

**Greater Mekong Subregion
High-Level Public Private Sector Consultation Meeting
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TRADE AND INVESTMENT

I. Current Status of Intra- and Inter-regional Trade in the GMS -- A Snapshot

1. Since the commencement of the GMS economic cooperation initiative in 1992, the sub-region has witnessed a significant expansion in overall trade and inflows of foreign direct investments (FDI). The annual growth rate of exports from the GMS to the world during 1990-2002 reached 14.2 percent; imports over the same period grew to 11.0 percent. The share of intra-regional trade to total trade increased from 5.7 percent in 1992 to 12.6 percent in 2002. FDI flows for the GMS countries increased from \$2.2 billion in 1992 to \$5.6 billion in 2001 (Annex A).

2. However, the overall degree of trade integration within GMS is not very high. In 2002, the share of exports from among the GMS countries ranged from 1.9% in PRC to 40.5% in Lao PDR. The share of imports from among the GMS countries ranged from 2.3% in PRC to 79% in Lao PDR. While there are location and developmental reasons for these trade patterns and there may be some under-reporting due to unrecorded trade, there remains a large potential for trade and investment within GMS, a market with a population of 1.5 billion and rising incomes.

II. Objective of Trade and Investment Facilitation

3. The GMS Summit Declaration issued by the GMS leaders in November 2002 enunciated a vision of freeing people from poverty and providing sustainable development opportunities for all citizens. The sub-region needs to be increasingly integrated to attain these goals and to compete in a globalized world. Trade facilitation and investment, as among the nine priority areas in the GMS program, are important means to promote economic growth and improve the living standard of the people in the participating countries.

4. The objective of trade and investment facilitation is to create a favorable environment for trade and investment, further reduce international trade transaction costs and improve administrative ability and efficiency. Past commitments or free trade agreements at multilateral, regional and bilateral levels have focused on reducing tariff and non-tariff barriers and contributed to trade liberalization in this sub-region. As a result, the reduction in these traditional barriers to trade has led many countries to shift attention to less-obvious non-tariff barriers, such as unnecessary or inefficient procedures and documentation in trade and investment. Hence, the willingness among the GMS countries to discuss trade and investment issues has been demonstrated. The cooperation for facilitating trade and investment has gained increasing importance and recognition. Substantial development on activities in the area of trade facilitation, investment policy and promotion, and increased participation of the private sector in the economy are a few of such examples.

III. Achievements in Trade and Investment under the GMS Program

5. The support to trade and investment under the GMS program has focused on trade and customs facilitation (single-stop customs inspection at selected border crossings), facilitating cross-border investment through attempt to construct a cross border trade and investment database, and the support to the GMS Business Forum. In this context, GMS countries have

given their full support to preparation/ratification of the Framework Agreement on Facilitating Cross-Border Transport of Goods and Peoples in the GMS (Cross-Border Transport Agreement), which touches on reduction of many core non-tariff barriers to facilitate transport and trade flow (facilitation of goods and services). One of the purposes of the Agreement is to simplify and harmonize legislation, regulations, procedures, and requirements relating to the cross-border transport of goods and people covering issues related to customs, standards, visa, and other obligations such as the establishment of cross-border crossing facilities, establishment of national transport facilitation committees, promotion of multi-modal transport operations, etc. The Framework Agreement and its Annexes and Protocols appear to be a step taken towards formal regional integration.

6. In the meantime, ongoing activities in pilot testing of the single stops customs inspection (SSCI) at selected and agreed border-crossings of GMS countries are taking place. The pilot sites for SSCI are Bavet and Moc Bai; Mukdahan and Savannakhet; Poipet and Aranyaphet; and Lao Bao and Denh Savanh, presently covering Thailand, Cambodia, Lao PDR and Viet Nam. At these frontier crossings, measures to be implemented include single-stop, single-window inspection and synchronization of operating hours of customs facilities are implemented. It is important that the related legal and regulatory issues and institutional issues be effectively dealt with in order to expedite the pilot testing of SSCI.

7. To support the development of private sector, the GMS Business Forum (GMS-BF) was established in October 2000. It is comprised of the national chambers of commerce and industry (PRC is represented by Yunnan Provincial Chamber of Commerce) from the six GMS countries as core members. The GMS-BF serves as a forum for pursuing three fundamental objectives; (i) capacity building for private sector associations; (ii) development of a private sector network within and outside the region to promote business opportunities and investments; and (iii) serve as a direct and regular channel of communication with the GMS governments on policy issues, public-private sector partnerships, investment and trade facilitation, and infrastructure investment, among others. Capacity building and networking are equally important dimensions of the Forum.

8. In addition, the GMS Program supports two Working Groups on trade facilitation (TFWG) and investment (SIWG). These Working Groups have made great efforts to review trade and investment trends and policy developments in the sub-region and also identify priority projects to promote trade and investment. The 4th SIWG was held recently on July 6-7 in Bangkok. In early November 2004, PRC will host the 4th TWFG and would like to see further progress on areas related to trade facilitation and customs collaboration.

IV. Priorities in Trade and Investment Facilitation

9. The first GMS Summit in 2002 endorsed the Ten-Year Strategic Framework for the GMS Program and the Eleven Flagship Programs, the key means through which closer economic cooperation and prosperity will be achieved. The Strategic Framework focuses on five strategic development thrusts, one of which is to facilitate cross-border trade and investment. To realize this goal, the flagship program on facilitating cross-border trade and investment identifies priorities as follows:

- a) Development and maintenance of a cross-border trade and investment information system;
- b) Development of products and services to support SMEs;

- c) Trade and customs facilitation, initially focusing on single-stop and single-window inspection and expanding to modern border management systems;
- d) Standards framework upgrading;
- e) Facilitation of cross-border movement of goods and peoples in the GMS;
- f) Development and integration of freight forwarding;
- g) Industrial development;
- h) Coordination of policies and regulation on trade-related financial and insurance services;
- i) Development of market information networks to facilitate trade linkages (including market access mechanisms, export promotion programs, access to international trading companies);
- j) Development of e-commerce systems to improve the integration of the trade transaction process (between sellers, shippers, bankers and purchasers).

10. In trade facilitation, two high priority activities are the approval and implementation of the Framework Agreement on Cross-Border Facilitation targeted for 2005, and pilot-testing the concept of single-stop customs inspection, a requisite step before the scheme can be applied region-wide. Transparency of customs procedures crucial to customs operations could be implemented immediately after the pilot-tests, for region-wide application of customs facilitation measures to proceed effectively.

11. As regards investment promotion, support services and systems for helping SMEs become more competitive are high priority as listed in the development matrix. ADB and the Mekong Project Development Fund Facility currently support these three priorities.

V. Key Issues and Challenges

12. The role of the Government in the economy is to provide a suitable and stable environment for the business sector to function effectively and efficiently. This changing role is reflected in varying degrees in domestic trade and investment policy reform of individual GMS countries, and more importantly, it is recognized as a key component in regional and sub-regional cooperation and integration initiatives. However, the key challenges are: (i) how to improve the environment to enable businesses operating in each country to link both across boundaries within the GMS and with global value chains; and (ii) how to meet the challenges faced by the business community, in particular, those problems identified in investment climate assessments. This paper does not make an exhaustive assessment of the requirements for developing GMS trade and investment, but it focuses on the following key areas.

At the national level,

- Policy issues. The ability of GMS countries to exploit trade opportunities depends on the existence of a supportive macroeconomic environment in GMS economies. Trade and investment growth needs to be supported by appropriate fiscal, monetary, and exchange rate policies. Public policy is crucial in improving the trade and investment climate, which if successful will translate into lower transaction costs, adoption of improved technology, and improved conflict resolution mechanisms. While various agreements (at the bilateral, regional and multilateral) are either in place or are being put in place, outstanding trade and public policy issues hampering genuine trade and investment at the national level still remain. High tariffs and tariff dispersion rates are evident even within a free trade area, imposition of export tax and quantitative restrictions, among others still exist in a pervasive manner in the GMS region. The

regulatory framework for trade in services is primitive or restrictive in most of GMS countries. These policies often do not serve their intended policy objectives, preventing competition and ultimately acting as obstacles for economic integration. Moreover, policies, which have led to weak market institutions; poor public and private governance levels; and distorted economies with managed prices, controls on production and restrictive taxation appear common in some of the GMS countries.

- Legal and regulatory issues. There are no agreed benchmarks or parameters to gauge the impact of the WTO accession negotiations. However, based on past practice, it can be reasonably expected that the requests and expectations of the WTO partners, and the resulting obligations and liberalization commitments assumed by the newly acceded countries and/or acceding countries are likely to be significant. Many of these commitments relate to the preparation of new laws or revisions to existing ones to make them consistent with WTO. The implementation of these laws remains challenging.
- Institutional issues. Strengthening institutional capacity of trade-related agencies to deal with trade and investment issues are critical. Gains in regional integration depend not only on the political will of member countries or regional institutions, but also on the countries' capacities to negotiate technically sound solutions that take into account their economic interests and development objectives; and their capabilities to implement them. Laudable efforts for a deeper regional economic integration could be frustrated by lack of technical capacities. For example, agreed decisions in the first instance might then be reversed because the implications arising from these have not been fully understood by member countries. Furthermore, different levels of technical preparation among the delegations may lead to an unbalanced deal for the region. Therefore, building technical capacity is essential for designing the right agreements, policies, and frameworks, and for implementing them.

At the sub-regional level,

- Availability and access to information on cross border trade and investment in GMS. Lack of such data makes it difficult to assess cross border trade and the regulatory environment for cross-border investment. This has been diagnosed as a key constraint. Such information and its analysis are essential to enable policy makers to make informed decisions and are the starting points essential to understand trade and investment issues in GMS.
- Further progress on customs cooperation and trade facilitation. All six GMS countries have committed to implement the Framework Agreement on Facilitating Cross-Border Transport of Goods and Peoples, a compact and comprehensive multilateral instrument to be implemented in the GMS by 2005. The Agreement covers in one document all the relevant aspects of cross-border transport facilitation, including single-stop/single-window customs inspection; cross-border movement of persons; transit traffic regimes (such as exemptions from physical customs inspection, bond deposits, escort, and phyto-sanitary and veterinary inspection, requirements that road vehicles will have to meet to be eligible for cross-border traffic); exchange of commercial traffic rights; infrastructure, including road and bridge design standards, and road signs and signals. It is noted that negotiation of the Framework Agreement on Facilitation of Frontier Crossing Formalities, which specifies provisions regarding single-window inspection, single stop customs inspection, have just been completed.

Concrete steps and actions, and capacity to implement the Agreement and its Annexes are critical to facilitate trade and investment in GMS.

- In this context, increased attention should be paid to the implementation aspects that GMS countries have undertaken in the application of the basic customs laws such the WTO Customs Valuation Agreement, updated versions of the harmonized system of customs nomenclature and WTO rules of origin agreement including those negotiated in AFTA. Other related border aspects encompass implementation of the WTO Sanitary and Phyto-sanitary Agreement (SPS) and Technical Barriers to Trade Agreement (TBT). Appropriate and sequenced implementation of the binding commitments under these Agreements may provide a solid platform to further pursue regional cooperation. This is especially true when one considers the acceding countries such as Lao PDR and Vietnam that are currently reviewing their entire customs, SPS and TBT legislations, and regulatory frameworks. A detailed legislative and implementation plan is or will be contained in their protocol for the WTO accession.

VI. The Private Sector

13. The private sector is the engine of economic growth and development. In particular, the private sector has a pivotal role to play in trade, investment, and manufacturing. Starting from the 1980s, there has been a major shift from the command economies (i.e., those with heavy public sector ownership) to market-based principles, relying on a strong and vibrant private sector. However, in spite of the change in economic philosophies, the potential of the private sector in much of the GMS has yet to be explored so that they can participate more actively in the policy formulation process.

14. The obstacles to a flourishing private sector in the GMS trade and investment sectors are numerous. The GMS private sector largely remains focused on agricultural goods, simple manufacturing and trading activities. Many years of state control have stifled the entrepreneurial class and that class is taking time to re-emerge and make more significant contributions to economic development. In particular, the range of institutions and networks dealing with and supporting business are under-developed. Financial institutions often have very restricted lending practices to private businesses; educational and technical support institutions are unable to meet the demands of modern industry; and business associations are relatively weak and often controlled by the public sector to some extent.

15. To address the concerns of private sector and encourage private sector taking advantage of the trade and investment opportunities arising from economic integration, there is a need to strengthen the domestic business communities and institutions; to build better coordination mechanisms between the public and private sectors for the public sector to understand the real problems encountered by the private sector; and to strengthen mechanisms to link the business community (both local and foreign) across borders in the GMS.