

From Conflict to Cooperation

Peace Dividend Brings Economic Growth to Greater Mekong Subregion



ADB PARTICIPATION Rajat M. Nag (extreme right), Director General, Mekong Department, ADB joins a panel of speakers at the conference on Economic Cooperation and Opportunities in the Greater Mekong Subregion Infrastructure and Private Sector Development in Washington DC. With him (from right) are Noritada Morita, Chairman and Chief Executive Officer, Asia Strategy Forum; Vice-Minister Nguyen Bich Dat, Ministry of Planning and Investment, Viet Nam; and Hoang Viet Khang, Secretary-General, Greater Mekong Subregion National Secretariat, Foreign Economic Relations Department, Ministry of Planning and Investment, who acted as interpreter for Vice-Minister Dat.

The Asian Development Bank (ADB) and *the Foreign Policy* magazine held a one-day conference in Washington DC on 26 June, on Economic Cooperation and Opportunities in the Greater Mekong Subregion (GMS): Infrastructure and Private Sector Development. The conference brought together government officials; Chief Executive Officers of top international corporations; diplomats; and representatives from international financial institutions, think tanks, and academia to take a closer look at how a region, once mired in conflict, is slowly transforming itself into a model of political and economic cooperation.

When the GMS economic cooperation program was first launched by ADB in 1992, relations among the six countries—Cambodia, People’s Republic of China Yunnan Province), Lao People’s Democratic Republic (Lao PDR), Myanmar, Thailand, and Viet

Nam—were strained, trade was limited, and the national economies were state-run and controlled. Now, a decade later, most of the countries are transforming themselves into market economies and the peace dividend has helped drive growth, improve living standards, and begun to reduce poverty. In Cambodia and Viet Nam, for example, GDP growth averaged 5.5% between 1998 and 2002.

Shared Vision at GMS Summit

At a GMS summit in November 2002, the leaders of the six countries acknowledged that “strong partnerships and cooperation among GMS countries is important in promoting economic and social development, reducing poverty, and protecting the environment.” They reaffirmed their commitment to subregional cooperation and a shared vision of equal partnership in pur-

suing economic growth and greater prosperity. The meeting for the first time brought together state heads to discuss the GMS program.

“All these investments and efforts will, within the foreseeable future, transform the subregional economy into a broad, rapidly growing market reaching 300 million people who enjoy the benefits of prosperity and peace,” said Cambodian Prime Minister Hun Sen, Chair of the summit, in a keynote address.

ADB President Tadao Chino pledged to broaden the organization’s support for the GMS program and stressed the value of increased cooperation in the subregion. “By the end of this decade, the GMS countries will be even more closely connected,” he said. “At the same time, the subregion’s role as a strategic bridge between East and Southeast Asia as well as between South and East Asia, will become increasingly important.”

(continued on page 2)

In This Issue

- Monitoring the Impact of SARS 3
- Commitment to SME Growth 3
- Tackling Poverty in Cambodia, Lao PDR, and Viet Nam 4
- News Briefs 5
- ADB Publications 6

In this publication, \$ refers to US dollar.

Conflict to Cooperation

(continued from page 1)

The key aim of the regional approach is to remove the structural impediments to subregional cooperation by building new roads, creating regional energy grids and telecommunications systems, and taking other steps to strengthen the economic links between and among the GMS countries. With support from ADB and other development partners, the countries have embarked on a series of projects involving both public and private sector investment. These projects will, in turn, offer new opportunities for enterprise development all along the Mekong River. The key programs include the following.

Transportation

Two key road projects promise to facilitate the movement of both goods and people among the six countries. A 1,500-kilometer (km) east-west corridor connecting Lao PDR, Myanmar, Thailand, and Viet Nam is slated for completion in 2006. When the project is complete, it will “forever change the way many Southeast Asians think about each other and interact with each other,” said Myo Thant, Principal Regional Cooperation Economist of ADB’s Mekong Department. A 2,000-km north-south road system will ultimately connect the PRC’s Yunnan Province to Bangkok, reducing transportation costs and making it possible to complete the journey in about 20 hours. Improving the north-south corridor “will create the only safe, viable, continuous, all-weather overland route between Singapore and Beijing,” said Rita Nangia, Director, Finance and Infrastructure Division, ADB Regional and Sustainable Development Department.

Energy

Cooperation among the GMS countries has enabled the governments to take steps to establish a regional power grid and create a marketplace for trading power on a subregional basis. For example, a \$270 million hydropower project in the Lao PDR, financed partly by ADB, is bringing electricity to villages in remote mountainous areas of the country. The project is a joint venture between the state utility company, which owns a 60% share in the hydropower plant, a Thai power developer, and Nordic

Hydropower AB of Sweden. The project has “paved the way for energy and trade cooperation in the GMS and for private sector participation in financing, constructing, and operating the plant,” said Viraphohn Viravong, General Manager of the state utility company. Meanwhile, on energy trading, Cambodia, Lao PDR, and Viet Nam have signed an inter-governmental agreement to create a high-level committee to coordinate the implementation of regional power trade.

Telecommunications

GMS governments have endorsed the development of a subregional telecommunications network that will link all six countries to a single “backbone.” ADB has included \$15 million in loans to Cambodia and \$20 million to the Lao PDR for the first phase of the project. ADB is also providing technical assistance for a telecommunications public policy sector study and capacity building for Cambodia, Lao PDR, and Viet Nam.

The GMS will “transform the subregional economy into a broad, rapidly growing market reaching 300 million people.”

—Cambodian Prime Minister Hun Sen

Improving Customs Process

Before the benefits of a subregional road network and improved regional trade can be realized, the customs process must be streamlined to remove lengthy delays at border crossings. As a first step, the GMS countries have implemented a one-stop customs inspection pilot project at selected border crossings in the region. Elements of the project include adopting and testing standardized practices and procedures.

Sustainable Development

The six GMS countries are also working together to promote environmentally sustainable development. The key objectives are to ensure that infrastructure projects do not adversely impact the environment and natural resources.



ADDRESS ADB Vice-President (Operations 1) Myoung-Ho Shin delivers the opening and welcome remarks at the GMS conference

Dingding Tang, Environmental Specialist in the Agriculture, Environment, and Natural Resources Division, ADB Mekong Department, noted, “profits from unregulated resource exploitation can be enormous for a select few, but can have dire consequences for the rest of society because more than half the region’s population depends on agriculture, fisheries, and forests for its livelihood.” As a result, cooperation and vigilance are critical.

In Cambodia, for example, ADB and the World Bank have tied assistance to Global Witness, an international nongovernment organization that is helping build the Cambodian Government’s capacity to stop illegal logging. In the Lao PDR, ADB and the World Bank are studying the feasibility of building a dam along the Mekong to enable the country to generate new hydropower that can be sold to Thailand. While both countries are eager to get the energy project underway, key questions on the impact on fisheries remain unresolved.

In addition to removing the structural impediments to regional economic prosperity, the GMS program aims to generate employment and increase household incomes in rural areas. To this end, the six countries are cooperating in several areas, including tourism, trade, investment, human resource development, and agriculture. The GMS countries are also cooperating on several other fronts, from combating the drug trade to ending the trafficking of women and children. ■

For updates on GMS activities, visit <http://www.adb.org/GMS/news.asp> or <http://www.adb.org/Mekong/default.asp>

ACTION PLAN IN PLACE

Monitoring the Impact of SARS

While many analysts are hopeful that the long-term economic outlook for Asia remains bright, the severe acute respiratory syndrome (SARS) outbreak has had a significant impact on the region's economy. A report released by the Asian Development Bank (ADB) on 9 May forecasts that if SARS extends over the second quarter of 2003, GDP growth for the year could decline from 6.5% in 2002 to 5.3% in 2003 for East Asia and from 4.1% in 2002 to 3.4% for Southeast Asia.

The economic consequences would be even greater if the SARS epidemic continues into the third quarter of the year. According to the report *SARS: Economic Impacts and Implications*, the drop in GDP growth will translate into huge losses in income and output, with estimated losses ranging from \$12.3 billion to \$28.4 billion for East and Southeast Asia.

At a conference on SARS held in Beijing on 13 May, ADB President Tadao Chino said that "even if we all hope that the impact of SARS will be short-term, focused efforts are needed to ensure that the adverse impacts are minimized.

Therefore, I consider SARS to be an important and urgent development issue."

ADB has developed an action plan to help its developing member countries prevent, mitigate, and alleviate the consequences of SARS.

"Focused efforts are needed to ensure that the adverse impacts are minimized. Therefore, I consider SARS to be an important and urgent development issue."

- ADB President Tadao Chino

- The plan includes the following.
- Examining the readiness of member countries to address SARS-related issues, and initiating discussions with countries to identify any need to put in place emergency procedures to control the spread of the disease. As part of this process, ADB will consult with governments on the possibility of reallocating loan proceeds from existing projects for SARS-related

emergency actions. Drafting and signing a memorandum of understanding between ADB and the World Health Organization to facilitate cooperation in checking the spread of the disease.

- Providing country-specific and/or regional technical assistance grants to improve public health surveillance and provide training and institutional capacity building. ADB technical assistance may also be granted to enable countries to undertake information and education campaigns and to provide emergency public health materials and supplies. Grant recipients could include ministries of health, local health authorities, nongovernment organization, and regional agencies.

For the latest developments, visit SARS Watch on-line at <http://aric.adb.org/infocus/sarswatch.asp>. ■

See SARS: Economic Impacts and Implications at http://www.adb.org/Documents/EDRC/Policy_Briefs/PB015.pdf

\$16 Million ADB Fund Commitment to SME Growth in the Mekong

In April 2002, the Asian Development Bank (ADB) launched its Mekong Enterprise Fund (MEF), the first venture capital fund to make equity investments in small and medium enterprises (SMEs) in Cambodia, Lao People's Democratic Republic, and Viet Nam. The \$16 million Fund was established to invest in private companies founded and managed by private entrepreneurs, with a focus on export industries and local service providers.

Investors in the Fund include ADB, Nordic Development Fund, State Secretariat for Economic Affairs of Switzerland, Finnish fund for Industrial Cooperation Ltd., and other private investors. The initial feasibility study for the Fund was carried out by the Mekong Project

Development Facility (MPDF), a multidonor program aimed at assisting the development of SMEs in the Greater Mekong Subregion.

Through Mekong Capital Ltd., the Fund manager, and MPDF, the Fund advisor, the Fund is providing both technical and advisory support to the companies in which it invests.

The Fund has a life of 10 years, with an average investment size of approximately \$500,000.

For more information, contact Cheolsu Kim, ADB at Telephone (632) 632-6478, E-mail: ckim@adb.org; and Chris Freund, Mekong Capital Ltd. at Telephone +848-827-3161, E-mail: chris@mekongcapital.com

Greater Mekong Subregion Publications and Video

Publications

Building on Success: A Strategic Framework for the Next Ten Years of the Greater Mekong Subregion Economic Cooperation Program (free)

Subregional Telecommunications Sector Study for the Greater Mekong Subregion (\$10)

Video

River of Change: Peace Dividends Along the Mekong (free)

For more information, go to <http://www.adb.org/Publications>

Tackling Poverty in Cambodia, Lao PDR, and Viet Nam

While the Greater Mekong Subregion (GMS) economic cooperation program focuses on building up the physical infrastructure that binds the six nations together and improving the climate for regional economic growth, the individual governments bear the responsibility for providing the basic needs of their populations. The country strategy and program reports for the individual GMS countries discuss the challenges these countries face, and the steps ADB and its development partners are taking to help them improve access to basic services. Programs in these countries includes strategies on improving national governance and encouraging private sector and small enterprise development.

A critical first step in improving living conditions and securing a brighter future for all is to reduce poverty and improve access to education and health care. Here's a brief look at the progress being made toward achieving these goals in three of the GMS countries: Cambodia, Lao People's Democratic Republic (Lao PDR), and Viet Nam.

Cambodia

Cambodia has prepared a development plan for 2001–2005 that targets economic growth, private sector development, and good governance as the necessary components of poverty reduction. The plan has three broad goals: sustaining economic growth rates of 6–7% per year; equitable distribution of income at the national level, between urban and rural areas, and between genders; and sustainable use of natural resources and environmental protection.

Based on current trends, the country's poverty rate will decline to 25% by 2015. This level is considerably higher than the 18–20% target rate set under the United Nation's (UN) Millennium Development Goals (MDGs). As a result, more work is to be done.

The Government has made considerable progress, however, in improving access to education. According to 2000 statistics, 78% of all primary age children went

to school, compared with under 50% just a decade earlier. Girls accounted for 47% of primary total enrollment, and 37% of lower secondary school enrollment. ADB has spearheaded reforms in the education sector, working with development partners to help Cambodia build new schools, train teachers, and provide vocational training.

While Cambodia's health sector has seen considerable improvements in the last decade, the country's health indicators remain among the worst in the Asia and Pacific region. ADB has supported several projects to improve primary health care, and will continue to support investments in facilities, equipment, supplies, and the training of medical personnel. The adoption of a new government policy to improve water supply and sanitation in urban and rural areas should also help prevent disease.

On the health front, evidence suggests that the HIV/AIDS epidemic may have reached its peak in the country. ADB has actively supported the National AIDS Authority's efforts to treat the epidemic as both a health and a social and development issue, and these efforts continues.

Lao PDR

The Lao PDR has made considerable progress in reducing poverty, and recent trends indicate that the country will achieve its MDGs before 2015.

Although the United Nations Development Programme ranked the Lao PDR 131st among 174 developing countries in human resource development, the Govern-



LEARNING The Lao Government focuses on education as a way out of poverty.

ment is committed to achieving universal primary education by 2015 and primary health care for all by 2020. To achieve these goals, the Lao PDR has increased education expenditures from 9% of the total budget in 2001 to about 12% last year. Moreover, the Government intends to increase education expenditure to 15% and health expenditure to 10% in 2005.

ADB has worked with the Lao PDR to improve access to and quality of education, primary health care services, and water supply and sanitation.

Viet Nam

According to preliminary ADB estimates, Viet Nam's gross domestic product (GDP) grew in 2001 by 5.8%, making its expansion rates second only to the People's Republic of China among countries in the region. Furthermore, GDP estimates in the first



NAVIGATING The poverty rate in Cambodia has declined but living conditions of rural residents need to be further improved.



MOVING FORWARD Infrastructure development in Viet Nam is making rural areas more accessible and helping the industry sector.

quarter of 2002 was up 6.6%, compared with the level in the previous year.

With a strong industry sector and an export market that has performed positively despite the global economic slowdown, Viet Nam has made considerable progress in reducing poverty and providing children access to primary education. The country has already achieved one key millennium development target: the poverty level in Viet Nam has been reduced from over 70% in 1990 to about 33% in 2000. The Government has now set out new targets to further reduce poverty to 19% by 2010, and to reduce the proportion of poor households from 17.2% in 2000 to 7% by 2010.

Viet Nam is also likely to achieve its MDGs for education. Primary net enrollment rates increased from 86% in 1990 to 95% in 1999, and the Government remains committed to achieving quality universal education for all by 2010. The Government further hopes to achieve enrollment rates in lower secondary education of 90% by 2010.

On health care, however, Viet Nam still has considerable work to do, particularly in providing access to health services to the rural poor. ADB is assisting Viet Nam in improving the health situation, planning a project to improve the quality of health care and access to services among the poor.

ADB is also working with the Government to strengthen the nation's capacity to combat both communicable and foodborne diseases. ■

News Briefs

Emergency Policy Drafted for Conflict-Affected Countries

ADB is drafting a comprehensive emergency policy to assist conflict-affected countries and strengthen links between post-conflict operations and its overarching goal of poverty reduction. Past recipients of postconflict aid have included Cambodia, \$122.7 million; Philippines, \$192 million; Solomon Islands, \$10.5 million; Sri Lanka, \$84 million; Tajikistan, \$28.6 million and Timor-Leste (formerly East Timor), \$8.7 million.

Afghanistan, a large part of ADB's postconflict reconstruction focus, has received assistance totaling \$337 million for 2002 and 2003. In 2003, ADB provided \$150 million for the Emergency Infrastructure Rehabilitation and Reconstruction Project

to help restore damaged infrastructure such as primary roads; electric power transmission lines; and gas production, transmission, and distribution facilities. The assistance to Afghanistan is part of ADB's pledge of \$500 million made at an international conference in Tokyo in January 2002.

This information was disclosed in a special theme chapter "Rehabilitation and Reconstruction: ADB's Role in Afghanistan and the Region" of the recently released *Annual Report 2002*. ■

Copies of the Annual Report may be ordered from ADB's Publications Unit (adpub@adb.org) or downloaded at http://www.adb.org/Documents/Reports/Annual_Report/202/default.asp

SARS Agreement Signed with WHO

A memorandum of understanding (MOU) with the World Health Organization (WHO), signed by ADB President Tadao Chino in June, further emphasizes ADB's commitment to cooperate in the fight against the severe acute respiratory syndrome (SARS) and other emerging diseases. The MOU formalizes a partnership that was formed soon after the SARS outbreak, with ADB providing financing (\$2 million to date) and WHO the technical expertise.

While the WHO reports that SARS is on the decline in Asia and other parts of the world, ADB is "concentrating assistance on the longer-term issues of surveillance and prevention," said Geert H. P. B. van der Linden, Special Advisor to the ADB President. ADB will support programs in 14 countries. Clay Wescott, ADB's Principal Regional Cooperation Specialist, explains that "to ensure adequate financing is in place, we are seeking additional funds from donor capitals, while encouraging borrowing countries to reallocate loan funds for SARS work. ■

Afghanistan Faces Funding Shortfalls

The international spotlight on Iraq should not overshadow the reconstruction of Afghanistan, which depends crucially on continued support from the international community, said a senior ADB official at a seminar in Tokyo. The current level of contributions by international donors to the Afghanistan Reconstruction Trust Fund (ARTF), which supports the country's budget, falls short of meeting requirements.

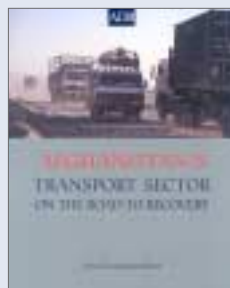
An assessment by the Ministry of Finance in Kabul reveals that although donors earlier pledged enough to cover 90% of the projects in the country's development budget, only a small portion of their pledges have actually been committed. According to Afghanistan President Hamid Karzai, the country requires \$15–20 billion over the next 5 years to rebuild vital social and economic infrastructure and to combat terrorism and drugs production. ■

ADB Publications

Afghanistan Sector Reports

To assist Afghanistan in recovery and reconstruction, ADB, United Nations Development Programme, and World Bank undertook a preliminary needs assessment in December 2001 to identify initial priorities and cost estimates. The findings were presented in 2002 at a Ministerial Meeting in Tokyo, where it was agreed that sector missions would be mobilized to undertake comprehensive needs assessments.

This series of sector reports was based on several needs assessment missions that took place in 2002 in consultation with a range of stakeholders. The reports highlight current conditions in a given sector, development needs, and future objectives, including specific areas of focus in the short and long-term for ADB and other development partners.



For these and other publications, contact Asian Development Bank, Publications Unit, P.O. Box 789, 0980 Manila, Philippines, Facsimile (632)636-2648; E-mail: adbpub@adb.org; or visit <http://www.adb.org/publications/>.

ADB

NEWS FROM

NARO

The quarterly newsletter of the Asian Development Bank (ADB) North American Representative Office (NARO) aims to enhance communications between ADB and its client groups in North America. Articles in the newsletter do not necessarily reflect the official ADB view. We welcome readers' comments and suggestions.

Asian Development Bank
North American Representative Office
815 Connecticut Avenue, NW
Suite 325
Washington, DC 20006, USA

Tel: (202) 728-1500
Fax: (202) 728-1505
E-mail: naro@adb.org
Web site: <http://www.adb.org/NARO>

Newsletter contacts:
Sherry Kennedy
Amir Tejpar

Asian Development Bank
North American Representative Office
815 Connecticut Avenue, NW
Suite 325
Washington, DC 20006
USA