

REPORT BY PRESIDENT HARUHIKO KURODA
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to the

SECOND GREATER MEKONG SUBREGION SUMMIT OF LEADERS
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People's Republic of China
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1. Excellencies, I am privileged to report on the progress of GMS cooperation since the first GMS Summit at Phnom Penh in November 2002. At the first Summit, the GMS commemorated its first decade of successful economic cooperation. It was at Phnom Penh that you articulated your shared vision of an integrated, prosperous and equitable subregion, and endorsed a ten-year strategic framework and 11 flagship programs as the means for realizing this vision.

2. During the first Summit, you reaffirmed your commitment to complete infrastructure investments and develop economic corridors to strengthen the competitiveness of the subregion; accelerate the implementation of the soft aspects of infrastructure; accelerate energy development through the implementation of regional power trade; develop the subregion's human resource potential; facilitate trade and investment; and ensure the preservation and management of our vital natural resources.

3. The theme for the first GMS Summit was *Making It Happen: A Common Strategy on Cooperation for Growth, Equity and Prosperity in the Greater Mekong Subregion*. This theme has inspired the GMS countries individually and collectively, to achieve significant results during the past three years.

A. Progress

4. The GMS has taken deliberate steps to move closer to the GMS vision of a subregion free of poverty. Poverty in the subregion has declined significantly. For all GMS countries combined, the number of people living on less than \$1-a-day fell from 33 percent in 1990 to 15 percent in 2002. Sustained economic growth has made this possible. Despite prolonged droughts, the threat of disease outbreaks, and persistent increases in the price of oil, the GMS economies have performed well. Since 1992, foreign direct investments have increased three times, total exports have grown six-fold and intra-regional exports have grown more than 10-fold. Annual GDP growth has averaged over 6% during the last few years.

5. Guided by the GMS vision, regional cooperation initiatives have focused more directly on the poor. New infrastructure is linking rural areas to markets, attracting investments and creating jobs. The emerging economic corridors along the East-West, North-South and Southern axes are spurring the development of border areas and towns. Agriculture and agro-industrial activities are becoming more vibrant. Tourism sites along these corridors are being developed to promote sustainable livelihoods for the poor.

6. Infrastructure development in the three economic corridors is on track. By 2012, the GMS will be interconnected through these corridors, and this will accelerate market-driven economic integration. This augurs well for the GMS, given its strategic location at the cross-roads of South and Southeast Asia.

7. The GMS countries are simplifying rules and processes to facilitate the movement of goods across borders. Since the signing of the GMS Cross-Border Transport Agreement (CBTA) in 1999, policy and regulatory impediments to cross-border transport and trade have been significantly reduced. Twelve out of 20 annexes and protocols have been signed, and four more will be signed today. Simplified inspection procedures will be implemented in selected border crossings within 2005.

8. Complementing the CBTA is the Strategic Framework for Action on Trade Facilitation and Investment (SFA-TFI), which will commence implementation shortly. Guided by the Framework, GMS countries will simplify and harmonize customs procedures, streamline inspection and quarantine measures, develop a trade logistics system, and facilitate the movement of business persons.

9. To further enhance the competitiveness of the subregion, national telecommunications and power infrastructure are being linked. A GMS regional power market will rationalize energy supply and use. An agreement on the basic principles to govern the implementation of this initiative will be signed today. The construction of a subregional telecommunications fiber optic network is in progress to link the international gateways of the GMS countries. At the same time, the much needed sector reforms are being undertaken and the regulatory frameworks established.

10. The power of information and communications technology (ICT) will be harnessed to transform the digital divide into a digital dividend. The cooperative agreement on the GMS Information Superhighway Network will be a key milestone in this endeavor to empower people and build knowledge-based economies.

11. To support human development, regional cooperation has focused on cross-border health issues, and on building capacity in the GMS public sector. Programs aimed at prevention and control of infectious diseases among the poor and vulnerable groups, as well as preventive education for HIV/AIDS in border areas, have been implemented. Human resources development has been promoted through high quality learning programs under the Phnom Penh Plan for Development Management, which was launched at the first GMS Summit.

12. Sustainable environmental development remains high in the agenda of GMS cooperation. The effective management of shared natural resources, especially along the economic corridors, is an important priority. At their meeting in Shanghai in May 2005, the GMS Ministers of Environment adopted the core environment program and endorsed the Biodiversity Conservation Corridors Initiative. These initiatives are critical to conserve terrestrial biodiversity and protected areas in the GMS, including economic corridors as they are developed.

13. Following the launching of the 11 flagship programs in 2002, partnerships with the wider development community, the private sector, and civil society were strengthened. New partnership arrangements were initiated to promote a shared appreciation of development issues. Fora for discussing policies and strategies were established with development partners to sustain the debate on development issues, help widen options for development cooperation, and build common development approaches to the subregion.

B. Connectivity, Competitiveness, and Community: Building Blocks of the GMS Vision

14. In order to translate the GMS vision into reality, there is a need to accelerate efforts to achieve **connectivity, competitiveness, and community**. I would like to outline the broad directions that are implied by the strategy of the three Cs in the context of regional developments.

15. First, there is a need to expand cooperation in physical infrastructure to enhance connectivity and competitiveness in the subregion. Cooperation in transport infrastructure should expand not merely to integrate the GMS, but also to link the GMS with its neighbors in South and Southeast Asia. In energy, cooperation should expand to take advantage of opportunities for tapping alternative sources to enhance energy security. Similarly, there is a need to expand ICT linkages. It is important to connect among the GMS countries, but it is equally important to connect with the world beyond the GMS.

16. Second, as we move into a new era of cooperation, we need to use knowledge and technologies to improve competitiveness. Public institutions have to be better equipped to design and manage a complex development agenda. We have to find the significant financial resources to implement our priority development programs, and we have to unlock the spirit of GMS enterprise.

17. Third, GMS initiatives should make a conscious effort to focus on those regions that have high concentrations of poverty. This will help promote convergence among and within your countries. The development of economic corridors provides a good framework for linking cross-border trade and investment to livelihood opportunities for the poor and the disadvantaged. Corridor development should also take into account collaborative solutions to problems such as human and drug trafficking, the spread of communicable diseases, and environmental degradation

C. The Challenges Ahead

18. Looking ahead, we at ADB see four major challenges that will need to be addressed to move closer to our vision.

19. Poverty remains the most serious challenge in the GMS. Good progress has been made but more needs to be done. ADB is committed to support this effort. Failure to achieve the MDGs could have economic and social consequences. We therefore need to sharpen our focus on activities with clear poverty impacts.

20. Resources are urgently needed for infrastructure development. The priority development requirements of GMS are estimated at \$24 billion, with a financing gap estimated at about \$10–15 billion, the bulk of which are for infrastructure projects. If these requirements are largely left unfunded, improving the access of the poor to markets and services will be seriously impaired, and growth will be inhibited. We must be innovative to attract private sector participation in the financing of infrastructure projects. In addition, we need to develop ways to capture the substantial pool of regional savings for regional investments.

21. To help mobilize private savings for development, an effective system of regional financial intermediation is needed. The GMS countries are part of the ASEAN+3 framework,

which has an ambitious agenda in the area of monetary and financial cooperation. Eventually, a new financial architecture that culminates in monetary union and the adoption of a single currency might be considered. Evidently, there are many steps in between and progress will be phased. The GMS countries are currently trying to accelerate the pace of reform of their banking and financial sectors. This will undoubtedly help in the creation of a new financial architecture. ADB is ready to assist the GMS countries in the development of their financial and banking sectors and to enable them to participate in the ASEAN+3 agenda.

22. Human resources development must be intensified and attuned to the requirements of globalization, which puts a premium on knowledge, creativity and innovation. In addition, there are HRD issues with transborder dimensions where subregional cooperation is both logical and urgently needed. These include further strengthening of the system of labor market information exchange that is essential to tackle issues regarding cross border flows of workers and certification of skills.

23. The most complex challenge perhaps involves environmental sustainability. We must be uncompromising in promoting environmentally sound development. High growth, massive infrastructure development, and rapid industrialization and urbanization foreseen in the GMS in the next 10 years will put additional strains on the environment. Given the transboundary nature of environmental problems, coordination at the regional level is important at both levels of planning and implementation. It is only through a synchronized approach that we can successfully address environmental problems on which our common well-being depends.

D. Conclusion

24. Excellencies, we believe that cooperation in the GMS is potentially at a critical juncture. With rapid integration taking place in Asia, the GMS stands to benefit from a myriad of opportunities arising from the expansion in production and trade. For this to happen, responsive policy and institutional changes will be needed. These tasks are not easy. Your leadership, commitment, dedication, and patience will, however, ensure that we attain our goals.

25. As economic interdependence and regional integration intensify, there is a need to forge ever closer ties in a spirit of cooperation and partnership. ADB is your institution, and the GMS Program is as much yours as it is ours. Nothing would give us more satisfaction than to work more closely with one of the most remarkable cooperation endeavors of modern times.