by economies of scale or other benefits.

#### **4. Impacts of GMS Economic Integration to Cambodia**

A collaboration of the GMS is an important element in the process of regional integration. The integration process itself will be significant for the well being of the people in the region as this would provide in the future a viable foundation for a long term economic growth and sustainable development. The synergy of GMS and ASEAN economic integration, that Cambodia is a part of, certainly offers a huge potential for growth and profit for the poor country like Cambodia. Moreover, this kind of cooperation also provides the countries in the region with the opportunities to develop the region into a center of shared development.

More specifically, the GMS, through an endless efforts by all whose concern is to have an integrated and prosperous and stable Southeast Asia, could be turned into an economic area with the potential to be one of the world's fastest and attractive economic and investment areas. The strong spirit of cooperation between GMS countries will serve as a kind of insurance that will keep the development and governance in Cambodia on track.

By better link in transportation, especially air, land and water transportations within the GMS framework, Cambodia expects that there will be improvement in many fields including trade, transportation, and tourism. With a good potential in tourist attraction, Cambodia can gain more benefit from the framework by attracting tourists which already visit other GMS countries. The Mekong region will be a big target in tourist market for Cambodia as Thailand and Vietnam are big immediate neighbors and Yunnan province is the gateway for visitors from China.

As Cambodia has just emerged from civil war and destruction, there are plenty of rooms for business opportunities which attract Foreign Direct Investment from all part of the world, especially from the region such as China, Thailand and Vietnam. With the GMS cooperation, there are many opportunities for private sector to participate in investing in many sectors, which are already defined in the programs, especially in infrastructure, energy, telecommunication, trade, transportation, logistics, tourist related services and industry. As evidence, China has become the biggest investor in Cambodia for the past 5 years.

Economic integration has played an important role to the success of Cambodian economic development, which has been remarkably achieved through a stable growth of an average about 7 percent per year for the past 10 years. For last year, the growth surprisingly reached its record of 13.1 percent.<sup>3</sup>

Regional frameworks also enhance the collective bargaining strength and power of individual countries, when they face external interlocutors, especially developed countries. Besides having an economy of scale, regional entities could, if effective, act as a buffer against the turmoil of financial or trade markets, and thus help member countries weather the economic and financial storms together. This is another reason why regional frameworks, such as the GMS are an advantage, especially for the smaller member-nations like Cambodia.

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<sup>3</sup> The Cambodia Daily, May 12, 2006

## 5. The GMS: What is the Progress so far?

*“As far as the GMS is concerned, our countries sit next to each other and share similar cultures, sound political ties and close people-to-people contacts. All of us are at a critical stage of development. These have necessitated and enabled our mutually beneficial cooperation. Since the inception of the GMS Program, we have conducted cooperation in such areas as transportation, energy, telecommunications, trade, investment, tourism, environment, human resources and agriculture, effectively carried out more than 100 specific cooperation programs and completed a number of flagship projects. As a result, it has promoted the economic and social development in the GMS countries, benefited tens of thousands of people, particularly the poor, and contributed to peace in this region and beyond.”<sup>4</sup>*

For the past 14 years, the success of GMS cooperation has been highly appreciated with the significant progress achieved so far. The success has been marked by the first GMS Summit in 2002 with the theme “Making it Happen: A Common Strategy on Cooperation for Growth, Equity and Prosperity in the GMS,” and the Second GMS Summit in June 2005 in Kunming with the theme of “A Stronger GMS Partnership for Common Prosperity.” The leaders of the member countries were satisfied with the evolvement of a more integrated, focused and policy-oriented cooperation process, a stronger partnership among member countries and other stakeholders, as well as practical results generated from a wide range of specific projects and initiatives.

With individual and collective efforts from the country members, achievements have been obtained in enhancing important infrastructure and reducing non-physical barriers, especially in the energy and transport sector, in order to create a more desirable and competitive trade and investment environment. Other sectors such fields as telecommunication, environment, tourism, agriculture and human resources development, all of which are inherent components for advancing the GMS program are also deepened in cooperation in an effort to contribute in the alleviation of poverty in the GMS.

While traditional lifestyles and deep-rooted customs and beliefs have been scarcely altered by time, the area is now undergoing greater change than ever before. With the onset of peace in the 1990s, the peoples of the Mekong are experiencing rapid changes and improvements in their living standards and conditions. Increasingly, modernization and industrialization are emerging from a process of transition and transformation. The Mekong countries are gradually shifting from subsistence farming to more diversified economies, and to more open, market-based systems. In parallel with this are the growing commercial relations among the six Mekong countries, notably in terms of cross-border trade, investment, and labor mobility. Moreover, natural resources, particularly hydropower, are beginning to be developed and utilized on a subregional basis.

The rich human and natural resource endowments of the Mekong region have made it a new frontier of Asian economic growth. Indeed, the Mekong region has the potential to be one of the world's fastest growing areas. With many projects and well-designed programs, the Mekong region has been stated with remarkable progress and achievements in following main sectors.

### ***Progress in Infrastructure and Energy***

Substantial progress has been made in feasibility assessments of major transportation infrastructure projects linking the subregion, and for hydropower development projects. Most encouraging, ADB approved in December 1998 a US \$40 million loan for Cambodia and a US \$100 million loan for Viet Nam for the Phnom Penh-Ho Chi Minh City Road Project. Civil works commenced in 1999. Also very encouraging, the East-West Corridor Project is well advanced, with civil works commencing in 2000. These two projects are truly subregional, and will open up new areas to trade and investment. Discussions are progressing regarding the Chiang Rai-Kunming Road Project and the Kunming-Hanoi Transport Corridor Project, both of which would contribute significantly to linking Southeast Asia and China. Air links in the subregion have also been improved (see Box 1).

Complementing investment in transportation infrastructure, progress has been towards subregional agreement on how best to reduce non-physical barriers to the cross-border flows

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<sup>4</sup> Premier Wen Jia Bao's speech at 2nd GMS Summit, July 06, 2005, Kun Ming, Yunnan Province, PRC

of people and goods. These barriers include customs procedures, rights of cross-border passage for vehicles and drivers, vehicle and load specifications, insurance provisions, and transit or user fees. Workshops have been conducted in the six participating countries, detailing the barriers to cross-border traffic that currently exist in the subregion, and the proposals and measures for their reduction or removal. In addition, a comprehensive agreement has been reached for the minimization of non-physical barriers for the Phnom Penh-Ho Chi Minh City Road Project, and a similar agreement has been concluded for the East-West Corridor Project.

Regarding energy, the most successful project to date has been completion of the 210 MW Theun Hinboun Hydropower Project, which has contributed significantly to Lao PDR's GDP and foreign exchange earnings; Thailand, which has a long-term agreement with Lao PDR for purchase of the electricity, is assured of another source of energy supply. Other Lao PDR-based projects underway are the Nam Leuk Hydropower Project and feasibility assessments of the proposed Nam Ngum 3 Hydropower Project and Nam Ngum to Udon Thani (Thailand) Transmission Line. The Se Kong-Se San and Nam Theun River Basin Studies have been completed, identifying additional possibilities for hydropower development. The GMS Electric Power Forum, with participation by the World Bank, is examining the possibility of establishing a subregional power grid and power market system. The regional power and trading arrangement consists of 34 projects worth \$4.7 billion. GMS countries have already signed an intergovernmental agreement on regional power interconnection (see Box 1).

Subregional cooperation in telecommunications has been in partnership with the private sector. The objective of technical assistance projects in this field has been to help create a reliable, high quality, low cost telecommunications service linking the six GMS countries. A framework plan has been agreed upon, and feasibility studies completed for several of the proposed telecommunications links.

***Box 1: The GMS Flagship Programs***

1. **North-South Economic Corridor:** Involves the Kunming—Chiang Rai—Bangkok via Laos and Burma route, and the Kunming—Hanoi—Haiphong route. Fifteen related infrastructure projects have been identified. Total project cost is about or may exceed \$4.5 billion.
2. **East-West Economic Corridor (EWEC):** Central component is a 1,450-km long road

- connecting Da Nang sea port in Vietnam with Mawlamyine port in Myanmar, cutting across central Laos and north and northeastern Thailand, expected to be completed by 2007. A total of 77 related projects have been identified, and, including the major ones, are worth \$2.5 billion. Increased presence of investors along the EWEC area has been noted, including the Australian gold and copper producer, Oxiana.
3. **Southern Economic Corridor:** Major project includes three 1,000 km roads from Bangkok to Vietnam through Cambodia, one of which is expected to be completed by 2007. A total of 123 related projects have been identified. Estimated cost of all projects is \$5.6 billion.
  4. **Telecommunications Backbone and Information and Communications Technology:** This involves improving the backbone telecommunications infrastructure and implementing policy reforms in the telecommunications sector of all six GMS countries to facilitate private investment. Total cost is about \$137 million.
  5. **Regional Power and Trading Arrangements:** Involves mobilizing private sector investment in power, financing the construction of transmission lines in Cambodia, Laos, and Vietnam, and implementing a power marketing system in the GMS countries. Consists of 34 projects worth \$4.7 billion. GMS countries have already signed an intergovernmental agreement on regional power interconnection.
  6. **Facilitating Cross-Border Trade and Investment:** The flagship program aims to implement customs procedure facilitation, integration of freight forwarding, and coordination of policies and regulation on trade-related financial and insurance services. Finalization and full implementation of the *Framework Agreement to Facilitate Cross Border Movement of Goods and Peoples in the GMS* is expected by 2007. Seventeen related projects have been identified. A one-stop customs procedure is expected to be operating for the first time at the Dansavanh-Lao Bao border at the end of March 2005.
  7. **Enhancing Private Sector Participation and Competitiveness:** Program includes assistance in managerial, entrepreneurship, skills training, business development, production and marketing, and finance for small and medium enterprises (SMEs). The GMS Business Forum, established in October 2000 and composed of GMS Chambers of Commerce, will play a central role and will be strengthened via capacity building initiatives. Eleven projects have been identified under this flagship program.
  8. **Developing Human Resources and Skills Competencies:** Flagship aims to develop and implement cooperative arrangements for addressing health (such as HIV/AIDS), education, and labor sector issues, and facilitate opportunities for sharing academic research and training experience. The program will implement 40 projects worth about \$92 million.
  9. **Strategic Environmental Framework:** Flagship includes projects on building effective institutions for governing the environment and natural resource sectors. A number of projects have been completed, which involved providing training in geographic information system technologies, raising environmental awareness among government staff, and identifying environmental “hotspots” in the Subregion. About 50 projects with a total financing requirement of \$310 million will be involved. Three ADB-financed loan projects – Nam Ngum River Basin Development, Nam Ou River Basin Development, and Tonle Sap Environmental Management, are already reflected in the latest country strategy programs for Cambodia and Laos.
  10. **Flood Control and Water Resource Management:** Flagship involves land use planning, and structural and flood-proofing measures. Initiative costs about \$470 million. Project preparatory technical assistance and investment projects in water resource development have already been included in ADB country strategy programs for Vietnam and Cambodia.

**11. GMS Tourism Development:** Flagship aims to promote the subregion as a single tourism destination, develop tourism-related infrastructure, promote community-based tourism, and encourage private sector participation. Total program cost is \$62 million, \$47 million of which is accounted for by the ADB-assisted Mekong Tourism Development Project in Cambodia, Laos, and Vietnam.

Source: - Bank Information Center at <http://www.bicusa.org> and  
- ADB at <http://www.adb.org/GMS/Projects/default.asp#flagship>

### **Progress in Other Sectors**

Important progress has also been made in promoting regional economic cooperation in other sectors: human resource development, tourism, environment, trade and investment. Since 1992, the Bank has supported 26 technical assistance (TA) projects under the GMS Program, involving - in addition to extensive staff time - US \$38 million of resources from the Bank, co-financiers, and the GMS governments. Some of these TAs were for the preparation of infrastructure projects and support of Ministerial and forum/working group meetings (ADB, 2000).

Regarding human resource development, two TAs have been completed: one relating to labor market management, skills training, and standards, certification and accreditation; the second relating to prevention of HIV/AIDS in the subregion. Another project is underway, concerning the cultural, socio-economic and physical constraints faced by ethnic minorities in mountainous and border areas in assessing health and education services. At the 2002 GMS Summit, leaders of member countries articulated the need to address the subregion's challenges in human resources development. Subsequently, "the GMS - Phnom Penh Plan for Development Management (PPP)" was initiated as the subregion's response to this challenge (See Box 2).

Regarding tourism, six TAs have been financed by the Bank, co-financiers and GMS countries: promotion of the subregion as a tourist destination; training the trainers in the basic skills of tourism; training resource managers in conservation and tourism; a Mekong/Lancang River tourism planning study; a village-based tourism project; and a north-south tourism corridor project. A seventh project, the Mekong River tourism infrastructure development project, is being processed. The GMS Working Group has worked in partnership with the

private sector, resulting in establishment of the Mekong Tourism Forum - which meets annually. Also, GMS countries have established the Agency for Coordinating Mekong Tourism Activities, located in the tourism department of the Royal Government of Thailand.

Almost US \$15 million has been directed to environmental technical assistance under the GMS Program. Two projects have been completed: the Subregional Environmental Monitoring and Information System; and Subregional Environmental Training and Institutional Strengthening. Three other projects are underway or in process: Poverty Reduction and Environmental Management in Remote Watersheds in the GMS; Strategic Environmental Framework for the GMS; and Protection and Management of Critical Wetlands in the Lower Mekong Basin. The GMS Environment Working Group has expanded its activities from basic information, training and standards to transborder issues, such as the cumulative effects of hydropower projects and illegal trade in timber and endangered species.

Regarding trade and investment, the main activity has been a series of international investment forums organized by the Bank. Investment forums or presentations have been held in Australia, Europe, Japan, Thailand and the Republic of Korea. Trade and investment activities under the GMS are being coordinated with the ASEAN Secretariat and ESCAP. The GMS Program has focused on infrastructure and non-tariff barriers to trade and investment, leaving policy issues to other forums (e.g., ASEAN, APEC and WTO).

***Box 2: The Phnom Penh Plan (PPP)***

At the 2002 GMS Summit of Leaders, the need to address the subregion's challenges in human resources development was articulated. The **GMS - Phnom Penh Plan for Development Management (PPP)** is the subregion's initial response to this challenge.

ADB approved the funding for the **PPP** in October 2002 for an initial amount of \$800,000 over two years (2003-2004). It seeks to build the capacity of middle and senior level professionals in the governments of the GMS countries. Its focus is on **public policy and development management**.

The Phnom Penh Plan (PPP) is a unique program that offers learning programs not offered by traditional training providers. It is confined to a relatively narrow set of development related issues, and targets learning recipients carefully to maximize impact and promote lifelong partnerships.

The PPP is a recent initiative of the Greater Mekong Subregion (GMS) member countries and is presently supported by ADB and New Zealand Agency for International Development.

The broad goal of the program is to improve the efficiency and effectiveness of development

management in the GMS countries. The program will

- develop a core group of development managers and leaders who can operate as motivated and competent change agents to manage the complex and challenging GMS development agenda.
- provide high quality education through learning programs to participants from the GMS countries.
- create an institutional network that will support the program.
- collaborate with leading organizations and networks to secure the highest quality learning programs that will contribute to GMS intellectual capital development.

Source: ADB website: <http://www.adb.org/GMS/phnom-penh-plan/default.asp>

### ***Dialogue among Participating Countries***

The GMS Program has provided forums for the six participating countries to discuss issues and opportunities of mutual interests, and in so doing the Program has helped strengthen trust and confidence in subregional economic cooperation. Ministerial Conferences and sector forums or workshops, as well as other activities, have provided opportunities for senior government representatives to exchange views and better understand each other. Strong friendships have been formed, encouraging further economic cooperation initiatives - both bilateral and multilateral. The first GMS Summit, which brought all member countries to discuss and speed up the process with political commitments, was held in Phnom Penh on 3 November 2002 and second Summit was held in Kun Ming in 4-5 July 2005. The programs open participation from participating countries to meet and discuss and share concerns over development and cooperation issues.

### ***Strategic Initiative: Economic Corridors***

The Asian economic and financial crisis has made the environment for subregional economic cooperation more complex and uncertain. Investment prospects have been weakened and GMS countries need to pull together to recapture international investor interest. Although the crisis poses real challenges for the GMS Program, it also presents opportunities. The current economic environment calls for a more proactive and comprehensive approach to link infrastructure investments with development opportunities. During the Ministerial Conference in October 1998, GMS countries endorsed the concept of economic corridors. Under this concept, key transport corridors, such as the East West Corridor, would be linked more directly with trade, investment and other development opportunities along these corridors. Using this approach, the GMS Program would address a broader set of cross-

border trade and investment issues, and promote nodes of economic activity such as special production and free trade zones.<sup>5</sup> Most of economic corridors are well under way in progress.

## 6. Challenges of GMS in Maximizing Benefits

With the impacts of regional and global situation, threats, old and new, are intertwining for the Mekong region. These include poverty, development gaps, competition and emerging threats to human security, such as terrorism and cross-border crimes, especially drug smuggling and trafficking of human beings. The spread of infectious diseases such as HIV/AIDS, Avian Flu, environmental degradation, and the menace of natural disasters are also serious threats that call for greater surveillance and response preparedness.

### **Poverty**

Many countries in Mekong Region, especially Cambodia and Laos remain very poor. The gross domestic product per capita of about (or lower than) \$1 a day still persist in most of the region (see Table 2). Most countries in the region are working very hard to reduce poverty. Despite significant economic growth, poverty is still widespread in some member countries. Clearly, the full potential of the Mekong countries can be realized only if the problem of poverty is adequately addressed.

Table 2: Poverty Rate in GMS (2003)

Country	Year	Poverty Rate %	1 \$ (ppp) a day %
Cambodia	2004	34.7	33.8
Laos	2003	32.7	28.8
Myanmar	2001	26.6	...
Thailand	2002	9.8	0.7
China	2003	3.1	13.4
Vietnam	2004	19.5	9.7

*Source: ADB (2006), Basic Statistics 2006: Developing Member Countries, Economics and Research Department, May 2006*

### **Development gaps**

The major obstacle to economic cooperation in the GMS lies in the fact that most of the developments in this subregion have been at the level of different stages; thus, there is a development gap between Thailand and other GMS countries. This gap has also become a major problem for the economic integration of the GMS because some members (Cambodia,

<sup>5</sup> For more details, see Box 1

Laos and Myanmar) are tremendously lagged behind the other members. The development gaps in the GMS contain the following major aspects: income gap, health gap, knowledge and information gap, and gaps in rights, opportunities, and negotiation power (Kriengsak, 2005).

As seen in Table 1, national income per capita in 2004 among member countries represent a big different size varying from US\$2,540 in Thailand, US\$1,290 in China, US\$550 in Vietnam to US\$320, US\$390 and US\$179 for Cambodia, Laos and Myanmar respectively (Table 1).

There are also the disparities between urban and rural communities and a growing gap between rich and poor in all countries in the region. In order to reduce development gaps, it requires concerted effort from all countries to cooperate in all aspects: political, economic, social and cultural cooperation.

### ***Pressure to Environment***

The rich and diverse natural resource base of the GMS is suffering from increasing stress as a result of rapid demographic and economic change, unsustainable exploitation, impact of development programs and projects, and relative weakness of the protective and regulatory institutions. Hence, the development of the Mekong region has increased demand of overexploitation on natural resources that put excessive pressure to environment. Therefore, most countries in the region have inadequate protection of the environment on which traditional livelihoods depend.

There are still concerns over the use of Mekong River by individual country that may bring impacts to others in term of environmental impacts. The downstream countries of the Mekong River namely Cambodia and Vietnam often voiced their concerns over the impacts of the development projects among the upstream countries, namely China, Myanmar, Thailand and Laos. The four countries in upstream river have implemented the agreement on improvement of navigation with the lack of consultation with the downstream countries. The lack of coordination, consultation, and sharing information among these countries bring about uncertainty and concerns over the environmental impact to the region.

As China and Myanmar are not the members of the Mekong River Commission (MRC), the cooperation between these countries to the others is still in suspicion. Though there is

promise from the PRC to cooperate with the downstream countries, so far, the sharing information is still limited. Environmental concerns still remain over the impacts of the GMS Program.

### ***Lack of Resources***

In order to realize the objectives of the GMS, many projects and investment are required. Those projects require tremendous inputs of financial and human resources. The governments of some countries, especially Cambodia, Laos and Myanmar are very difficult to find the sources for financing the projects, especially in those involving huge construction and other infrastructure projects.

Though there are workshops and seminars to mobilize finding from the privates sector, the involvement from the private sector in investing and financing the projects is still limited. Moreover, the lack of human resources among some countries such as Myanmar, Cambodia, Vietnam and Laos to handle such a huge development program create bottleneck in making GMS a successful case.

### ***Complicated Procedure in Trans-border Transportation***

The GMS members aim to implement customs procedure facilitation, integration of freight forwarding, and coordination of policies and regulation on trade-related financial and insurance services. Finalization and full implementation of the Framework Agreement to Facilitate Cross Border Movement of Goods and Peoples in the GMS is expected by 2007. Seventeen related projects have been identified. A one-stop customs procedure is expected to be operating for the first time at the Dansavanh-Lao Bao border at the end of March 2005.

The facilitation of goods and passengers movement across the border will require complicated formality and procedures. While countries in the subregion have different standard of highways, and driving rules, there will be a long way to standardize the customs rules, the traffic rules and other formalities. The awareness rising and capacity building are required to the cross border transportation. So far, China, Laos and Vietnam already implement the trans-border transportation. Cambodia can easily implement as Cambodia has the same standard and driving rules with these countries but Thailand and Myanmar are difficult as they have different rule of traffic and driving

## **Competition**

International competitiveness generally relates to macroeconomic factors like openness of the economy, role of government especially in monetary and fiscal policy, infrastructure, people or human resource development (HRD) including manpower and skills in management, science and technology to support industrialization, legal and regulatory system and other domestic factors for a conducive business environment (Low, 2002).

All countries in Mekong region are developing continuously and are simultaneously competing with each other or selling the same products and the same markets. Because these countries must be lifted up in their basic level of development and thus must be raised up in development both individually and together as a group of nations. Among GMS, competition to find markets for similar products, especially agricultural products will create complexity in economic cooperation. The different levels of production capacity among GMS create different cost factors and make the poorer economies difficult to win in competition. Though China provides MFN and “Early Harvest” for CMLV countries, the real benefits are still in questions as there are constraints in high transportation costs and complicated bureaucratic procedures including “Rule of Origin,” required for products from CMLV to enter Chinese’s Yunnan province.

For a poor country like Cambodia, high production costs and poor quality products resulting from weak technology foundation are the main obstacle in participation in the Free Trade Area. Though there is a huge opportunity in accessing the GMS markets, it will take a long time to gain benefit from the cooperation in the framework of China-ASEAN Free Trade Area.

Chinese competition affects Southeast Asia in varied ways because the nations have different economies, ranging from the European-level prosperity of Singapore to the African-level poverty of Myanmar, Laos and Cambodia. For Cambodia, the main threat of China’s competitive advantage is the future of garment and apparel industry after the phase out of Safeguard Measure imposed to China by the US and the EU in the near future. In Thailand and Vietnam, it is semiconductors, machinery and electronics. All are facing fast-growing competition from China.

Labor markets in each country are huge with labor surplus leading to attraction in labor intensive industry. For Cambodia, Laos and Myanmar, labors are unskilled with low wage while labors in Vietnam and China are better skilled but low wage as well. Thailand has many skilled labor but higher wage according to the higher level of living standards. Hence, the member countries have sharp competition in one another for the same industries in order to generate job opportunities.

Comparing its position with others economies, GMS has many competitive challenges to face vis-à-vis the more developed economies in the region. Except Thailand and Yunnan Province of China, where they have strong base for competition, other countries in Mekong region have poor physical infrastructure and legal framework for attracting FDI and facilitation of free and fair trade. While the Mekong region is traditionally more suited and competitive in old traditional economy as in agriculture, manufacturing and some services, it may have to leverage very quickly to the new economy and confront adjustment issues to globalization. These are the conditions for adjustments which involve market-based, private-to-private collaboration and not just government-to-government state-led efforts.

The period to catch up is compressed, competition tougher and harder with the rest of North and South Asia, East Asia not to mention other developing and transition economies in Eastern Europe, Latin America or Africa. Against the backdrop of the Asian crisis, GMS riparian states are understandably cautious and concerned about globalisation, liberalisation and opening their economies the same way the older ASEAN member states have such as Singapore and Malaysia. This brings to question, the very fundamentals and basics of the Asian growth with equity model, its relevancy and sustainability.

## **7. How Can Mekong Region maximize the benefits of Economic Integration?**

In order to maximize the benefits of Economic Integration, the member states have to work together closely and double their efforts to achieve following main points.

### ***Wise Usage of the Subregion's Resources***

The GMS is rich in natural resources, but ecologically fragile. All GMS countries should ke long term strategic planning for sound resource development and better eco-system planning

and environmental protection, thereby taking the road of sustainable development. The countries in the region should share information and law-enforcement cooperation on the conservation of natural resources and the environment and actively implement the Biodiversity Conservation Corridors Initiative.

According to mismatch between demand and supply factors of production in each country, the member state should cooperate in order to allow those factors flow more freely. Approval should be given to the transfer of more high-tech and skilled personnel across region to work in other countries for exchanges of expertise, such as medical doctors, engineers, agronomists, etc.

The management of natural resources and the environment at the sub-regional level should not be overlooked. Although some GMS countries have rich natural resources, they lack the financial capital and technology to develop and utilize such resources efficiently. In contrast, while some countries have limited natural resources, it is better financial and human resource ability to manage them properly. Besides, environmental problems resulting from improper management will have an impact on neighboring individual country and a whole region as well. Thus, there should be cooperation between countries that could, for example, indicate whether the regulation of water management meets international levels, or indicate the trans-boundary protected areas, or other such measures. This will require exchange of ideas and information among riparian countries.

### ***Promotion of Regional Production Linkage***

In order to maximize benefit from economic integration, GMS countries should reduce their competition amongst one another vis-à-vis FDI attraction and market access for local products because this will only cause a zero-sum game. Group cooperation should be focused to promote investment and trade at the subregional level. Each GMS country should cooperate to set the position of their respective countries by considering an appropriate position and specialization for the competitive advantage of each country. After that, a harmonic framework should be designed for trade and investment in subregional levels so that every country can gain advantages instead of excessively compete with each other. All of the GMS countries should indicate their conditions for investment by selecting the kinds of investment that suit for their conditions and facilitate transfers technology.

The information sharing on foreign investment promotion should work to increase the production network between countries. For example, helping and supporting each other to move the production base of labor-intensive industries and resource-base industries from Thailand to the border or to neighboring countries in order to hire workers, whose wages are low and where such countries are abundant in natural resources. These methods will help expand intra-regional trade and in so doing, the benefits from economic development will be distributed to the whole region.

### ***Improving Trade and Investment Climate***

Stronger GMS economic cooperation must be conducted in a policy and institutional environment that is fair, open and transparent and under proactive government guidance. In order to attract investment, the Mekong region should coordinate to develop government services and administrative systems in order to deliver good governance and the best government performance as much as possible to serve investors. Support is needed for the transparent performance of a government's information system. Improving government service systems and training government officers to have integrity and be corruption free should also be promoted. Investment promotion should be made with clear and long term strategic planning.

The governments of Mekong region should also try to harmonize their trade and investment regulations, and base their business practices on a common standard. This will help reduce the transaction costs of foreign traders and investors doing businesses in the region. Potential investors will also be attracted by collective effort to expand markets in the regional markets, thus, allowing them to reach economies of scales.

### ***Acceleration Reform Programme***

Economic integration can not be successfully achieved if each country cannot complete reform program or keep its house in order. Reform programs include trade liberalization, good governance and anti-corruption.

### ***Speed up Infrastructure and Transportation Link***

The Mekong's regional economies are integrated not only by removing barriers to trade and investment, but also being bound together by infrastructure linkages. Because they are not separated by the ocean, the GMS members are in a stronger position to set up, expand and strengthen these linkages. It is to be noted that ASEAN's land transport program has a specific relevance for GMS, because priority road projects of GMS have become integral parts of the ASEAN Highway Network. GMS as a subregional arrangement can help to advance regional endeavors more rapidly by building strong infrastructure linkages, for example through the signing of agreement on inter-state transport, river transport and transit. These interconnection projects on infrastructure and transportation link will have a clear and positive implication for the development of the region in a sense that the more developed its infrastructure, the more reliable the region is for investment site.

Improved infrastructure provides an important basis for GMS economic and social development. The region needs to continue to implement cooperation projects on transport, energy, telecommunications and other sectors, expedite the construction of transport links along the North-South, East-West and Southern corridors, further develop shipping infrastructure and the information super-highway, and facilitate GMS power grids integration and power trade, thus laying the groundwork for regional economic and trade cooperation.

Though the projects of infrastructure and transportation links are already identified through many feasibility studies, some countries with lack of funding are slow to implement the construction of infrastructure and road link. Road, railways and waterways should be speeded up in order to connect Yunnan and other member countries. These projects will enhance economic development of riparian countries.

### ***Speed up Economic Integration with others Regional Mechanism***

There are several related regional cooperation that the GMS can participate such as ASEAEN, ASEAN+3, Ayeyawadi Chaophraya-Mekong Economic Cooperation Scheme (ACMECS), China-ASEAN Free Trade Area (CAFTA), Pan Pearl River Delta of China and

others. Some of the above economic integration arrangements are already taken place but not completed such as ACMECS and ASEAN.

### ***Private Participation***

We must recognize that the private sector will have a crucial role to play in implementing these development projects. The private sector should be considered as an engine for regional development. The private sector's financial resources, expertise, management skill and modern technology constitute necessary ingredients to create and accelerate the dynamism for growth and development in the region and in each country. Therefore, the top priority for all governments in the region is to engage the participation of the private sector into this important endeavor.<sup>6</sup>

Efforts to induce the private sector into the GMS, with the help of local, regional and international financial institutions, should be coordinated to maximize the benefits to each and every nation within the “common” system. Fiscal advantages, legal and social frameworks and labour standards and regulations should also be harmonized to ensure maximum benefits to all, and tourism and air transport promotion across the GMS could be enhanced.

### ***Human Resource Development***

At present, there is a vital need to lay the software of a sustainable socio-economic development and growth, through human resource development or HRD across the whole region. As the world globalizes and the digital revolution sweeps across the planet, “people value” has become the key to economic growth and sustainability. Creativity and innovation are now well sought-after commodities in HR, but before arriving at this stage of human resource “valuation,” there is a pre-conditional need to provide basic education to all, as well as basic vocational and technical training. HRD is perhaps the greatest challenge to mankind in the face of globalization and the GMS will be an interesting laboratory for the success or

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<sup>6</sup> Hun Sen's Speech in Kao Kim Hourm et, al. (edited), 2000, p.216.

failure of this global challenge. Basic primary and secondary education should be made compulsory as soon as possible in the GMS, and basic technical and vocational skills provided for, with the assistance of foreign funds and foundations, throughout the region. On top of that, there is also a need for the GMS to harness available funds necessary to train its middle management and executives in areas such as entrepreneurship, management and accountability, the drafting of fair and equitable social, legal and administrative legislation and regulatory frameworks, as well as in tourism promotion and health management. Finally, when the country is receptive, ITC skills should be progressively taught so that its people and the whole region could be progressively “plugged” into the global economy. A vibrant and healthy learning society with profession and skill is the key to sustainable economic growth.

## **8. Conclusion**

GMS is very different from ASEAN or other regional agreement, for it is informal and guided only by a general set of principles and institutional arrangements. Unlike ASEAN, the Program is not intended as a precursor to a trade bloc. Rather, it is a pragmatic, results-oriented program whereby the six countries, or subsets of the countries, agree to plan and implement projects to their mutual benefit. Priority projects and initiatives are endorsed and donor assistance mobilized. In these ways, subregional projects lead to improved employment opportunities and living standards, and poverty reduction. Subregional economic cooperation also has a peace dividend, for it contributes to stability and better relationships. These are important factors in creating a positive climate for investment and business enterprise, and thereby for promoting faster growth.

Though the Mekong sub-region has many good potentials for future development, the road of economic integration in the subregion will be a long full of obstacles and challenges. But with the strong commitment from all parties involved, especially the political leaders, the great success will happen. The Mekong regional economic integration will propel the socio-economic development of member countries.

Though there are constraints in the process of GMS cooperation, the GMS scheme not only provides huge opportunity for the future economic development in the region but it also reduces political and security tensions that plagued peninsular South-East Asia throughout

the 1970s and 1980s. To overcome the challenge and to maximize the benefit from economic integration, the GMS members should sharpen common vision and redouble efforts for the future cooperation. The countries shall also consolidate the fundamental principles underpinning success and reaffirm commitment to partnership.

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