Lessons in Regional Economic Cooperation:
The Case of the Greater Mekong Subregion (GMS) [1]

Introduction

In 1984, Noritada Morita travelled to Vientiane, Laos, to attend the meeting of the Mekong Committee[2] on behalf of the Asian Development Bank. Morita-san, as he was popularly referred to at the ADB, was staying in Lane Xang Hotel situated a short distance from the Mekong River. Immediately across the river was Nong Kai province in Thailand.

What would have been an otherwise uneventful meeting turned out to be quite dramatic, as a patrol boat on the Thai side of the river fired machine guns, aiming for the hotel where Mr. Morita was staying. The shots didn't hit the hotel, instead landed in a nearby market. As the country delegations visited Lane Xang Hotel to view the damages inflicted by the firing of the artillery, the mood of the meeting inevitably turned on the incident. There was no escaping the fact that while the Mekong Committee as an official body sought to regulate the use and distribution of the waters of the Mekong River through inter-country cooperation, the incident proved that relations among the countries were strained and cooperation was going to be difficult.

"ADB was neutral, Morita-san was neutral," explained Mr. Morita. "We had to be. All the countries represented in the MRC were ADB shareholders and our country members." It was then that he was approached by the Vice-Chairman of the Lao Planning Commission, who was chairing the MRC meeting, to seek his help. Nothing precise, just a general call for assistance.

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[1] This case was written by Teresita Cruz-del Rosario, Senior Research Fellow of the Centre on Asia and Globalisation at the Lee Kuan Yew School of Public Policy. The author wishes to thank Mr. Noritada Morita, former ADB Director for his valuable contribution to the writing of this case. Extensive interviews with Mr. Morita made it possible to review and record the entire history of the formation of the Greater Mekong Subregion (GMS) Regional Cooperation Program. I have directly quoted from him as appropriate, with his consent.

[2] The forerunner of the Mekong River Commission was the Mekong Committee which was established in September 1957 under the auspices of the United Nations Economic Council for Asia and the Far East (ECAFE). In 1978, it was re-named the Interim Mekong Committee without the participation of Cambodia. It was only in 1995 when the Mekong River Commission was formally established through the Agreement on the Cooperation for the Sustainable Development of the Mekong River Basin. The agreement was signed by the four lower riparian countries, namely, Thailand, Cambodia, Vietnam and Laos.

This was the situation confronting Morita-san as he mulled over his new responsibility as Director-General of the Programmes (West) Department at the Asian Development Bank. His mandate included a number of countries: Thailand, Laos, Vietnam, Cambodia and Myanmar. Given the background of this incident in Laos, yet mindful of his responsibility to respond to the request of the Vice-Chairman from Laos for ADB assistance, Morita-san thought of the possibilities, if any, to undertake projects that would benefit Laos, yet would also promote cooperation rather than enmity among the countries.

A Troubled Region: the Region's History in Brief

Long before the idea of a subregion existed, the four countries that comprised what was then referred to as Indochina had one shared feature: a troubled history. In the 1980s, the countries through which the Mekong River flowed were separate nation-states that were divided not only by administrative and political boundaries, but more importantly, by ideological ones. Thailand subscribed to a free-market democratic system and was then undertaking a series of reforms that would create a positive investment climate. Despite a series of military governments that were the outcome of several *coups d'etat*, Thailand was firmly aligned with the western democracies and sought to establish a political system based on free and open elections. Vietnam on the other hand had just emerged from a series of anti-colonial wars, and the country ideologically aligned itself with the former Soviet Union following its victory against the Americans in 1975. The United States subsequently imposed an economic blockade on the country that was only lifted in 1994. Vietnam also launched an invasion of Cambodia in December 1978 which in turn caused deterioration in its relationship with China. Similarly, Laos aligned itself with the Soviet Union in December 1975 during the takeover by the Pathet Lao. Vietnam received military and economic aid from the Soviet Union, in turn, Vietnam supported Laos by providing financial, technical and military support. Both countries maintained a "special relationship" with each other through the formalized treaty of friendship and cooperation in 1977. Cambodia's alignment with China reflected a three-way ideological stand-off among the four countries. Two of them (Vietnam and Laos) were firm adherents to Soviet Communism, Cambodia was aligned with Chinese Communism, and Thailand was an avid follower of western democracy. To a large extent, the four countries mirrored the global ideological divide during that period, a Southeast Asian version of the Cold War transplanted on tropical soil.

Apart from a history of differing ideological alignments, the four countries were also the site of numerous border disputes. These mostly arose out of colonial histories that demarcated very artificial boundaries and "overwrote divisions of bygone kingdoms."[3] There are continuing challenges among these countries themselves based on territorial claims as well as challenges to cultural heritage. Though of recent vintage, the Preah Vihar temple dispute between Thailand and Cambodia reviews a long history of contestation over French delineation of Cambodia's borders much to the consternation

[3] "Why Thai-Cambodian temple dispute lingers. Each side has domestic reasons to prolong the conflict." *The Christian Science Monitor*. July 22, 2008. http://www.csmonitor.com/2008/0722/p06s02-wosc.html

of Thai nationalists who insist that the geographic space of 4.6 kilometers on which the temple stands, belongs to Thailand. Fortunately, both countries have pledged to resolve these disputes through diplomatic means and a resolution on the temple issue looms in the horizon.

Other border disputes involved Thailand and Laos particularly in northern Thailand where the Meo tribespeople from Laos took refuge after the Pathet Lao seized power in 1975. Thailand closed down its borders in November 1975, effectively sealing off Laos from any form of economic exchange and causing much hardship in a country already struggling with poverty. As a landlocked country, Laos was dependent on the transport of goods through Thai territory. In January 1976, Thailand reopened its borders and recognized the new Laotian government. Border disputes continued and Thailand would impose irregular economic blockades against Laos. Also, the influx of Laotian refugees led to intermittent closure of borders. By the end of 1977, there were 73,000 Laotian refugees out of a total of 95,000 Indochinese refugees encamped in Thailand.[4]

The collapse of the Soviet Union in 1989 necessarily changed the dynamic in Indochina. Without the Soviet Union's support for Vietnam and Laos, both countries faced the distinct possibility of economic collapse. Vietnamese occupation forces numbering between 60,000 and 70,000 were withdrawn from Cambodia, ending an occupation of ten years and three months. The economic situation of Laos, along with its status as a landlocked country, mandated a transition, albeit a slow one, to a more open economy. In 1986, Laos adopted the New Economic Mechanism (NEM) based on "new thinking" (*chin tanakan may*).[5] Among its major features was the introduction of decentralized decision making, deregulation of pricing and financial systems, and promotion of domestic and international trade and foreign investment. As with the rest of its neighbors, an investment infrastructure was erected through the Economic Development Board to facilitate foreign investment in most sectors, including incentives that allowed 100% foreign ownership.

Cambodia however was still struggling with four different factions that sought to control the central government. The withdrawal of Vietnamese forces signaled a new transition in Cambodian history. In 1991, all the different factions came to an agreement to end the Cambodian conflict. A United Nations Transitional Authority (UNTAC) and a Supreme National Council (SNC) were formed from the different factions. In May 1993, UNTAC sponsored an election for the national assembly, and since then, competitive politics are slowly witnessing a return to Cambodia.[6] The country continues to undertake economic reforms that would move it away from socialism and directly onto the path of market reforms.

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[4] "Foreign Relations of Thailand." *BambooWeb Dictionary. Open Web Encyclopedia*. http://www.bambooweb.com/articles/F/o/Foreign_relations_of_Thailand.html

[5] "Lao People's Democratic Republic – Economic Development" *Encyclopedia of the Nations.* http://www.nationsencyclopedia.com/Asia-and-Oceania/Lao-People-s-Democratic-Republic-ECONOMIC-DEVELOPMENT.html

[6] "A Moment in the Sun for Cambodia's Hun Sen," *The Asian Times,* November 20, 2002. http://www.atimes.com/atimes/Southeast_Asia/DK20Ae01.html

Thailand needed to evolve its own foreign policy vis-à-vis the unfolding events in the other three countries. Also, its own foreign investment infrastructure was firmly in place and massive Japanese investments brought Thailand to the point of an economic "take-off." Thus, Thailand needed to expand its relationships with its neighbors in anticipation of a surge in economic activity through expanded markets for its goods and services. Further, with the collapse of the Soviet Union, the historical antipathy of Thailand towards Communism all but waned, and its main foreign policy imperative focused on normalizing and strengthening relationships with China.

Thailand's flexible and adaptive foreign policy despite ideological differences with its neighbors gave the country much maneuverability in its dealings with its neighbors. This proved to be a source of strength for the country so that by the early 1990s, when the economic transition processes of the other countries were firmly underway, Thailand was in the best position to exploit the opportunities provided by the Asian Development Bank for regional cooperation.

The Greater Mekong Subregion. From Concept to Creation

Shortly after his trip to Vientiane, Morita-san returned to Manila with a proposal to build a 40-60 megawatt hydropower project in Laos. This would entail production of excess energy, the surplus of which would be sold to Thailand whose energy demands were on the rise because of its industrialization program. The energy project would bring the two countries together on a shared interest. Laos would earn revenues for its cash-strapped economy through an energy exchange program, at the same time, it would provide access to its own citizens at affordable prices. Thailand would have enough energy capacity for its industrial projects and boost its capacity for attracting foreign investment through the steady provision of energy.

"The reason why I was confident that this would work", Morita-san continued, "was because I knew that there was a small hydropower project, the Nam Ngun I with a generating capacity of thirty megawatts."

Constructed and completed in 1971, the Nam Ngun hydropower plant continued to operate even during the period of socialist economy in Laos. Morita-san's personal relationship with both general managers of the Electricite du Lao (EDL), and the head of Electricity Generating Authority of Thailand (EGAT) facilitated communications among the three parties[7].

"You can contact me through your counterpart in Thailand," he told Mr. Kumon, EDL's General Manager. "Communicate with me in Manila through EGAT."

The three-way communication between the two general managers of EDL and EGAT went into full gear. In Thailand, Mr. Kasem, EGAT's General Manager, arranged for a meeting between Morita-

[7] Electricity Generating Authority of Thailand (EGAT) is the official agency responsible for all the production and distribution of energy requirements in Thailand.

san and the minister in charge of energy in the Prime Minister's office. This pre-dated the Ministry of Energy in the 1980s. Mr. Kasem was confident that with ADB representation, the hydropower project would materialize and the minister would issue the letter of approval. He made another visit to Laos and identified the project site with Mr. Kumol of EDL. On the way back to Manila, he stopped by Thailand, where the approval letter from the Office of the Prime Minister awaited him.

Construction on the Xeset hydroelectric project began in 1988 and was completed in 1991. The powerhouse supplies electricity to the provinces of Saravane and Champasak. Consumers pay cross-subsidized rates from revenues generated from energy sales, thus making energy affordable to Laotians. All surplus power is exported to Thailand. Altogether, the project took 32 months to complete. The first transmission of electricity took place on 1 May 1991.[8]

The project also constituted ADB's first ever project loan to Laos since the 1975 revolution --- certainly a first in the history of ADB. On the inaugural day of the Xeset hydropower station, the Deputy Prime Minister of Laos attended, signifying the importance which the Lao government attached to the project. This symbolic gesture provided an indication to Morita-san of a positive future that lay ahead in terms of expanding ADB's involvement beyond two countries.

It was then that Morita-san turned his thoughts to China, Vietnam and Cambodia.

Expanding the Players, Enlarging the Membership. The ADB's interest in Vietnam's participation in the regional cooperation program was founded on a policy framework that shifted the character of the Vietnamese economy in a fundamental manner. In 1986, Vietnam adopted *doi moi*, the policy of "reconstruction" and "renovation."[9] Since then, Vietnam has undertaken a series of reforms that moved it away steadily from a centrally-planned economy towards a liberalized open market. Vietnam's overtures to rejoin the international community set the stage for a regional undertaking.

Three years before the lifting of the economic embargo by the United States in 1994, the ADB set in motion a series of activities that consisted of preparatory activities for eventual full-scale engagement with Vietnam. In anticipation of the lifting of the blockade, ADB undertook a total of 100 social and economic missions to Vietnam.

"I started sending missions to Vietnam three years prior to the lifting of economic sanctions. We had to be ready just in case. We had to have foresight," Morita-san emphasized

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[8]"Xeset Hydropower Plant/Vientiane Electricity Rates." *The Mekong Express.* http://www.mekongexpress.com/laos/articles/dc_0695_xesetpwr.htm

[9]*Doi Moi* entailed three inter-related fundamental thrusts: a) shifting from a bureaucratically centralized planned economy to a multi-sector economy operating under a market mechanism with state management and a socialist orientation; b) democratizing social life and building a legal state of the people, by the people, and for the people; c) implementing an open-door policy and promoting relations between Viet Nam and all other countries in the world community for peace, independence, and development. See Peter Boothroy and Pham Xuan Nam (eds.). *Socioeconomic Renovation in Vietnam: The Origin, Evolution and Impact of Doi Moi.* Canada and Singapore: IDRC/ISEAS. 2000.

As Vietnam was in the midst of its economic transition process, the ADB utilized this as an opportunity to provide assistance. The ADB's Interim Operation Strategy (IOS) which was formalized in 1993 addressed four priority areas: 1) upgrading, rehabilitation, and improvement of existing physical infrastructure; 2) promotion of economic and sectoral policy reforms; 3) financial sector reform; and 4) social sector activities including human development, social infrastructure and environmental preservation. By the end of the third quarter of 1993, the ADB's lending portfolio in Vietnam consisted of three loans totaling US$261.5 million. Another two projects totaling US$140 million were approved in 1994, and four loans totaling US$233 million were approved in 1995. Although small in size and scope, these lending activities eventually laid the groundwork for large-scale projects in later years.[10]

While the Interim Operations Strategy addressed the ADB's role in Vietnam during the transition period, there was recognition by the ADB of Vietnam's unique position within the sub-region. Infrastructure projects sought to link Hanoi to Lang Son at the border of Yunnan province in China via an extensive road network. The ADB also completed a feasibility study that would link Ho Chi Minh City with Phnom Penh and Bangkok. The most ambitious regional project yet was the "East-West Corridor" that would run across Central Vietnam all the way to Myanmar, passing through Thailand and Laos. Preparation for these large-scale projects began in the early 90s, during which time, the groundwork was being laid for a regional cooperation program that would include Vietnam as a critical partner.

Immediately after the lifting of the economic blockade in 1994, the ADB sent a fact-finding mission that would substantiate ADB's full-scale involvement with Vietnam. The mission would draw upon the previous three years' experience with limited project activity, but was the foundation for ADB's extensive involvement with the country. Within less than a decade after the lifting of the economic blockade, ADB's portfolio of assistance consisted of about US$2.5 billion in soft loans and about US$92 million worth of technical assistance.[11] Today, ADB is the one of the top three lending institutions to Vietnam along with Japan and the World Bank. Vietnam is also one of ADB's biggest borrowers.

Almost simultaneously, Morita-san enlisted the services of Mr. Cesar Virata, a former Prime Minister of the Philippines who served during the Marcos presidency in the 1980s. Mr. Virata would play a pivotal role in convincing the Chinese government to join the regional program. Yunnan province in southwest China bordered the Mekong River and shared borders with Laos, Vietnam and Myanmar. Morita-san believed that the highest level representation was required in order for ADB to make the case to the central government in Beijing that Yunnan province was a vital member in the regional cooperation program.

[10] *Country Operational Strategy – Vietnam.* Manila: Asian Development Bank. 1995, pp. 26-27. http://www.adb.org/documents/cosss/vie.pdf

[11] http://www.adb.org/vietnam/10yr-op.asp

ADB's involvement in China dates back to the 1980s through its membership in the Bank in 1986 and subsequent borrowing in 1987. The first loan commitment in 1987 amounted to US$188 million, with a follow-up loan of US$282 million a year later. By 1993, China was the ADB's third largest borrower next to India and Indonesia, with 30 approved projects and cumulative borrowings totaling US3 billion.[12]

China, therefore, was beyond doubt a major partner in the subregion, not only because of its size alone, but also because of its geographic location on the Mekong River vis-à-vis the other countries. As an upstream country, China's decision on the use of the waters of the Mekong would have enormous impact on the four lower riparian countries.

With China, Vietnam, Thailand, and Laos firmly enrolled in development assistance, Morita-san decided it was time to attend to Cambodia. Cambodia, however, was still embroiled in internal political conflict.

"All the countries had started to come on board, but we were still waiting for Cambodia," Morita-san remembers those difficult years. It was particularly problematic due to excessive factionalism that prevented the formation of a fully functioning government. The only bright feature was the signing of the Paris Peace Accord in October 1991 that provided for a Comprehensive Political Settlement which ended decades of conflict in Cambodia.

During a meeting with Hun Sen, one of the four factional leaders of the Cambodian government, Morita-san recalls Hun Sen's words to him regarding regional cooperation. "This (regional cooperation) can really put the country together. Unnecessary fighting can be reduced, and he doesn't have to spend the money for defense. He can spend the money for social development, especially for reducing poverty," Morita-san explained. "During that time, none of the other factions were talking about poverty alleviation. Hun Sen was already talking about it."

According to Morita-san, it was Hun Sen who understood this aspect of regionalism most fully. He appreciated its role beyond purely economic gains and regarded regionalism as the underlying logic for meeting national needs and pursuing national aspirations. Because of the direct proximity of Cambodia to three other countries, the process of rebuilding the country had to be inextricably linked to its relationship with the others. It was at that moment when Morita-san discovered one of his regional champions.

Thus, the ADB set in motion the process of preparing a Country Strategy Paper. He deployed one of his technical staff for a month to Cambodia to prepare the CSP, and this formed the basis of the donor assistance which was presented to a Donors' Conference in Tokyo in 1994. The first country paper for Cambodia made it possible for ADB to approve its first loan in December 1994 for a power

[12] Nicolas Lardy. *China in the World Economy.* Washington, D.C.: Petersen Institute for International Economics. April 1994. p. 52

rehabilitation project amounting to US$28.20 million. Two other loans followed in 1995 for a basic skills project and a rural infrastructure improvement project, both totaling US$45.10 million. The Bank built up its lending portfolio to Cambodia in the years immediately after the Paris Peace Accord that included technical assistance for public administration reform and capacity development. The latter activities would constitute the Bank's investment in creating and strengthening the requisite institutions in support of Cambodia's development activities.[13]

With Cambodia enrolled into the ADB assistance program, the building blocks for the regional program had been completed. All five countries (with the exception of Myanmar) who were members of the ADB had become active borrowers. With a running roster of ADB projects, Morita-san embarked on the first technical assistance document to fund a series of feasibility studies that would establish a regional economic cooperation program among the six Mekong countries[14].

Collective Leadership and Country Buy-In. By 1992, the regional cooperation program was firmly in motion. Morita-san now proceeded to find a dialogue venue that would bring all the decision-makers of the six countries together. In late 1992, The ADB organized the first ever Ministerial Conference in Manila at the ADB Headquarters. It was a neutral venue for all the delegates who were meeting for the first time away from the battlefield. In attendance were high-level representations from all six countries including General David Bell from Myanmar, Dr. Supachai Panichpakdi, former Deputy Prime Minister of Thailand and currently the Secretary-General of UNCTAD, and the four factional leaders of the Cambodian government including Mr. Hun Sen who eventually became Cambodia's Prime Minister.

It was during this conference that the concept of the *Greater Mekong Subregion* was formally introduced and adopted --- a term that would displace *Indochina* in the lexicon of the development community. This shift signaled the replacement of a connotation in this geographic space from one of intense political conflict to that of economic vibrancy and cooperative exchange among countries bordering the Mekong River (see Map 1 below). The term Indochina has in fact disappeared even from within foreign policy circles, perhaps to denote the permanent cessation of outright hostilities among the different countries with a long tradition of war and inter-country rivalry. What continues to make this possible after nearly two decades of interrupted economic exchange is what ADB refers to as the "peace dividend."

[13] *Technical Assistance to the Kingdom of Cambodia for Capacity Building in External Aid Management. TAR-CAM 30203*. Manila: Asian Development Bank. September 1996

[14] *Regional Technical Assistance (RETA) 5487: Studies in Subregional Cooperation Among Cambodia, People's Republic of China, Lao PDR, Myanmar, Thailand and Vietnam (Phase I)* approved in March 1992 and completed in June 1993. *RETA 5535: Promoting Subregional Cooperation Among Cambodia, Lao PDR, and People 's Republic of China, Thailand and Vietnam (Phase II).* Approved June 1993 with supplemental funding approved September 1994, completed June 1996. *TAR-STU 28249: Technical Assistance for the Study of the East-West Corridor Transport Corridor.* June 1994. http://www.adb.org/Projects/reports.asp?key=ctry&scpe=9999&val=TAR

Although the conference did not produce outright agreements on specific projects, there was unanimous endorsement for undertaking various studies that would promote regional cooperation, including a master plan for the GMS and various feasibility studies. Also, the mood among the country delegates was one of pursuing concrete projects that had clear national benefits even while these had direct regional implications. While delegates agreed on the necessity of building on existing relationships like the Association of Southeast Asian Nations (ASEAN), there was a tacit agreement among them that discussions would **not** be dominated by rules, procedures, or issues that invoked questions of territoriality or sovereignty. Not surprisingly, infrastructure development was given top priority due to the facilitative role this would play in the flow of goods and services among the different countries. The ADB's role was likewise delineated: the Bank would act as facilitator of dialogues, as a catalyst for potential projects and provider of technical and financial resources, and as secretariat to the GMS.

Map 1
The Greater Mekong Subregion

Source: UN Department of Peacekeeping Operations, Cartographic Section. January 2004

The following year, the second ministerial conference was held in Manila on 30-31 August 1993. During this conference, the ministers identified seven priority sectors under the broad regional program: infrastructure, trade and investment, transport, energy, environment, tourism, and human resource development. The third ministerial conference was held in April 1994 with a profile of projects for possible financing. The conference was held in Hanoi, Vietnam --- the first country to host a regional meeting. From thereon, the venue of the annual ministerial conferences would be rotated among the six countries including Myanmar who hosted the tenth ministerial conference in November 2007. Thus far, there have been sixteen ministerial conferences with rotating venues --- an unbroken tradition since the inception of the GMS in 1992 and a significant gesture among the countries that the GMS program carries the weight of their authorship and ownership.

The final touch to country buy-in is the GMS Summits that all heads of state of the GMS member countries attend every three years. The first was held in November 2002 in Phnom Penh, during which time, the six countries signed the Intergovernmental Agreement on Power Trade. It was also during this summit that China became the fifty signatory to the Agreement for the Facilitation of Cross-Border Transport of Goods and People. Succeeding summits were held in the city of Kunming in the southwestern province of Yunnan in China in June 2005, and in Vientiane, Lao PDR in March 2008. Apart from the symbolic value that underscores the firm support among heads of state to the GMS are opportunities to introduce new initiatives. The Phnom Penh Plan, a multiyear capacity development program, was signed and endorsed by all heads of state in Cambodia in 2002. To date, the PPP has trained approximately one thousand civil servants from all across the subregion through a variety of executive learning programs that have been implemented by various learning institutions in Asia, Europe and the United States. The 2005 Summit held in Kunming City introduced health surveillance systems to address cross-border pandemic diseases in the wake of the SARS outbreak in 2003 and the persistence of avian flu, while the 2008 summit in Vientiane underscored the need to promote and enhance private sector participation in regional cooperation.

Working groups for each of the sectors have been formed. Each country is represented in these working groups which provide the technical and substantive work that is fed upwards to the decision-making bodies. Country representation ensures that these working groups reflect the regional character of the sector under concern. The Working Group on Trade Facilitation, for example, tackled the issue of alignment in the trade documents of Cambodia, Myanmar and Vietnam during its second meeting in 2001.[15]

These sectoral groups and forums also provide the opportunity for countries to interact and approach issues with a regional perspective --- the necessary "software" for regional cooperation alongside the "hardware" of cross-border infrastructure, energy, and transport projects.

The Benefits of Regional Cooperation[16]

[15] A complete listing, including the proceedings of all Ministerial, Forum and Working Group Meetings since 1998 can be found in http://www.adb.org/documents/events/mekong/proceedings/default.asp

[16] For the latest comprehensive assessment of the impact of the GMS regional cooperation program, see *Transport and Trade Facilitation in the Greater Mekong Subregion --- Time to Shift Gears.* Section Assistance Program Evaluation.

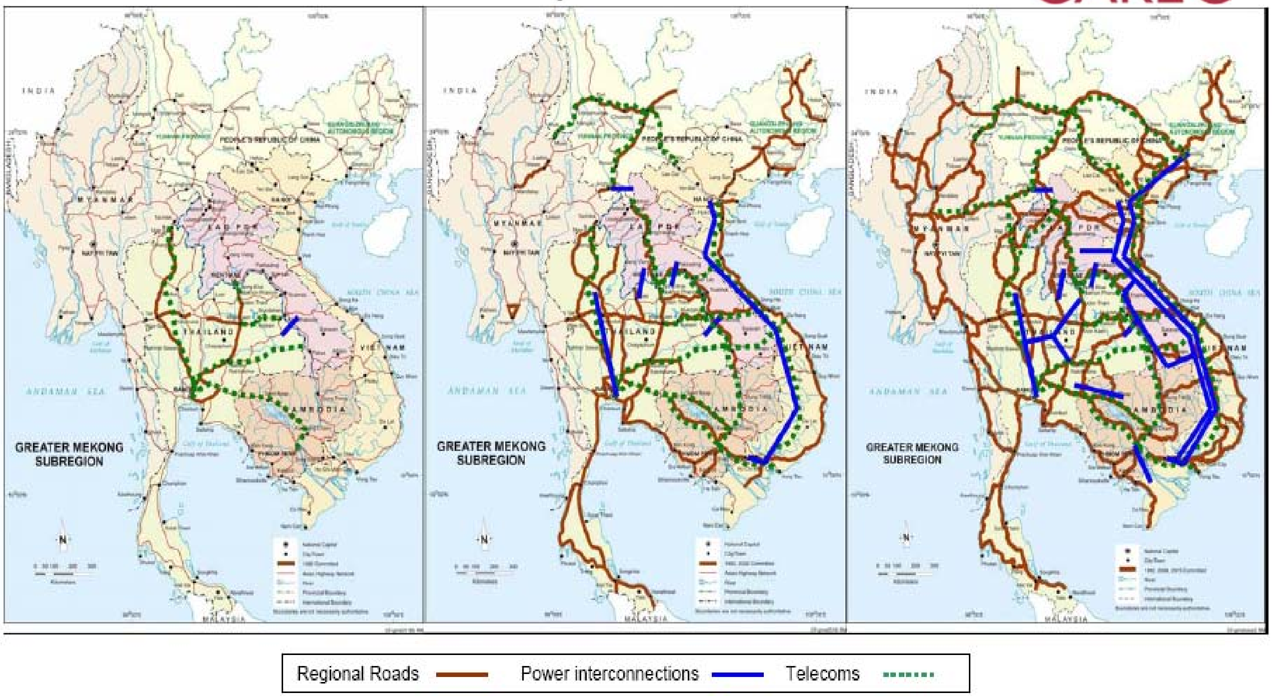
After over a decade of regional cooperation among the Mekong countries, several benefits have by now become apparent to the member countries. Cross-border infrastructure that serves as the nerve center of the program has fostered increased connectivity among the countries through a massive road, transport, power and telecommunications grid (See Map 2 below). By 2012, it is expected that the road network would run across the subregion from east to west, linking Vietnam across to Myanmar and from north to south, linking Yunnan province all the way down to southern Thailand. This would have a direct impact on interregional trade, particularly in terms of facilitating the flow of goods and cutting down travel time especially along border crossings. For Laos, the benefit of the East-West Corridor is exceptionally high. Travel time from the Lao-Vietnam border in Lao Bao to the city of Savannakhet near the Thai border has dropped from 12 hours to 3 hours. Also, foreign direct investment and joint ventures have grown in Savannakhet from US$17.5 million in 1995-2000 to almost US$200 million in 2001-2005. The upsurge in FDI has largely been due to this strategic infrastructure investment that has transformed Laos to a "land-linked" country, providing easier and faster connections between Thailand and Vietnam.[17] Also, the East-West Corridor that spans 1,500 kilometers will provide access to the port of Da Nang in central Vietnam for the manufacturers in each of the GMS countries.[18] With increases in FDI especially in the border areas, an upsurge in jobs is expected along with the development of skills especially for the poor.

Map 2

Reference Number SAP: REG 2008-86. Operations Evaluation Department. Manila: ADB. December 2008. http://www.adb.org/Documents/Reports/SAPE/REG/SAP-REG-2008-86/SAP-REG-2008-86.pdf

[17] Rattanatay Luanglatbandith. *Development Impact of the East-West Economic Corridor on the Savannakhet Province of the Lao People's Democratic Republic.* Manila: ADB Working Paper. 2007

[18] http://www.adb.org/Documents/Periodicals/ADB_Review/2002/vol34_1/connecting.asp



Source: Asian Development Bank 2007

Trade along the border areas has been boosted by infrastructure development. Table 1 below demonstrates an increasingly positive trend in export-import trade balance over a period of five years in Tay Ninh province in central Vietnam where the East-West Corridor runs. Consistently, exports have outpaced imports during the period of construction of the corridor.

A positive benefit to poor households along the border areas is the upsurge in the volume of informal petty trade. A recent evaluation by the ADB found that 22.7% of all households along the Thai-Cambodia border and 13.1% of all households on the Cambodia-Vietnam border were engaged in informal trade.[19]

Table 1
Export, Import and Trade Balance
Tay Ninh province, 2000-2010 (US million)

	2000	2001	2002	2003	2004	2005
Total export	59.764	46.956	88.125	136.75	210	250
Total import	36.395	40.28	65.569	89.404	140	168
Trade balance (export-import)	23.369	6.676	22.556	47.336	70	82

Source: Tay Ninh People's Committee, 2005

[19] *RETA 6171: Summary of Findings and Policy Implications of Final Regional Workshop.* Manila: ADB. July 19-20, 2007

Other noticeable effects are labor migration especially among the poor. An estimated 53,000 daily workers cross the border from Banteay Meanchay in Cambodia to Thailand, and another 52,000 medium- and long-term workers cross from Savannakhet province in Laos to Thailand. Earnings from cross-border labor migration are estimated at US$5.4 million per month for one province in Cambodia alone.[20] The impact of this on cross-border remittances is surely not to be underestimated.

The overall impact of the GMS program on poverty reduction is a mixed and uneven profile. In 2002, the poverty rates in the different countries differed dramatically from one another. Laos, Vietnam and Cambodia have large populations living below the poverty line, while Thailand and China demonstrate remarkable gains in reducing poverty. Disparities in country incomes should be a source of worry for the countries and their development partners (see Table 2 below).

The border areas, however, portray a different picture. In central Vietnam, rates of poverty reduction have been dramatic In Quang Tri province, the number of households that have escaped poverty over a four-year period (2001 – 2005) has increased by about half. Poverty rates in 2001 were at a high of 24%; by 2005, this has been remarkably reduced to 11%, lower than the national average of 17.7% (see Table 3 below).

Other benefits include an increase in regional tourism, with the Mekong Subregion now perceived as a single tourist destination. Before the economic downturn, the region attracted about 27 million international tourists, generating US$15.6 billion in receipts. Since 1990, tourist arrivals to the GMS countries experienced a fourfold increase.[21]

Table 2

Selected Development Indicators: Greater Mekong Countries

	GDP Per Capita (USD)		**Average Growth Rates (%) 1990-2007**	**Adult Literacy Rates (%)**	**Average Life Span (yrs)**	**HDI Ranking***
	2002	**2007**				
Laos	1678	2165	4.2	72.7	64.6	0.619 (133rd)
Thailand	6788	8135	2.9	94.1	68.7	0.783 (87th)
Cambodia	1649	1802	6.2	76.3	60.6	0.593 (137th)

[20] *Ibid.*

[21] *Evaluation of ADB's Assistance to the Tourism Sector in the Greater Mekong Subregion.* http://www.adb.org/Documents/Reports/SAPE/REG/SAP-REG-2008-58/SAP-REG-2008-58.asp

Vietnam	2240	2600	6.0	90.3	74.3	0.725 (116th)
Myanmar	1027	904	6.8	89.9	61.2	0.586 (138th)
China						
Yunnan province	2881	1313	11.9	84	66	0.672
Guanxi province	n/a	1507	13.3	94	71	0.741

* 182 countries measured

Sources: Compiled from UNDP HDR 2009 and the China Human Development Report 2007/2008 for data on Yunnan and Guanxi Provinces. Economic growth rates for Yunnan and Guanxi provinces were obtained from the National Bureau of Statistics in China 2006 and the China Daily Newspaper http://www.chinadaily.com.cn/cndy/2009-06/10/content_8266027.htm

Table 3
Poverty Rate National Standard) of Quang Tri Province
2001 - 2005

	2001	2002	2003	2004	2005
Total Households	124550	126290	128100	129850	131730
Poor Households	29951	24500	19215	16881	14490
Poverty-Escaped Households	4100	5451	5285	2334	2391
Poverty Rate (%)	24.05	19.40	15.00	13.00	11.00

Source: Quang Tri People's Committee, 2005

Continuing Challenges.

Despite the success of the GMS regional cooperation program, challenges remain, both from within the ADB itself and its external stakeholders. A projected six-country involvement in the program has realistically excluded Myanmar. There has been no direct lending to Myanmar for nearly two decades, and the benefits of regional cooperation still needs to be demonstrated. Mostly if at all, Myanmar benefits only tangentially, that is, through indirect by-products that are difficult to attribute to the regional cooperation program. One example is the attendance of Myanmar civil servants in the various training programs under the Phnom Penh Plan. Whatever behavioral or organizational changes might have resulted from these training programs would be difficult if not outright impossible to establish.

Second, by ADB's own admission, the notion of economic corridors, while "noble", remains "vague" and has yet to see the light of day in terms of converting a transport corridor into an economic one.[22] More specifically, the linkage between a road network and the mobilization of capital along these networks has yet to be realized.

Third, more needs to be done in terms of creating regional public good (RPGs) especially in terms of addressing the negative externalities resulting from infrastructure and energy investments. Some of these externalities are the spread of communicable diseases across borders; human trafficking; illegal and unregulated migration; transnational corruption and money laundering. Regional public goods require, among others, the creation of institutions that promote better governance to ensure the equitable spread of benefits. This entails considerable financial resources, and the role of ADB in promoting RPGs will need to be defined and sharpened in the years ahead.

Finally, poverty reduction remains center stage in the GMS. It is, according to the ADB itself, the region's "key development challenge."[23] Despite impressive growth rates since the inception of the program in 1992, inequality persists among and within countries. More efforts are required to ensure that regional economic growth translates concretely into realizing the GMS vision of shared prosperity for all the 260 million citizens that inhabit the Mekong community.

[22] *Transport and Trade Facilitation in the Greater Mekong Subregion --- Time to Shift Gears.* Sector Assistance Program Evaluation. Reference Number SAP: REG 2008-86. Operations Evaluation Department. Manila: ADB. December 2008. P. 14. http://www.adb.org/Documents/Reports/SAPE/REG/SAP-REG-2008-86/SAP-REG-2008-86.pdf

[23] *Facing the Development Challenges of the Mekong Region. An Overview Paper Prepared by the Asian Development Bank.* Summary of Presentation at Conference on "Accounting for Development", June 23-24, 2000. University of Sydney, Australia.