



Greater Mekong Subregion Economic Cooperation Program

Proposal for the Reorientation of the Subregional Investment Working Group (SIWG) and Preparation of a Medium Term Work Program¹

I. Background

1. Recognizing the importance of investment in realizing an integrated, prosperous, and harmonious region, the countries of the Greater Mekong Subregion (GMS) included as part of the GMS Ten-Year Strategic Framework, the facilitation of cross-border trade and investment. To cover the investment side of this strategic thrust, a Subregional Investment Working Group (SIWG) was set up, with the main objectives of supporting cooperation in general investment facilitation, especially as regards transborder investment; investment promotion; and the design and implementation of regulatory frameworks for investment.

2. The SIWG has had five meetings from its inception in December 1995 to its last meeting in October 2005, when it tried to consider options for its future directions. However, the SIWG's activities have been very broad, lacking in concrete initiatives with definite outputs as well as in continuity in terms of focal points and participating officials. In the meantime, private sector promotion-related activities were being carried out by the GMS Business Forum (GMS-BF). Established in 2000, the GMS-BF is composed of the chambers of commerce and industry from the six GMS countries and has had some degree of success in organizing conferences and workshops for the private sector.

3. In a GMS Senior Officials' Meeting (SOM) held on 26-27 November 2008 in Bangkok, Thailand, during the discussion on the efforts toward the development of the GMS economic corridors, the SOM requested ADB to explore mechanisms to pursue subregional cooperation in investment. At the following SOM held on 11-12 March 2009, ADB presented its proposal on the reorientation of GMS investment cooperation. The SOM generally supported the proposal and during the extensive discussions gave further suggestions on how to make the proposed approaches more responsive to the countries' needs. (A copy of the SOM summary of proceedings is attached for reference.) The proposal, including the inputs from the SOM is presented below.

II. Proposal

4. To reorient the SIWG, focusing its work on results-oriented initiatives that promote investment along the GMS economic corridors.

III. Rationale

5. Investment continues to be a critical factor in development as it drives future economic growth, job creation, and poverty reduction. Investment represents confidence by people of the region in their economic future. To be successful, the GMS program must focus on investment activity of a cross-border or regional nature, which can be influenced by joint policies and actions.

¹ Revised version will be circulated at the Senior Officials' Meeting on 17 June 2009.

IV. Scope and Focus Areas

6. Cooperation is proposed on the following types of investment activity:
 - Cross-border Investments (CBI) - investments involving people and enterprises from two or more GMS countries, jointly establishing or expanding economic activities; GMS-based Foreign Direct Investment (FDI).
 - Border Area Investments (BAI) – the founding or growing of businesses in border areas, which impact on cross-border trade and economic opportunities.
7. Work and analysis in these areas will cover studying the extent and trends of such investment activity; determining the appropriate legal, regulatory, and procedural framework for such investments; designing instruments and measures to promote such investments, particularly along the GMS economic corridors; and ensuring that micro, small, and medium enterprises (MSME) in the influenced areas of the corridor participate in and benefit from these investments.

V. Proposed Elements of the SIWG Work Program Going Forward

8. Undertake broad stock-taking studies to serve as a basis for the specific initiatives to be undertaken. The studies may include:
 - Review of current trends and future prospects, describing the extent of GMS CBI by country and sector, including FDI in the subregion by GMS-centered firms as well as ASEAN-wide firms. It may also include comparisons with non-GMS ASEAN CBI and FDI experience.
 - Links between trade and investment activity (CBI and BAI).
 - Success stories of CBI and BAI, highlighting the critical factors behind the success.
 - Evaluation of alternative support programs for local investments in particular border localities, with an emphasis on cross-border support, including lessons learned from successful as well as unsuccessful support programs.²
9. Develop instruments and measures for the promotion of CBI and BAI along the GMS economic corridors. These may include:
 - Establishment of financing and credit guarantee mechanisms to facilitate transactions at the border. This can be complemented by risk management support to MSMEs to enable them to access such financing and for their overall development. Such support may include provision to MSMEs of know-how (e.g., technology, markets) they need to be competitive (see also next item below).
 - Provision of business development services (BDS) to MSMEs that will give them access to tools for basic business operating practices, instruct them on international standards and quality controls required for participation in value chains, and help them realize cross-border trade opportunities.
 - Development of financing and credit guarantee facilities specifically aimed at promoting BDS development. For instance, this might involve supporting BDS centers through cost sharing, grants to businesses using the BDS services, and provision of business credits.
 - Review of national policies from the standpoint of the lessons learned from cross-border and GMS-centered FDI.

² The March 2009 SOM suggested that existing studies could be revisited in trying to come up with effective and practical support to border firms as well as in properly diagnosing their problems in terms of, among other things, capital requirements, markets, and technology.

- Promoting the development of value chains (VCs) by encouraging the use of backward linkages of large companies with domestic or transnational companies, in the context of the GMS economic corridors.
- Development of practical and effective models of cross-border production and VC activity. In this regard, useful lessons may be derived from current contract farming arrangements between Thailand and Lao PDR, involving a “2 plus 3 formula”, wherein Lao PDR provides land and labor, while the Thai firm (i.e., CP Group) provides technology, capital, and the market for the produce. A variation of this, which Lao PDR is exploring with other GMS members, is the “2 plus 4 formula”, where the provider of technology, capital, and market also develops the infrastructure to facilitate transport of produce.
- Development of Special Economic Zones (SEZs), particularly at border nodes along the GMS corridors. This will target key border areas and promote supply linkages with foreign companies covering joint venture activities in trade, industry, and tourism. This will involve not only the physical infrastructure, fiscal and other policy aspects of SEZ development but also other soft aspects, such as social and human resource development programs, environment and public health, and institutional development. The experiences of the GMS countries in establishing export processing zones and similar activities should be compared for lessons to be applied at the border areas.³
- Establishment of MSME Networking Facilities, which will help strengthen links among the MSMEs themselves and between them and large enterprises and promote the application of good business practices.

10. Develop (jointly with the Economic Corridors Forum) an effective monitoring and evaluation framework for subregional corridor-based investments, with benchmarks and quantifiable indicators and targets.

11. Conduct joint activities with GMS Business Forum (GMS-BF):

- Business roundtables involving those businesses with significant GMS-FDI operations to identify problems and opportunities.
- Developing border area business forums to include business people, community organizations, and government agencies to evaluate both the business climate, level of activity, and the need for sustainability.

VI. Relationship and Division of Work among the SIWG, ECF and GMS-BF

12. It is important to clearly delineate the respective responsibilities of these three key bodies and the relationship among them.

13. The ECF is the main advocate and promoter of GMS economic corridor development. It deals with all aspects of corridor development, covering multisectoral and holistic concerns at both the central and local levels. The ECF is an advisory body that presents its recommendations to the GMS Ministerial Conference through the Senior Officials' Meeting. It is the main body responsible for overseeing the preparation and implementation of strategies and action plans for the economic corridors, and ensuring coordination and consistency, at the design and implementation levels, among all the sector plans and initiatives.

³ These efforts may also benefit from the experience of and coordinated with the activities of ADB's East Asia Regional Department in developing technical assistance to support Cross-Border Economic Zones, which will provide support for the development of master plans and sector investment plans, studies to improve enterprises' access to financing, and for public-private sector dialogues.

14. The SIWG, like most other GMS working groups and forums, is the venue for cooperation at the sector-specific (in this case, subregional investment) policy, planning/programming, and operational levels. With its proposed new focus on CBI and BAI, it is also expected that the SIWG will have greater representation from the agencies and other actual players at the local/border areas.

15. The GMS-BF is composed entirely of private sector representatives and has three fundamental objectives, namely: to build the capacity of private sector associations in the GMS; to develop a private sector network to promote business opportunities in the suregion; and to serve as a direct and regular communication channel between the private sector and governments on investment and trade facilitation and other policy issues.

16. Clearly, with the proposed reorientation of the SIWG toward investment along the GMS corridors, it would have to substantially interface with the ECF. It could work jointly with or supply inputs to ECF on investment-related aspects of corridor development. It can also organize jointly with ECF (and the GMS-BF) other activities related to the corridors, such as trade and investment fairs (see also items under Section V).

17. The SIWG will not be able to function effectively without the active participation of the GMS-BF. It is therefore proposed that the existing arrangement, where the GMS-BF is permanently represented in the SIWG, be maintained and that public-private partnerships be promoted through this partnership.

18. Since work on corridor-based investment promotion initiatives takes time and requires continuity among the officials concerned, it may be useful to consider having a permanent chair for the SIWG (say, for a period of 3 years). This would align the SIWG structure with the GMS-BF, its private sector counterpart, which has adopted a system of rotating (medium term) chairmanship. At the same time, it may be necessary to review the secretariat support to SIWG to, among others, allow better coordination with the GMS-BF.

VII. Next Steps

19. Preparation of a proposed medium term (e.g., 2009-2012) work program for the SIWG based on the above broad directions, which will be presented for approval in principle and endorsement by the 15th GMS Ministerial Conference (Thailand, 17-19 June 2009). The countries requested (in the aforementioned March 2009 SOM) ADB's assistance in the preparation of such a work program.

20. Convening of the SIWG to discuss the further details of the work program and to initiate the actions needed to carry out its various components. This would involve not merely a reassembling of participants/ agencies involved in previous SIWG meetings but rather may require a reorganization of the SIWG's membership so that it will be better aligned with the above proposed reorientation and activities.