

(as of 26 June 2005)

Building on Success **GMS Flagship Programs and Development Matrix**

The Strategic Framework for the Greater Mekong subregion (GMS) adopted by the 10th GMS Ministerial Conference in November 2001 envisions a well-integrated and prosperous Mekong subregion – free of poverty and committed to protecting the environment so vital to the subregion’s future wellbeing. The GMS Program focuses on five strategic development thrusts to achieve these goals:

- Strengthen infrastructure linkages through a multisectoral approach,
- Facilitate cross-border trade and investment,
- Enhance private sector participation in development and improve its competitiveness,
- Develop human resources and skill competencies, and
- Protect the environment and promote sustainable use of the subregion’s shared natural resources.

‘Flagship’ programs in key areas will be implemented in pursuit of these strategic thrusts. They include transportation/economic corridors, tele-communications and energy interchanges, cross-border trade and investment, support for greater private sector participation in development, development of human resources, and joint initiatives for the management of the subregion’s shared environment and natural resources. An 11th flagship program on tourism development in the GMS was endorsed by the 11th GMS Ministerial Conference in September 2002 in Phnom Penh.

Rationale for the Flagship Programs

The ‘Flagship Initiatives’ or programs aim to more closely link the six Mekong countries and facilitate cross-border trade and investment in a manner that promotes sustainable development. The opportunities and challenges presented by globalization encourage economic cooperation among neighboring countries, enabling thereby greater specialization, improved productivity, new opportunities for employment and other benefits, including opportunities to conserve the environment that sustains the subregion, reverse degradation and contribute significantly to reducing poverty in the GMS. All six countries – Cambodia, Yunnan Province/People’s Republic of China (PRC), Lao People’s Democratic Republic, Union of Myanmar, and the Socialist Republic of Viet Nam – stand to benefit from building on the gains of the first decade of economic cooperation among each other.

The GMS Program launched in 1992 is necessarily multidimensional. Several Mekong countries are in transition to more market-based and diversified economies. Although some areas of the Mekong subregion are highly developed and competitive, much of the subregion remains poor and dependent on

subsistence farming. In part because of this, complementarities exist among member countries of the GMS. Progress in developing these complementarities has been impressive; however, much remains to be done to improve the subregion's basic infrastructure. Further, policy and regulatory frameworks need to be harmonized to facilitate trade and investment.

Road, rail, water and air transport systems, together with telecommunications systems, must be strengthened to set up better networks among the six GMS countries and to strengthen linkages with other networks in Asia and the rest of the world. Energy projects, in many cases, can only proceed on a regional basis. "Soft" infrastructures – that is, policies and regulations that determine to great extents the form, level, and use of infrastructure investments – play increasingly important roles. Various elements of human resource development, disease and drug control, tourism promotion, and protection of the environment, can also best be addressed on a regional basis by countries agreeing on common frameworks and platforms. In the case of the environment in particular, it is increasingly evident that regional and global cooperation will be crucial to national and long-term measures to protect and conserve it.

Inevitably, there will be gray areas between issues and interests best addressed on a regional basis and others best addressed on a broader basis – such as by the Association of Southeast Asian Nations (ASEAN) or by the World Trade Organization (WTO). Overlaps between regional and purely national initiatives will also be inevitable. Global, regional, and national initiatives must be structured so that they interlock in a building block and complementary manner.

The Development Matrix

To fine-tune the GMS Strategic Framework, the Ministers concluded their 10th GMS Conference by calling for preparation of a long-term development matrix. Accordingly, senior officials with the assistance of ADB, have guided the preparation of such a matrix, a first working draft of which is now available. The matrix provides a synopsis for each of the flagship programs, including their respective components, description, status and scope, estimated costs and possible financing sources, implementing agencies, completion schedules, and issues and constraints.

The matrix is very much a “work in progress,” open to suggestions and proposals for additional projects and financing. In future versions, distinctions will be drawn between purely subregional projects involving two or more countries, and national projects with valuable contributions to the GMS Strategy and its flagship programs.

Mechanisms will be established to regularly update and make the matrix current – identifying priority projects based on continuing consultations with GMS countries and with active public and private partners in the subregion. The

development matrix serves as a planning and information tool to generate direct investments and cofinancing, and to promote greater private sector investment and participation in the subregion's development.

In order to facilitate its use, the matrix has been divided and assembled to complement the summaries for each of the flagship programs. The summaries and associated matrices are included in the accompanying package. A digest of these summaries follows.

The 'Flagship' Programs

As cross-border trade is highly dependent on road transportation, the GMS Program highlights the following three corridors, illustrated in the accompanying map:

- ***The North-South Economic Corridor***
- ***The East-West Economic Corridor***
- ***The Southern Economic Corridor***

The objective is a highly efficient system – allowing for goods and people to circulate or travel around the Mekong subregion without significant impediment, excessive cost, or delay – which will form the basis of corridors of economic growth and social development in the subregion, attracting investment and skills.

When completed, the growth corridors will transform Northern Lao PDR and Yunnan Province into vital gateways between the People's Republic of China (PRC) and Southeast Asia, and will inaugurate east-west trade linking Viet Nam, Lao PDR, Thailand and Myanmar, as well as trade among southern Viet Nam, Cambodia, and Thailand. Together with improved national highways, such as Highway 1 running the length of Viet Nam, this network will facilitate trade in the subregion and broaden trade reach, including in its network other ASEAN members and South Asia.

The economic corridors are destined to be more than just transportation corridors. In the case of the East-West Corridor, a preinvestment study has completed identifying potential trade and production opportunities when linked to improvements in transportation and other infrastructure within the growth corridor. Policy, regulatory and financing initiatives will also be required to transform the transportation corridors into complex but more rewarding economic corridors. Accordingly, each of the three corridor programs have important subcomponents. For example, the Thai-Cambodia Joint Development Study for Economic Cooperation identifies programs and investments in infrastructure, agro-industry and fisheries, light manufacturing and industry, and tourism and trade, for the Southern Economic Corridor.

Common to all three economic corridors is the *Framework Agreement for the Facilitation of the Cross-Border Movement of Goods and People*. This landmark agreement among GMS countries is expected to be fully operational by 2005 and will simplify customs procedures, facilitate cross-border truck travel as well as minimize the need for transshipment, among other important advantages.



Telecommunications Backbone and Information and Communications Technology (ICT)

An efficient and effective telecommunications network is central to the information/communications industry and critical, therefore, to future growth prospects for the Mekong subregion. The “Digital Divide” must be bridged.

The objective is a subregional telecommunications network that enables universal access to voice and data services – including the Internet – at affordable yet commercially-based rates.

The Telecommunications Backbone and ICT Flagship Program is designed to establish the basic infrastructure needed to interconnect the national networks of the six GMS countries. In addition to investment in “backbone” facilities, the Program includes important policy reforms, and much-needed capacity building initiatives expected to pave the way for private sector participation.

Regional Power Interconnection and Trading Arrangements

Major benefits to GMS countries can be gained by cooperating in the development and use of the subregion’s natural resources. This is especially true of the energy sector, where some countries have substantial surplus energy potential, while others are in a deficit position.

Subregional cooperation in energy development and supply will reduce the cost of electricity and assure more stable supply.

The objective is a commercially-based energy system that reliably supplies electricity and other forms of energy at reasonable cost to all areas of the subregion, and in a manner that minimizes environmental and social costs.

Rural electrification is of special concern, as this relates importantly to poverty reduction.

This Flagship Program entails many components, notably, mobilizing private sector interest in developing and managing the energy potential of the subregion. Towards this end, the program focuses on ensuring construction of transmission lines and other investments (for example, switching stations) fundamental to a regional approach to energy supply. Significantly, the *GMS Inter-Governmental Agreement on Power Trade* paves the way for the development of a power trade operating agreement. Yet another dimension of the Program is development of a corps of engineers and technical personnel for integrated GMS power system operation and management.

Facilitating Cross-Border Trade and Investment

Increased trade and investment in the Mekong subregion will be the main drivers of economic growth. Carefully supported by policy and appropriate regulatory frameworks, and infrastructure linking rural areas to national and regional markets, trade and investment will also be the main drivers for reducing poverty.

These initiatives must be closely interrelated with those of ASEAN and be made consistent with the WTO framework. The ASEAN/Free Trade Agreement (AFTA) agreement will result in a free trade area involving five of the six GMS countries. ASEAN protocols also address harmonizing foreign investment regimes. In addition, ASEAN and PRC are working on an ASEAN-PRC free trade agreement. These developments and proposals, together with PRC's newly established membership in the WTO, open great opportunities and challenges.

By and large, the Trade and Investment Flagship Program aims to minimize trade impediments among GMS countries and create a favorable investment climate, thereby encouraging strong participation by domestic and foreign commercial interests.

The Program entails important subcomponents, including improving the data system for trade and investment, establishing single-stop customs inspection stations and products and services in support of small and medium enterprises (SMEs), and reducing barriers to trade in agricultural products. The Program also relates closely to the other flagship programs, such as transportation, telecommunications and energy cooperation initiatives, and the all-important *Framework Agreement for the Facilitation of the Cross-Border Movement of Goods and People*.

Enhancing Private Sector Participation and Competitiveness

Private sector enterprise is acknowledged by all GMS countries to be the engine of economic growth.

A unifying theme for the GMS Program, therefore, is creating an enabling environment for business enterprise, especially for the private sector.

GMS countries can benefit from sharing experiences in determining the proper role of government in a more market-based economy. A supportive framework for private enterprise is essential, including a strong financial sector, greater transparency and the rule of law, privatized state enterprises, investment in the education and health of the subregion's labor force, and an appropriate regulatory framework for protecting the environment.

The flagship programs are collectively relevant because they are based fundamentally on providing a supportive framework for private enterprise. The Flagship Program for Enhancing Private Sector Participation and Competitiveness addresses additional, sometimes very specific factors. A particular concern is the managerial, marketing, and other skills of SMEs and accessibility of financial services. To help SMEs and other commercial interests find a "voice" for their needs and views, the GMS Business Forum is being strengthened and its activities expanded.

Developing Human Resources and Skills Competencies

Just as the private sector is viewed as the engine of growth, human resource development may be regarded as the main "building block" for the subregion's development. The fundamental importance of HRD, and the information/communications revolution, underscore the need for proactive regional cooperation initiatives in this field. Differences in language and culture normally favor national programs in these areas. Regional initiatives should focus on factors related to education, training, labor markets, and health that can be addressed most effectively and efficiently through subregional cooperation.

The objective is to strengthen the subregion's most valuable resource – its people – and strengthen their capacities.

The Flagship Program on Developing Human Resources and Skills Competencies provides a framework for wide-ranging cooperation. Pipeline projects include support systems for harmonizing training standards and skills certification systems, a system for accrediting training institutions, and capacity building concerning vocational training institutions. Pipeline projects concerning health include cross-border migration and communicable diseases such as HIV/AIDS.

Strategic Environment Framework

The GMS is endowed with a rich natural resource base that sustains economic development and helps maintain rural livelihoods.

A major challenge facing the GMS Program is to assist GMS countries maintain these and other crucial environmental resources on which depend much of the subregion's social and economic development.

The primary objective of the flagship program on Strategic Environment Framework (SEF) is to help integrate environmental considerations in economic development planning. The flagship program includes: (i) identifying opportunities for improving environmental management in the GMS, (ii) building awareness and capacity in regional environmental assessment; (iii) enhancing public participation in GMS decision making, and (iv) defining a set of environmental parameters and mechanisms to initiate an environmental monitoring program.

The SEF flagship program combines analytical, participatory, and policy-oriented processes that together constitute a strategic platform for guiding investment decisions in the GMS. The first phase developed a strategic platform to guide infrastructure investment decisions in the GMS, consistent with the demands of environmental and social sustainability. The second phase facilitates decision making, *first* by creating a data warehouse which will structure and organize relevant data and information at the national and subregional levels to make them readily accessible to the decision maker; *second*, by providing performance assessment methodologies; and *third*, by establishing a framework and platform through which knowledge will constantly be added to the existing database.

Flood Control and Water Resource Management

The goal for subregional cooperation in flood control and water resource management is to prevent or minimize social and economic losses due to floods through a combination of sustainable resource and floodplain management measures.

This flagship program complements the initiatives of the Mekong River Commission (MRC) and includes four major groups of floodplain management measures: (i) *land use planning*, to minimize risks to people living in vulnerable floodplain areas; (ii) *structural measures*, such as building platforms for dwellings and making roads flood-proof to minimize hazards to people living in floodplains, and construction of flood mitigation structures such as dams and embankments to reduce flood damage to urban settlements; (iii) *flood preparedness*, to strengthen institutional capacities to prepare for floods; and (iv) *flood emergency*, to build capacity for responding to flood emergencies.

GMS Tourism Development

Tourism is a major industry in the countries of the GMS. This presents great potential for further expansion, especially for relatively undeveloped GMS countries and areas. Over the past decade, efforts to develop and promote tourism through regional cooperation have achieved significant success. The GMS Tourism Development Flagship Program builds upon this achievement.

The objective is to make the subregion an internationally recognized “single destination site,” enabling domestic and foreign tourists to take maximum advantage of the subregion’s features and attractions.

Key infrastructure critical to promoting the subregion as a “single destination site” will be supported. “Soft infrastructure” will also be improved, including inter-country visa recognition and greater mobility for tour operators and guides. Special effort will be directed at extending tourism to poor and remote areas, including through the development of eco-tourism. The quality of tourism services will be improved through training and other measures. The private sector will be encouraged to “take charge” of tourism development within a well-defined social and environmental regulatory framework.

Linkages and Milestones

The flagship programs constitute an ambitious and demanding strategy in which all stakeholders will need to play active and committed roles. The challenges involved are all the more demanding as the various program elements are closely linked and interdependent.

Logically, many of the feasibility studies and “soft” initiatives are preconditions or necessary complements to infrastructure projects. In some cases, the flagship programs themselves are closely interlinked, as in the case of two programs concerning the environment (Strategic Environment Framework, and Flood Control and Water Resource Management). The three economic corridor projects are linked to the telecommunications backbone project: both are prerequisites for attracting public and private investment needed to promote economic and social development along these Corridors. Also, construction of the transport components of the corridors will facilitate laying down the fiber optic cable necessary for the telecommunications backbone.

The development matrices for the flagship programs provide a preliminary roadmap for future subregional economic cooperation. Continuing dialogue and analyses are constantly needed to ensure that subregional projects interlock and lead effectively to fulfilling the GMS program goals. The subregional programs should be complementary to the countries’ national development programs. Continuing assessment, in this respect, is necessary.

To spur and monitor progress over the next five to 10 years, GMS Ministers have identified milestone goals for the GMS Program, an initial list of which includes the following:

- Completion of major transport corridors linking the subregion,
- Full implementation of GMS agreement for facilitating the cross-border transport of goods and people,
- Single-stop customs inspection procedures and other measures to facilitate trade,
- New air routes and visa agreement to facilitate tourism in the GMS,
- Certification/accreditation of trade skills to enable labor mobility,
- Subregional control of communicable diseases (notably, HIV/AIDS) and drug trade,
- Implementation of power trade agreements for the subregion,
- Completion of telecommunications backbone and adoption of a subregional policy and regulatory framework for the sector,
- Application of the Strategic Environment Framework for sustainable development, and
- Integrated expansion of the agricultural sector and agro-industry.

Resource Mobilization for Subregional Economic Cooperation

Mobilizing resources for subregional economic cooperation among GMS countries has succeeded in supporting a wide array of initiatives. Significantly, the GMS Program has been an important catalyst in this. The Asian Development Bank is the lead development partner in the GMS Program. As of April 2005, ADB had provided \$1.4 billion in loans for 19 projects worth \$5.2 billion. ADB has also provided technical assistance amounting to \$ 60 million to over 100 projects with a total cost of \$105 million. ADB also plays a major role in mobilizing the participation of other development partners in the GMS.

Other subregional initiatives include the Forum for the Comprehensive Development of Indochina, the ASEAN-Mekong Basin Development Cooperation Initiative, and the ASEAN/Japan Economic and Industrial Cooperation Committee. Note that ASEAN and GMS Program initiatives for the subregion are fully complementary.

Most prominently, the GMS Program has encouraged the six member countries to initiate on their own accord new cooperation agreements. Examples include the opening of new air routes and international airport designations in the subregion, and energy purchase agreements between Thailand/Lao PDR, Viet Nam/Lao PDR, and Thailand/Cambodia.

Resource Needs for the Future

While it is clear that economic cooperation among GMS countries has advanced remarkably over the past decade, much remains to be accomplished. Subregional infrastructure projects for the transport, energy, and telecommunications sectors are costly, but they cannot be made at the expense of vital initiatives in support of “soft infrastructure,” such as harmonized customs procedures, human resource development, protection of the environment, or promotion of trade, tourism, investment, and private sector enterprise.

The resource demands are not purely financial. Technical assistance, often small-scale, is needed in all dimensions of regional cooperation. This is especially the case for initiatives relating to HRD and the environment. Another dimension of resource mobilization is organizational. The GMS countries must have the appropriate institutional structures and processes for promoting and facilitating subregional cooperation. In addition to intergovernmental coordination, processes and mechanisms should include civil society, NGOs, and the business and donor communities.

The private sector is expected to play a key role in formulating and financing subregional initiatives, including for the energy and telecommunications sectors. Already it has played an important role, as illustrated by cofinancing of the Theun Hinboun hydropower project in Lao PDR. The next phase of the GMS Program must succeed in further strengthening private sector involvement.

Financial Resource Needs for the GMS Program

Overall financial requirements for the GMS Program over the next ten years could exceed US\$10-15 billion if all the program proposals are acted upon. This projection may, however, exaggerate actual requirements as various proposals have yet to be fully rationalized. This is particularly the case with regards to the transport and energy sectors, where decisions have to be weighed over competing routes or initiatives. On the other hand, some financing requirements have yet to be estimated, or to be included – such as private sector investment and costing for industrial estates.

Sequencing the flagship components is necessary, both to ensure effective use of scarce resources, and to provide the proper basis for the interlocking components. In this manner, the course of action is fully transparent and open to all development partners.

Opportunities for Development Partners

Strong partnerships are needed among GMS countries as well as with development partners to achieve the vision of the GMS countries of a prosperous and equitable subregion. The Program is ambitious but realistic, and ample opportunities in the flagship programs exist for development partners to make important contributions. These may be large or small in monetary terms – all are

important in terms of effective partnership. Actual contributions and activities depend, of course, on the development partners' own priorities, expertise, and availability of finances.