

(as of 26 June 2005)

## **Summary**

### **Rationale**

Since its inception in 1992, the GMS Program has made significant strides in developing the transportation, energy, and telecommunications infrastructure of the subregion. To complement investments in infrastructure, GMS countries have entered into agreements to facilitate the cross-border movement of goods and peoples in the GMS. GMS trade and investment have benefited from these initiatives and have contributed to the opening of the GMS economies. PRC's accession to the World Trade Organization is expected to bring unprecedented opportunities for further expanding trade in the region. As the GMS countries become gradually integrated into the regional and global trading environments, they have recognized the need to fast track improvements in trade, initially applying improved trade measures among countries in the subregion as well as other trading partners.

The growing openness of the GMS economies is creating opportunities for enterprise in the Greater Mekong to become part of larger regional production networks. These region-wide production networks are generally on the rise in Southeast Asia from advantages of locating in the region and integrating with ASEAN through the ASEAN Free Trade Area and the ASEAN Investment Area or AIA. In the GMS, small and medium enterprises (SMEs), the basic production units, could benefit from these developments if they are made more competitive. Efforts to develop SMEs through an enabling policy environment, access to credit and long-term finance, and training in product development and marketing assistance are essential to helping SMEs participate in global production networks, thus expanding production capacities and trade.

### **Flagship Objectives**

The flagship program on facilitating cross-border trade and investment aims to: (i) promote the competitiveness of the subregion by facilitating cross-border trade and investment in the GMS, (ii) implement measures to facilitate trade, initially focusing on customs procedures, (iii) overcome existing inadequacies in information on trade and investment to stimulate business expansion in GMS border areas, and (iv) support small and medium enterprises and make them competitive in global markets. These objectives are closely linked with those of enhancing private sector participation and competitiveness.

### **Key Components and Priorities**

The Program has the following key components:

- i) Development and maintenance of a cross-border trade and investment information system;
- ii) Development of products and services to support SMEs;
- iii) Trade and customs facilitation, initially focusing on single-stop and single-window inspection;
- iv) Facilitation of cross-border movement of goods and peoples in the GMS

**FACILITATING CROSS-BORDER TRADE AND INVESTMENT**

---

- v) Industrial development;
- vi) Coordination of policies and regulation on trade-related financial services.

The component on cross-border trade and investment information aims to develop and maintain cross-border trade and investment data and information, and make them accessible to private business in a timely and useful manner. Information will focus on data at the provincial and industry group levels to enhance their usefulness for making business decisions at the local level. Information will include constructing databases on trade and market access conditions, database management, design and implementation of an internet-based database application, and training components for systems development. Mechanisms for public-private partnerships at the local level will be established to maintain the information system.

Products and services to support SMEs include guides for business planning and development, organization of trade and investment missions, market encounters to promote matching of business opportunities, assistance in formulating business development plans, and building networks with multinational enterprises. Subregional cooperation will entail establishing mechanisms by which SMEs can access these products and services to expand or generate new production capacities. Networking among SMEs, especially those located in contiguous areas, as well as with multinational companies, is crucial in enabling these enterprises to enter into subcontracting arrangements, especially geared towards the export market.

Consistent with the holistic approach of the 10-Year Strategy Framework, trade facilitation will focus on complementing efforts to reduce nonphysical barriers to trade through customs cooperation, especially along the economic corridors. The first phase of cooperation in customs facilitation will cover single-stop customs inspection and will be piloted initially in border crossings at Mukdahan in Thailand and Savannakhet in Lao PDR, Dansavanh in Lao PDR and Lao Bao in Viet Nam, Poipet in Cambodia and Aranyaprathet in Thailand, Moc Bai in Cambodia and Bavet in Viet Nam, and Hekou in the People's Republic of China and Lao Cai in Viet Nam. Pilot sites are strategically located along the economic corridors. Based on experience gained in these areas, single-stop customs inspection systems will be refined and replicated in other areas. In due course, facilitation services will be expanded to include single-window inspection and coordination of common hours of operation in the pilot sites. The second and third phases of cooperation in facilitating trade will involve more transparent customs procedures and adherence to the Kyoto Convention, respectively.

The Framework Agreement to Facilitate Cross-Border Movement of Goods and Peoples in the GMS includes better customs procedures, cross-border passage for vehicles and drivers, vehicle and load specifications, and transit or user fees, among others. The CBTA has entered into force, having been signed and ratified by all the six GMS countries. Twelve of its 20 Annexes and Protocols have been signed. Negotiations for the remaining eight annexes are ongoing and they are expected to be finalized and signed within 2005; ratification by GMS governments will be completed within 2005-2007. Initial implementation of the Agreement in five selected border crossing points along the GMS economic corridors is currently under preparation, with the first one (Dansavanh, Lao PDR - Lao Bao, Viet Nam border crossing) expected to commence by the end of June 2005. Full implementation of the Agreement is expected starting 2007-2008.

**FACILITATING CROSS-BORDER TRADE AND INVESTMENT**

---

Industrial promotion in the context of the GMS Program will focus on developing cross-border production facilities, especially those located along economic corridors. The area offers considerable potential for trade and tourism development, agricultural processing, and industrial development. Processing zones along the North-South Economic Corridor covering the districts of Mae Sai, Chiang Saen, and Chang Kong in Thailand have initially been identified and will be the subject of feasibility studies.

The last component—trade-related financial services—are in the early stages of being developed. The GMS governments as well as the private sector have highlighted the critical role of the financial sector in promoting cross-border trade and investment. The need for a reliable payments system and harmonized banking regulations are issues that have been raised.

**Sequencing Priorities**

Sequencing projects and activities implies their relative priority. In trade facilitation, two high priority activities are 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. As regards investment promotion, support services and systems for helping SMEs become more competitive is a high priority to be able to seize opportunities present to produce goods, expand trade and generate employment. Activities listed for these three priorities in the development matrix are currently supported by ADB and the Mekong Project Development Fund Facility.

**Financing**

It is not appropriate to add up these cost estimates since in a number of cases, several activities are closely linked and are funded under one project. Moreover, some of the projects listed are preparatory in nature and do not reflect the cost to implement full-scale activities.

FACILITATING CROSS-BORDER TRADE AND INVESTMENT

Map 4



05-1557d RM