

IV. THE GMS IN TRANSITION

63. The future of GMS, apart from addressing these country-specific challenges and problems, will also depend on how successfully its member economies manage a number of critical transitions. These transitions are at different stages in different places, but are present to some degree in most.

64. The first important transition underway is in the changing role played by the state and markets. There is growing acceptance that markets and the private sector can do many things better than Government. Consequently, the private sector's contribution to total economic activity has grown faster than the state sector's contribution in most GMS economies. Going forward, the space occupied by the private sector and by markets is likely to expand. Reforms may also encourage activities to migrate from the informal to formal sectors. Increasingly, this will allow governments to refocus their energies and scarce resources to making the enabling environment right and delivering services that markets cannot or will not provide.

65. A second important transition is the increasing diversification of the structure of most GMS economies. Subsistence agriculture is giving way to commercialized agriculture, and the share of agriculture in total income is beginning to decline as emerging manufacturing activities, including agro-processing, expand. With this transition will be an accompanying drift of people from the countryside to towns and cities.

66. Changes on the social front will also affect economic conditions and create challenges in managing economic performance. Active family planning and maternal health programs are lowering fertility rates in most of the GMS. Populations are still young, but the size of the population of working age will bulge over the next two decades. This is already happening in Viet Nam. Low-productive, subsistence agriculture will not be able to fully absorb new entrants to the labor force in the future. Although economic diversification is already taking place, much is as a natural process associated with economic growth. The ongoing pattern of diversification is largely both a cause and a consequence of rising incomes and greater prosperity. But the question is whether the pace of change is rapid enough to absorb the sharp increase in the labor force expected in the future. Unless specific interventions complement this natural process of diversification, it is unlikely that a large rise in unemployment can be avoided. This is why investments in basic skills and competencies, policy reforms that induce structural change, and rapid private sector development are so important.

67. The GMS economies are becoming more "open" economically, which is important in the development of markets. In Cambodia, Thailand, and Viet Nam, the openness ratio, measured as the ratio of total trade to GDP, already exceeds 100% (Table A2.8). The weighted-average openness ratio for GMS (excluding Myanmar and Yunnan Province) more than doubled from 48% in 1992 to 99% in 2002. Informal cross-border trade has always been important. There was a temporary pause during the Asian financial crisis, but growing integration has resumed within the subregion in terms of formal trade and investment flows.

68. Although many of the transitions are occurring through reform programs that the GMS economies have embarked upon, their full realization is in no sense preordained. Much will depend on the choices made going forward, and how policy makers address the challenges that they face collectively, and within their own national boundaries.

69. Occurrence of these transitions following a return of peace to the region is no coincidence. Looking back, we can see how a legacy of conflict has arrested connectivity within

the region, between the region and the rest of Asia, and beyond Asia to the rest of the world. But that is now changing. Over the past decade, peace has provided an opportunity to draw the GMS economies closer together. Multilateral financial institutions (MFIs) such as ADB are working with the governments of these economies to address such challenges through a variety of interventions at the national level. The approach taken by the ADB for instance is articulated in the Country Strategy and Program and its Updates.

70. We focus on examining how the GMS economies may face challenges collectively. We concentrate on the different modalities of economic cooperation, and how they may contribute, or can be made to contribute, to overcoming those challenges and taking the region forward toward greater prosperity and better livelihoods for its citizens.