



Economic Development and Research Priorities in the GMS

Yasuyuki Sawada

Chief Economist and Director General
Economic Research and Regional Cooperation Department
Asian Development Bank

Bank of Thailand's International Workshop on Policy Development in the GMS
12 May 2017 | Bangkok, Thailand

Overview

- The Greater Mekong Subregion (GMS) as a natural economic area
- Since 1992, the GMS program to enhance economic relations among the countries with assistance from ADB

Outline

- Development Achievements
- Progress of Regional Integration
- Strategic Areas of Cooperation
- Progress in Key Areas and Sectors
- Opportunities and Challenges
- ADB's Role and Research Priorities

The background of the slide features a light blue and white color scheme. On the right side, there are several interlocking gears of different sizes. Within the gears, there are faint, stylized illustrations of city buildings and architectural structures. The overall aesthetic is clean and modern, suggesting a focus on infrastructure and development.

Development Achievements

Economic Performance

- Aggregate GDP expanded from \$796 billion in 2010 to \$1.2 trillion in 2016
- GDP growth averaged 6.7% annually in the last 5 years
- Incidence of poverty dropped sharply for all GMS economies. According to the *PovcalNet* data, head count ratio with \$1.90 poverty line:
 - In Cambodia, 30.06% (1994) → 2.17% (2012)
 - In Lao PDR, 22.85% (1992) → 16.72% (2012)
 - In Thailand, 9.37% (1990) → 0.04% (2013)
 - In Viet Nam, 49.21% (1992) → 3.06% (2012)

Selected Economic Indicators for GMS (2016)

	Population (million)	Nominal GDP (\$ billion)	GDP growth (%, 2012-16, average)	GDP Per Capita (current prices, \$)	Trade Openness (% of GDP)
Cambodia	16	20	7.2	1,269	107
Guangxi, PRC	48	274	9.1	5,669	18
Yunnan, PRC	47	224	10.1	4,714	10
Lao PDR	7	14	7.3	1,921	80
Myanmar	52	59	7.6	1,128	23
Thailand	69	407	3.4	5,898	96
Viet Nam	93	201	5.9	2,173	174
GMS	333	1,199	6.7	3,604	74

GMS = Greater Mekong Subregion; GDP = gross domestic product; Lao PDR = Lao People's Democratic Republic; PRC = People's Republic of China.




Note: GMS GDP growth rate weighted using the Nominal GDP in US dollars.

Source: ADB calculations using data from CEIC.

The background of the slide features a light blue and white color scheme. On the right side, there are several interlocking gears of different sizes. Some of the gears have stylized symbols inside them, including a dollar sign (\$) and a Euro symbol (€). In the upper right, a faint city skyline with several skyscrapers is visible. The overall theme suggests economic integration and progress.

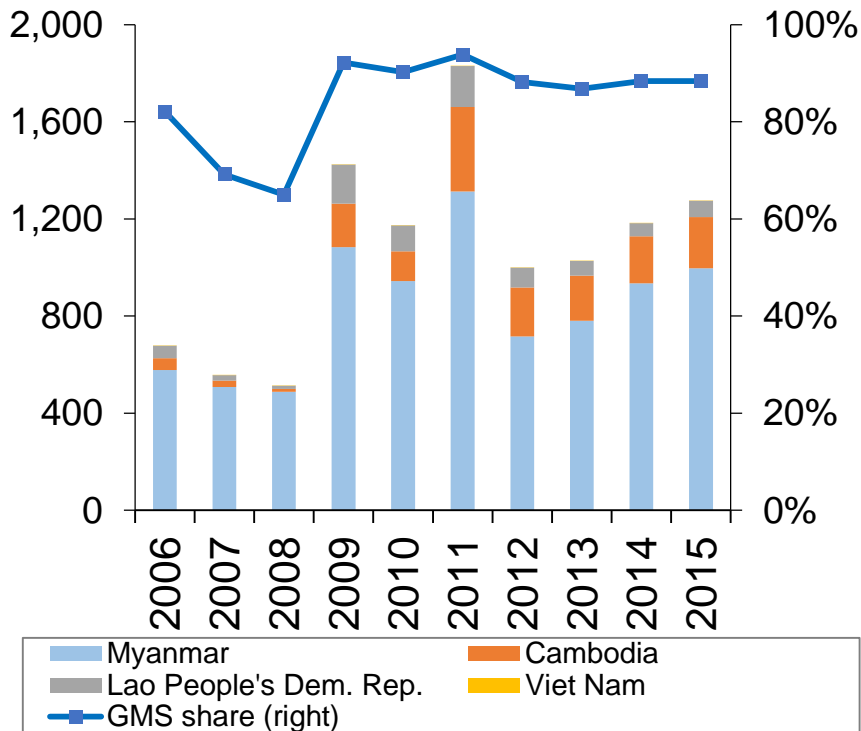
Progress of Regional Integration

GMS members are more integrated with each other

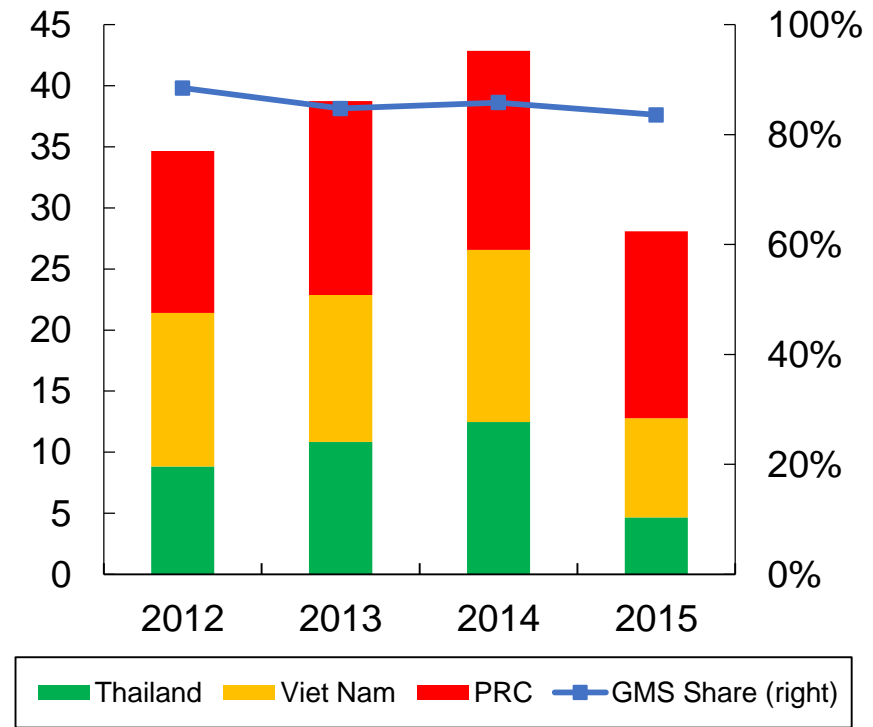
- Intra-GMS trade share 
 - 2% in 1992 (\$5 bn) vs 9% in 2015 (\$444 bn)
- Intra-GMS FDI flows 
 - \$8.3 bn in 2001-2006 vs \$29.2 bn in 2010-2015
- Intra-GMS migration share 
 - 9.2% in 1990 vs 22.1% in 2015

Intra-regional share of labor mobility is high in GMS

Foreign Migrants of GMS Origin in Thailand (stock, thousand)



Foreign Migrants of GMS Origin in Lao PDR (stock, thousand)



PRC = People's Republic of China.

Note: GMS Share is equal to the share of migrants from GMS countries among total foreign migrants registered in Thailand.

Source: International Labour Migration Statistics Database in ASEAN (2016).

The background of the slide features a light blue and white color scheme. On the right side, there is a graphic of several interlocking gears of different sizes. Within the gears, there are faint, stylized images of city buildings and architectural structures. The overall aesthetic is clean and professional, suggesting a focus on infrastructure or urban development.

Strategic Areas of Cooperation

Multi-sector strategic priorities of the GMS



Implementing the GMS strategic framework

- *Regional Investment Framework (RIF) 2013-2022*
 - Endorsed by GMS ministers in December 2013
 - Translates the strategic framework into 200 projects estimated at \$52 billion

- *RIF Implementation Plan (RIF-IP) 2020*
 - Endorsed by GMS ministers in December 2016
 - Provides a shortlist of 107 investment and technical assistance projects estimated to cost \$32.7 billion
 - Transport sector is the most important sector
 - About 80% of the projects have financing, with only 43 (\$6.5 billion) still requiring financing

Some Ongoing Transport Projects in the RIF-IP

Project	Cost/ Financing (\$ million)	Description/Status
MYA-TRA-01 East–West Economic Corridor (EWEC) Eindu–Kawkareik Road Improvement	122 ADB	<ul style="list-style-type: none"> • FS and detailed design completed in January 2015. • Approved by ADB and Myanmar Government in November 2015. • Loan signing in April 2016. • Construction commencing this year.
LAO-TRA-05 Hongsa(Xayaboury)–Chomphet (Luang Prabang)	90 NEDA	<ul style="list-style-type: none"> • Project implementation commenced in September 2015. • As of 30 June 2016, estimated progress was at 6%. • Project is expected to be completed in May 2018.
THA-TRA-02 Tak–Mae Sot Highway Improvement Project	90 Thailand Govt.	<ul style="list-style-type: none"> • Upgrading existing road, with total length of 76 kms., to connect with Myanmar along the EWEC. • Construction of 25 kms. completed; of another 24 kms ongoing.
LAO-TRA-14 Vientiane–Boten Railway Project	6,040 PRC	<ul style="list-style-type: none"> • FS completed in April 2011 • Ground breaking ceremony on 2 Dec 2015. • Construction scheduled to begin this year.

Some Ongoing Transport Projects in the RIF-IP (cont'd)

Project	Cost/ Financing (\$ million)	Description/Status
REG-ENG-01 Lao PDR–Viet Nam Power Transmission Interconnection (Xekaman 1–Pleiku)	218 Lao PDR: Song Da Group Viet Nam: Viet Nam Electricity National Power Transmission Corporation	<ul style="list-style-type: none"> Xekaman 1 230 kV transmission line from power house to Viet Nam border completed in June 2016. Xekaman 1 hydropower project is in process of testing Generation Unit 1; will start generating power for export to Viet Nam by Sep 2016.
REG-ENG-02 Nabong 500 kV Substation Transmission Facility	106 Lao PDR:Nam Ngum 2 Power Company	<ul style="list-style-type: none"> Project implementation commenced. Following agreement on design and budget, preparations to start construction of Nabong Substation are underway. Department of Energy Business/Ministry of Energy and Mines are preparing the document to rent the substation for Electricite du Laos to operate with Electricity Generating Authority of Thailand for a period of 20 years from 2018 to 2028.

The background of the slide features a light blue and white color scheme. On the right side, there is a graphic of several interlocking gears of different sizes. Within the gears, there are faint, stylized images of city buildings and skyscrapers, suggesting a focus on urban development or infrastructure. The overall aesthetic is clean and professional.

Progress in Key Areas and Sectors

Cross-border Connectivity

- Near completion of the transport component of GMS three main corridors—the East-West, North-South, and Southern Economic Corridors
 - The reach of these corridors is also being widened through several bridges and linked secondary roads
 - Proposed changes to GMS economic corridor will cover missing sections in Myanmar and Lao PDR
- Since 1992, almost 7,000 kms of road have been built and rehabilitated
- A new GMS Multimodal Transport Strategy is underway, which includes railway
 - The Greater Mekong Railway Association (GMRA) Board has agreed to focus on the completion of the 9 identified key missing rail links.
 - ADB to help in assessing the viability and prioritization of the identified priority railway links.

Transport and Trade Facilitation

- The landmark GMS Cross-Border Transport Facilitation Agreement (CBTA) already fully ratified by all GMS members since 2015
 - Uses a single legal instrument for key, nonphysical measures for efficient cross-border land transport
 - Single Stop Inspection between Lao PDR and Viet Nam is among its major achievements
- Development impact at key border crossing point, Bavet (Cambodia)-Moc Bai (Viet Nam)
 - Travel time reduced from 9-10 hours in 1999 to 5-6 hours in 2013
 - Cross-border trade increased from \$10 million in 1999 to \$708 million in 2013

Energy

- GMS power projects are preparing grid interconnections in GMS
- Major hydropower projects have been developed with private sector participation (e.g. Nam Theun 2 Hydroelectric Project)
- GMS members established the Regional Power Coordination Center, a permanent institution to enhance regional power trade and implement regional power interconnection initiatives in GMS

Agriculture

- A mid-term review of the Core Agriculture Support Program Phase 2 implementation was completed
- Several projects have been completed:
 - controlling the spread of foot-and-mouth disease,
 - establishing a satellite-based monitoring and early warning system for drought and flood and crop outlook, and
 - pilot testing of models for efficient utilization of biomass for bioenergy and food security.
- A strategy and action plan is being formulated for promoting safe and environment friendly agro-based value chains in the GMS for 2018-2022 that especially involves small-holder farmers, rural women, and small and medium agro-enterprises.

Environment

- Capacity development for a range of environmental and social planning and safeguard methods and tools
- Integration of strategic environmental assessment results into national socio-economic development plans
- Replication of Biodiversity Conservation Corridor approaches in Cambodia, the Lao PDR, and Viet Nam

Tourism

- Tourist arrivals in GMS reached 58 million in 2015
- Tourism receipts in GMS rose to \$65 billion in 2015 from \$15.6 billion in 2007
- Tourism industry supported more than 10 million full-time jobs in the GMS
- A new Tourism Sector Strategy is now being finalized to guide tourism sector cooperation in 2016-2025
- Efforts under way for the establishment of the Mekong Tourism Coordinating Office (MTCO) as an intergovernmental organization

Human Resource Development

- Framework for mutual recognition of skills in initial 3 areas (domestic housekeeping, automotive technology, and bricklaying) has been developed and now being expanded in additional areas (logistics, machinery, and food processing)
- Extended efforts to support safe labor migration and address human trafficking
- GMS University Consortium consisting of 24 GMS universities was established to further foster networking in tertiary education among GMS member countries
- A new Strategic Framework and Action Plan is being prepared to guide future cooperation toward the realization of the SDGs in this sector

The background of the slide features a light blue and white color scheme. On the right side, there is a graphic of several interlocking gears of different sizes. Within the gears, there are faint, stylized images of city buildings and skyscrapers. The overall aesthetic is clean and modern, suggesting themes of industry, technology, or urban development.

Opportunities and Challenges

Opportunities and Challenges

1

- ***Rising Mekong regionalism***

- ASEAN Economic Community creates major opportunities and deepen economic integration
- Various subregional programs are emerging in the GMS: Aside from GMS, 11 additional regional agreements involving one or all Mekong countries were formed during 1992-2015
- Bilateralism has also become prominent

- ***Structural changes in the region***

- Economies are rebalancing toward domestic markets throughout Asia
- Higher unit labor costs in the PRC and other Asian economies will lead to shifts in corporate strategies
- GMS must ensure it retains competitive advantage through appropriate macro and other policies that would support positive business climate

Opportunities and Challenges

2

■ ***Missing infrastructure links***

- Bulk of missing links is in Myanmar, which has joined corridor development since its political opening in 2012
- Feeder road network connecting production and trade hubs is not yet fully developed

■ ***Development assistance***

- New financing sources are emerging such as the Asian Infrastructure Investment Bank and Silk Road Fund
- GMS economies can capitalize on these new development sources to meet their infrastructure needs

■ ***Urban investments***

- Spatial concentration of development and growing urbanization will likely continue → contribute to efficient, speedy development but could worsen inequality within and across economies

Opportunities and Challenges

3

■ *Climate change*

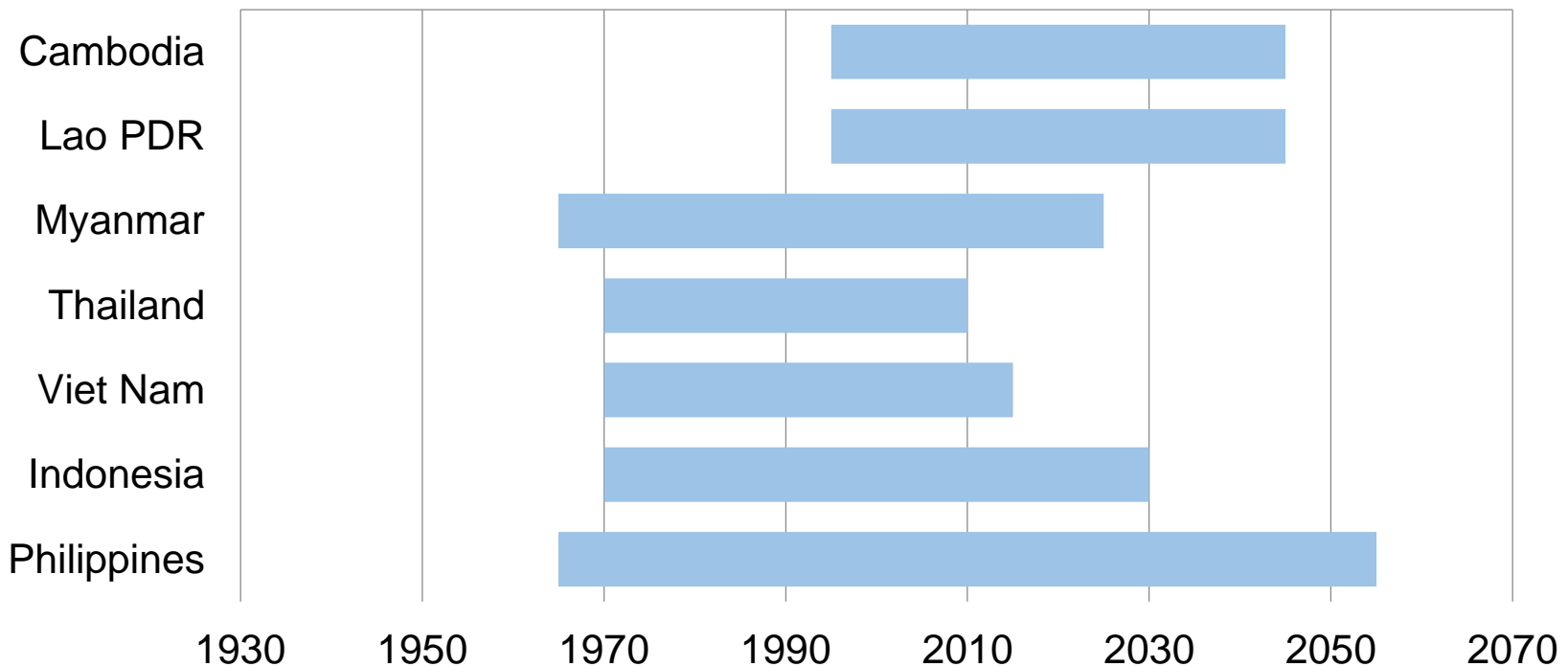
- The push to mitigate climate change is raising the value of still-ample GMS forest resources and creates additional incentives to investment in green growth and technologies
- Adapting to climate change will raise the value of commodities used intensively in scarce factors such as water

■ *Migration*

- Imbalances in labor availability alongside economic disparities driven by spatial concentration of economic development will continue to create push and pull forces of migration.
- This calls for (i) stronger human capital development, (ii) better transport links to connect migrants to their homes, (iii) financial services that support remittance transfers, and (iv) further G-to-G collaboration in managing cross-border labor migration scheme.

Varied demographic profile among GMS economies

Demographic Dividend Period—Selected GMS and Other Asian Countries



Note: Demographic Dividend is the period in which share of working age population increases over time. Working age population =15 to 64 year-old. Data is in 5 year interval.

Source: UN 2015 Revision of World Population Prospects.

Migrant remittances to the GMS: Rising with limited growth in recent years

Migrant Remittance Inflows (\$ million)

Economies	2010	2015	2016e	% of GDP (2015)
Cambodia	153	542	551	3.0%
Lao PDR	42	93	95	0.8%
Myanmar	115	3,236	3,300	5.0%
Thailand	3,580	5,218	5,339	1.3%
Viet Nam	8,260	13,000	13,351	6.7%

Note: Informal flow of remittance not accounted in above data.

Source: World Bank.

The background of the slide features a series of interlocking gears in various shades of blue and grey. Within the cutouts of the gears, a faint, stylized city skyline is visible. The overall aesthetic is clean and modern, with a focus on mechanical and urban themes.

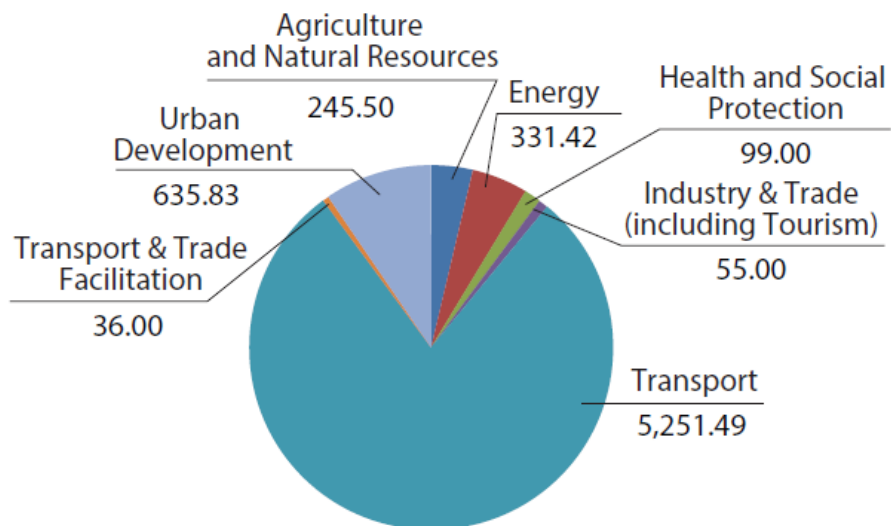
ADB's Role

ADB Assistance in the GMS

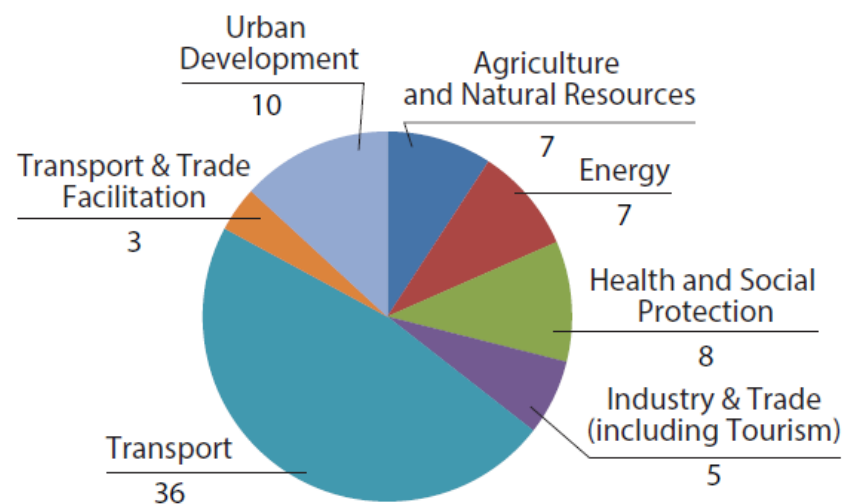
- ADB had extended loans totaling \$6.6 billion for 76 investment projects costing about \$17.8 billion in total as of December 2015
 - Involved subregional roads, railway improvements, hydropower projects, corridor town development, tourism infrastructure development, communicable disease control, trade facilitation, and biodiversity conservation.
- From 1993 to 2015, ADB also provided about \$124.9 million for 205 technical assistance projects with a total cost of \$368.95 million for:
 - project preparation;
 - capacity development;
 - economic, thematic, and sector work; and
 - coordination and secretariat assistance.
- ADB has also played the role of honest broker for the GMS Program, facilitating subregional dialogue and promoted agreements on key issues among GMS economies.

Sectoral Distribution of GMS Investment Projects Financed by ADB, 1994-2015

a: Value (\$ million)



b: Number of projects



GMS = Greater Mekong Subregion.

Source: ADB. Asian Economic Integration Report 2016.

The background of the slide features a light blue and white color scheme. On the right side, there is a graphic of several interlocking gears of different sizes. Within the gears, there are faint, stylized images of city buildings and skyscrapers. The overall effect is one of mechanical precision and urban development.

Research Priorities

Knowledge Needs of GMS economies

- ***Low-income countries:***
 - Poverty, human capital, employment, rural productivity infrastructure, trade barriers
 - Environmental degradation, climate change
- ***Middle-income countries:***
 - Poverty, income disparities, employment
 - Labor force skills
 - Global and regional market competitiveness
 - Middle-income trap
- ***Upper middle-income countries:***
 - Environment, climate change
 - Innovation
 - Global and regional market competitiveness
 - Energy supply and alternatives

Examples of ADB RCI Knowledge Products for GMS

- ***Regional/country economic, thematic and sector, and advisory***
 - Regional Investment Framework for the GMS
 - Time release studies
 - Estimation of infrastructure needs (Seamless Infrastructure for Asia)
- ***Policy, project specific analysis and advice***
 - Corridor/secondary towns development
 - Core environment program—biodiversity conservation
- ***Capacity building, training, TA advisory, and analytical***
 - Transport and trade facilitation
 - Phnom Penh Plan for Development Management
- ***Evaluation at program/project completion***
 - Assessing socio-economic effects of regional projects

Research Priorities

- ***Update cross-border infrastructure needs and financing gap at the subregional level, including the GMS***
 - Public and private financing to bridge the needs gap
- ***Impact assessment of the GMS program***
 - Evidence and lessons learned from past operations
 - Cross-border physical connectivity, transport and trade facilitation, energy, agriculture, environment, tourism, and human resource development
- ***Investments for the future***
 - Systematic uptake of RCI knowledge to be included in country knowledge plans
 - Build country ownership, and local knowledge network and provider capacity

The background of the slide features a series of interlocking blue gears of various sizes. Within the circular openings of the gears, a faint, stylized city skyline is visible. The overall color palette is light blue and white, giving it a clean, professional appearance.

Thank you!