ECONOMIC CORRIDORS FOR THE GREATER MEKONG SUBREGION

Calla WIEMER

EAI Background Brief No. 479

Date of Publication: 15 September 2009

Executive Summary

1. The enormous investment that has been made in transport corridors for the Greater Mekong Subregion (GMS) will only realize a return as these transport corridors are transformed into full-fledged economic corridors.

2. The five countries and two Chinese provinces that comprise the GMS exhibit widely varying levels of economic development and diverse systems of economic organization. Making good on the promise of economic integration will require these differences to be bridged.

3. A corridor approach to subregional development was adopted in the early years after the 1992 establishment of the GMS. A network of three corridors involving multiple routes is now operable. Further progress hinges on developing the soft infrastructure of institutions.

4. The Economic Corridors Forum (ECF) has been designated the principal advocate and promoter of economic corridor development. The Forum's inaugural meeting took place in June 2008 in Kunming with a second meeting slated for 16-17 September 2009 in Phnom Penh.

5. The ECF creates a platform for stakeholders in corridor development to network, exchange views, and recommend initiatives. Participants include representatives of national governments, provincial governments, the business community, and international development organizations.

6. Within the ECF, the Governors' Forum brings together leaders of provinces located along corridor routes and offers an opportunity for those heading up border provinces to engage with counterparts across the divide.

7. An important supporting player to the ECF is the GMS Business Forum founded in 2000 by the national chambers of commerce of the six GMS member countries. Another important supporting player is the Asian

Development Bank which acts as secretariat to the GMS and plays an important buffering role between China and neighbors dwarfed by its presence.

8. Experiences of economic corridor development elsewhere in the world offer two lessons for the GMS. The first is on the importance of a sound regulatory framework to govern the movement of goods and people across borders and of the capacity to implement and enforce it. The second is on the essential role of grassroots business and community organizations in bringing a corridor to life.

9. The ECF brings together the key stakeholders of government, business, and civil society at a high level. For the grassroots to be actively mobilized, this type of institutional structure will need to be replicated at the local level and integrated across borders.

ECONOMIC CORRIDORS FOR THE GREATER MEKONG SUBREGION

Calla WIEMER*

Transforming Transport Corridors into Economic Corridors

1.1 Billions have been spent on infrastructure to provide physical connectivity in the Greater Mekong Subregion. The next step is to put the physical infrastructure to work serving the needs of economic development. For this to happen, the soft infrastructure of institutions must create a supportive environment for trade, transport, and travel.

1.2 A program to promote economic cooperation in the Greater Mekong Subregion (GMS) was launched in 1992 under the sponsorship of the Asian Development Bank (ADB). The GMS comprises Cambodia, Lao People's Democratic Republic (Laos), Myanmar, Thailand, and Vietnam plus China's Yunnan Province and Guangxi Zhuang Autonomous Region (Guangxi joining the program in 2004).

1.3 The GMS is home to more than 300 million people spread across diverse geographic and economic terrain. It juxtaposes the modern port city of Bangkok with the remote highlands of Laos; the established market economy of Thailand with the reforming socialist economies of China and Vietnam and the military dictatorship of Myanmar.

1.4 Economic dimensions of GMS development, with attention to China's role in the dynamic, are laid out in a 2008 EAI Background Brief by Lim Tin Seng.[1]

---

* Calla Wiemer is a Visiting Scholar at the University of California, Los Angeles, Center for Chinese Studies. She would like to thank Prof John Wong for valuable suggestions.

[1] Lim Tin Seng, "China's Active Role in the Greater Mekong Sub-Region: A 'Win-Win' Outcome?", *EAI Background Brief No. 397*, 6 August 2008.

Lim elaborates China's many contributions to furthering economic development in the subregion including unilaterally eliminating tariffs; investing in infrastructure; supporting programs to reduce poverty, cultivate human resources, and protect the environment; and encouraging business development. For all the positive thrust of these efforts, however, China has encountered a mixed reception on the part of neighboring countries which harbor concerns about dominance by a super-sized and rapidly rising neighbor.

1.5 This Brief follows up, shifting the focus to institutional development aimed at integrating the subregion economically by transforming the GMS's skeletal transport corridors into full-fledged economic corridors. The Third GMS Leaders' Summit held in March 2008 in Vientiane set the course for this next stage of development by endorsing formation of the Economic Corridors Forum (ECF). The ECF is designed to bring together the various stakeholders in corridor development – national governments, local governments, the business community, and civil society – to network, exchange views, recommend initiatives, and generally promote corridor activity. The inaugural meeting of the ECF was held in June 2008 in Kunming, with a second meeting slated for 16-17 September 2009 in Phnom Penh.

1.6 The ECF is an important construct for facilitating economic integration across borders and creating a favorable environment for economic development. But an annual meeting of high level participants is only a small, if demonstrative, part of what must happen to bring the corridors of the GMS to life. The real mobilization of stakeholders must take place at the local level and incorporate the private sector and community-based organizations.

Corridor Economy and Geography

2.1 The corridor strategy of development was adopted by the GMS early on. While concentrating efforts along narrow passages, the approach fosters linkages between more developed urban centers and their lagging hinterlands and, in the GMS case, positions long isolated border areas as key nodes in the

network. Concentration of development along transport routes allows for economies of scale, scope, and agglomeration to be exploited. Moreover, by linking areas of diverse resource endowment profiles, complementary specialization is facilitated within a coherent geographical space. Such concentrated local development in turn lays foundations for tying into the larger realm of the global supply chain.

2.2 A sense of the economic diversity embodied within the GMS is conveyed by Table 1. Thailand has by far the subregion's biggest economy accounting for more than half of its GDP. Vietnam claims the largest population with 85 million persons, although China's two regions combined host a population of over 90 million. At the opposite end of the spectrum, Laos has both the smallest population and the lowest GDP. The highest GDP per capita is registered by Thailand at $3844 and the lowest by Cambodia at $578 (with data for Myanmar unavailable). Laos shows an extremely low density of population at 25 persons per square kilometer, with Cambodia and Myanmar also showing relatively low densities. Vietnam's density is the highest at 275 persons per square kilometer.

TABLE 1 KEY ECONOMIC INDICATORS, 2007

	Population	**Land Area**	**Population Density**	**Rural Population Share**	**GDP**	**GDP per Capita**	**Trade Share**
	mil	**km^2 thou**	**per km^2**	**%**	**US$ bil**	**US$**	**% of GDP**
China	1318.3	9600	141	58	3205.5	2432	74
Yunnan	45.1	394	115	68	60.9	1349	n.a.
Guangxi	47.7	237	201	64	76.5	1605	n.a.
Cambodia	14.4	177	82	79	8.3	578	138
Lao PDR	5.9	237	25	70	4.1	701	91
Myanmar	48.8	677	74	68	-	-	-
Thailand	63.8	513	125	67	245.4	3844	139
Vietnam	85.2	331	275	73	68.6	806	167
GMS	310.9	2565	121	69	463.9*	1492*	n.a.

*: Excluding Myanmar.
n.a.: not applicable
- : not available
Sources: World Bank World Development Indicators; China National Bureau of Statistics.

2.3 All six members of the GMS are heavily rural with the share of population in rural areas averaging about 70 percent overall. This means that agriculture is important throughout the subregion and that great potential for economic gain attaches to the transfer of subsistence farmers into industrial and service sector employment. The diversity of environmental conditions in the subregion creates beneficial circumstances for crop specialization and trade in agricultural products.

2.4 Because borders within the GMS were long closed to formal trade, with hostilities holding back development along some stretches, border regions remain impoverished. An EAI Chinese Working Paper by Li and Lu discloses that along the Chinese border with neighbors Vietnam, Laos, and Myanmar, economic development is not notably higher on the Chinese side than on the opposing side.[2] Indeed, because Vietnamese policies toward minorities in border regions have been more generous than Chinese policies and because in Laos and Myanmar population densities are low and natural resources abundant, there has been heavy out-migration of Chinese border peoples for settlement in neighbor countries. The number of these out-migrants since the beginning of China's reform and opening is put at over one million. Many of the migrants are ethnic minorities with cultural and kinship ties that straddle formal borders. Away from official checkpoints, the borders are porous and policing them is difficult.

2.5 The GMS corridor system consists of three main corridors involving multiple routes (see Figure 1). These are designated the North-South Economic Corridor (NSEC), the East-West Economic Corridor (EWEC), and the Southern Economic Corridor (SEC). All three corridors are oriented toward seaports. For landlocked Laos and China's Yunnan Province, this provides valuable access to world markets.

[2] 李晨阳, 卢光盛 (2009), "中国云南、广西与周边国家 发展现状比较", EAI Chinese Working Paper No. 74.

FIGURE 1 GMS ECONOMIC CORRIDORS MAP

Source: ADB (2009), *Corridor Chronicles*, http://www.adb.org/documents/books/ corridor-chronicles/ Corridor-Chronicles-MS.pdf

2.6 The EWEC was, in 1998, the first corridor to be defined. But it is not the most dynamic. That distinction goes to the NSEC. The SEC lies well behind the other two in its development.

2.7 The NSEC has the advantage of linking major urban areas in the richest nations of the GMS – Thailand and China. It starts in Nanning, Guangxi and travels along two different routes – one inland, one coastal – to Hanoi. From there it doubles back into China to reach Kunming in Yunnan. Turning south again, the route diverges at Jinghong with one leg passing through Myanmar, the other through Laos, to then reconnect in Thailand at Chiang Rai. Chiang Rai is a crossroads, the route splitting again as it continues south along two legs to Bangkok. The one major infrastructure project that remains for the NSEC is a bridge across the Mekong River on the border of Laos and Thailand. Completion is targeted for 2012. Until then, crossing is by ferry.

2.8 The EWEC stretches from the Andaman Sea on the western shore of the GMS to the South China Sea on the east, traversing less populated, more backward areas of Myanmar, Thailand, Laos, and Vietnam. Major port infrastructure investment will be needed at the western terminus of Mawlamyine to make this city a transport destination of any significance. The eastern terminus of Danang too is in need of port expansion to accommodate corridor development. Much of the promise of the EWEC rests on development of intersecting north-south arteries to create nodal points along the way. One such artery would link Hanoi to Bangkok via Vientiane, and by extension Nanning to Singapore using existing highways.

2.9 The SEC is actually a network of routes fanning out from Bangkok across Cambodia to arrive at three far-flung destinations along the Vietnamese coast. A link road through Cambodia and Laos connects the system to the EWEC, and Bangkok itself serves as the connecting point to the NSEC. The SEC is at an earlier stage of infrastructure development – both hard and soft – than the other two corridors.

2.10 Although linkages between major urban centers with high per capita incomes respond most readily to corridor development initiatives, the mission of poverty alleviation is best served when corridor activity is brought to more remote areas and when border areas in particular are integrated. This is where

not only the hard infrastructure of roads and bridges but the soft infrastructure of stakeholder engagement becomes vital.

GMS Institutional Development

3.1 Through the 1990s, the GMS found its sense of direction only slowly, with the Asian Financial Crisis exerting a major disruptive force. Activity consisted mainly of piecemeal infrastructure projects managed at national level. Not until 2002 did the first GMS Leaders' Summit take place and a more holistic vision of the subregion begin to take shape. Still, subsequent progress in institutional development at the subregional level has been very gradual.

3.2 A timetable of GMS institutional milestones, culminating in activation of the Economic Corridors Forum, is compiled in Table 2. Three Leaders' Summits have now taken place. The most recent, held in March 2008 in Vientiane, endorsed the ECF which then convened its inaugural meeting in June. This meeting established the ECF as "the main advocate and promoter of economic corridor development in the GMS."[3]

TABLE 2 CHRONICLE OF GMS INSTITUTIONAL DEVELOPMENTS

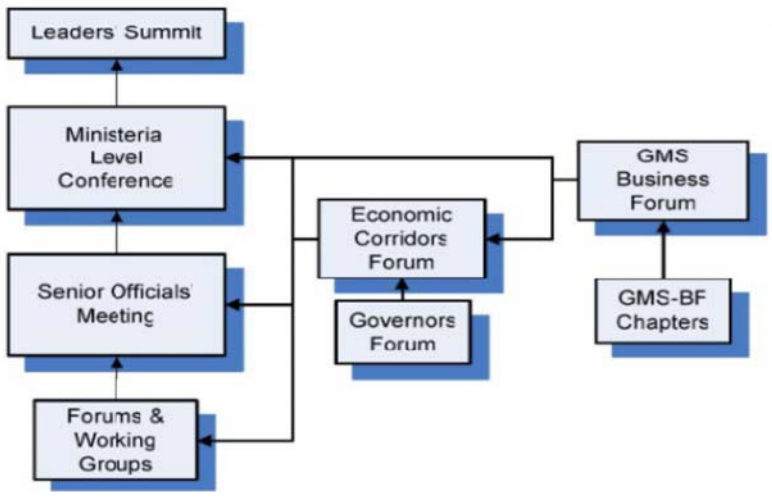
1992	GMS Economic Cooperation Program established under sponsorship of the Asian Development Bank
2000	GMS Business Forum launched
2002, November Phnom Penh	First Leaders' Summit • endorsed 10-Year GMS Strategic Framework
2003	Cross-Border Transport Agreement ratified by all GMS countries
2005, July Kunming	Second Leaders' Summit • adopted Strategic Framework for Action on Trade Facilitation and Investment in the GMS
2008, March Vientiane	Third Leaders' Summit • adopted Vientiane Plan of Action for GMS Development, 2008-2012 • endorsed Economic Corridors Forum
2008, June Kunming	Economic Corridors Forum Inaugural Meeting • adopted "Kunming Consensus" • convened Governors' Forum inaugural meeting
2009, September Phnom Penh	Economic Corridors Forum Second Meeting

[3] "Kunming Consensus", Joint Ministerial Statement, Yunnan Province, PRC, 6 June 2008, http://www.adb.org/Documents/Events/Mekong/Proceedings/ecf-KunmingConsensus.pdf, accessed 28 August 2009.

3.3 The ECF is embedded in an organizational structure delineated in Figure 2. GMS affairs in general are managed under a hierarchical system topped by the Leaders' Summits which are convened only rarely to set forth major new initiatives. At the next rung are Ministerial Level Conferences, numbering 15 to date, and below that are the still more frequent Senior Officials' Meetings. Ongoing work is handled by Forums and Working Groups covering the nine areas of transport; energy; telecommunications; agriculture; environment; tourism; human resource development; transport and trade facilitation; and investment.

3.4 The ECF relates laterally to this organizational hierarchy. It provides input to the Ministerial Conference via the Senior Officials' Meetings and engages directly with the Forums and Working Groups, bridging their sectoral domains to bring a comprehensive aspect to corridor development. The Ministerial Conference has ultimate decision-making authority over ECF recommendations and activities. Within the ECF, the Governors' Forum brings together leaders from provinces along the corridors to strengthen cooperation at the local level. And representing the private sector, the GMS Business Forum, with both a subregional organization and local chapters, works closely with the ECF.

FIGURE 2 GMS ORGANIZATIONAL STRUCTURE



Source: Asian Development Bank.

3.5 The ECF is meant to bring together the diverse community of stakeholders in corridor development and provide them with a platform for interaction and a channel for communication with high level authorities. Its engagement of the private sector and local officials constitutes a major advance for the GMS. International development organizations are also being welcomed into the fold.

3.6 The inaugural meeting of the ECF in June 2008 was largely pro forma, the "Kunming Consensus" to establish the ECF's existence being endorsed along with the terms of reference for both the ECF and the Governors' Forum. Permitting of more spontaneity and debate was a "Roundtable Meeting for Border Area Development" where a representative from the United Nations Development Program presented a study on cross-border economic zones along the China-Vietnam border.

3.7 The second meeting of the ECF set for September 2009 should move the discussion into high gear. Chambers of Commerce and more particularly representatives from the freight forwarding and insurance industries have been invited for a discussion of logistics issues. A focal point of the agenda is a review of the Strategy and Action Plans (SAPs) that are at various stages of development for the three corridors. The role of local government in implementing the SAPs is highlighted for attention. Another featured event is a series of presentations on corridor development experiences from elsewhere around the world aimed at providing lessons for the GMS.

3.8 The Governors' Forum meets in conjunction with, and is an integral part of, the ECF. The Forum brings together provincial leaders from along the three corridors, creating particularly valuable opportunities for interaction between counterparts from interfacing provinces along national borders. On the Chinese side, only two provincial level entities are involved – Yunnan and Guangxi with populations of 45 and 47 million respectively. Governors from other GMS member states are far more numerous and represent provinces that are smaller by orders of magnitude. For example, populations of the three

provinces of Laos that border China range from 140,000 to 250,000 while Shan State in Myanmar has a population of about 4 million.

3.9 The GMS Business Forum (GMS-BF) is an important supporting player in the ECF. Founded jointly by the Chambers of Commerce of the six GMS member countries in 2000, the organization is finally coming into its own having accepted corporate members as of 2006. The secretariat office is located in Vientiane with satellite offices posted in Bangkok, Hanoi, and Beijing. Funding is partially through corporate membership fees, with ADB and UNESCAP also contributing support. Services provided by GMS-BF include management of a web-based business directory; operation of a web-based marketplace to facilitate business dealings; counseling of small and medium-sized enterprises; facilitation of trade financing; and organization of conferences.

3.10 Another important supporting player is the Asian Development Bank. ADB has taken on the role of secretariat for the GMS as well as "roles of a facilitator, financier, honest broker, and technical adviser" according to the ADB *Regional Cooperation Assistance Program Evaluation* (RCAPE) put out in 2008.[4] The ECF itself is no less dependent on ADB than the GMS as a whole for these functions. A 1999 internal evaluation stressed the need for ADB to devise an exit strategy and prepare the GMS for a day when it would stand on its own. Nearly a decade later, the RCAPE of 2008 found that "the member countries have over the years been increasingly active in decision making" and again recommended that the GMS be weaned from continued reliance on ADB. The response from the GMS Senior Officials' Meeting was not encouraging, however. The determination was that for GMS member countries to take over management themselves "may not be feasible" and that

[4] ADB (2008) *Regional Cooperation Assistance Program Evaluation (RCAPE)*, http://www.adb.org/Documents/CAPES/REG/CAP-REG-2008-73.pdf, accessed 28 August 2009.

instead ADB should "further strengthen and deepen its involvement in the Program."[5]

3.11 The difference in size and institutional capacity among GMS members makes the ADB a welcome balancing force. In the eyes of its smaller neighbors, China can appear overwhelming as an economic partner. The country's substantial financial contribution to GMS integration is more readily absorbed when filtered through ADB auspices. ADB support for economic corridor development has been made available in the form of a Regional Technical Assistance grant for $1.2 million.[6] Of this, $800,000 was indirectly supplied by China through its PRC Regional Cooperation and Poverty Reduction Fund established with the ADB in 2005 in the amount of $20 million.[7] China has further offered to serve as the permanent host of ECF meetings bearing all expenses. Other GMS members, however, have preferred to see the venue for these meetings rotate.

3.12 The Economic Corridors Forum, with its embedded Governors' Forum and a coordinating GMS Business Forum, has been structured so as to actively engage provincial governments and the private sector in corridor development, with international organizations given a place as well. This is a step toward building the supportive institutional framework that is increasingly important as the GMS shifts from constructing transport corridors to bringing these steel and asphalt shells to life. Central governments and their subregional assemblages have functioned adequately for the infrastructure phase. The next phase is more complex and will involve the contributions of vastly more players to succeed.

---

[5] Senior Officials' Meeting, 26-27 November 2008, Summary of Proceedings, http://www.adb.org/documents/events/2008/Senior-Officials-Meeting/SOM-Summary-of-Proceedings.pdf, accessed 28 August 2009.

[6] Funding was in two tranches: the first in 2006 for $600,000 (http://www.adb.org/Projects/project.asp?id=39084, accessed 11 September 2009); the second in 2008 for another $600,000 (http://pid.adb.org/pid/TaView.htm?projNo=39084&seqNo= 02&typeCd=2, accessed 11 September 2009).

[7] Details of the PRC Regional Cooperation and Poverty Reduction Fund are given at http://www.adb.org/RCFund/default.asp, accessed 11 September 2009.

Lessons from Cross-Border Corridors Elsewhere around the World

4.1 To get an idea how economic corridors elsewhere in the world have fared and what lessons might be on offer for the GMS, ADB commissioned a case study report.[8] Three cases were selected based on criteria of relevance to the GMS, in particular, that the corridors connect countries of differing levels of economic development and that they be well-defined at subnational level. The cases reviewed are the Ports-to-Plains Trade Corridor of North America; the Sijori Growth Triangle of Southeast Asia; and Pan-European Corridor VIII of South Eastern Europe.

4.2 The three corridors are a study in contrasts. The Ports-to-Plains Trade Corridor was born of a grassroots effort in a small town in west Texas. As it enters its second decade, the Corridor Coalition continues to build its membership and expand its reach across the US and into Canada and Mexico. The Sijori Growth Triangle was launched by top leaders, yet it never became institutionalized. Twenty years after its mooting, a former Singapore Ambassador to Malaysia describes the Triangle as "a good idea whose time has not come."[9] Finally, Pan-European Corridor VIII has benefited from substantial external resources directed at bridging the gap between the European Union and emerging market economies of the former East Bloc. For the corridor to take hold, however, will require the emerging market economies themselves to develop cooperative arrangements at the transnational level and mobilize community involvement at the local level.

4.3 As different as the three experiences are, common lessons emerge as to what works and what does not. First, a sound regulatory framework must be put into place to govern the movement of goods and people across borders and the capacity must be developed to implement and enforce it. This is largely a top-down process. The GMS has made progress in creating a suitable regulatory

[8] Calla Wiemer, "Three Cases of Cross-Border Corridor Development with Lessons for the Greater Mekong Subregion", prepared for the Asian Development Bank, 15 July 2009.

[9] K Kesavapany, Director, Institute for Southeast Asian Studies, Singapore, e-mail correspondence, 20 March 2009.

framework; indeed all six member countries ratified a Cross-Border Transport Agreement (CBTA) in 2003. In the years since, the Agreement has been fleshed out with a series of annexes and protocols. Finally in June 2009, the efforts came to fruition with the opening of borders along the EWEC to the flow-through of commercial vehicles through Thailand, Laos, and Vietnam.[10]

4.4 A second lesson from the study of other corridor experiences is that grassroots mobilization is vital. Both public and private sectors – local communities and small businesses – must actively participate and engage across borders. The Ports-to-Plains Corridor exemplifies how this can work, from its inception having been a grassroots endeavor launched by a small-town city council and chamber of commerce. Pan-European Corridor VIII demonstrates, however, that achieving grassroots mobilization can be a struggle when traditions of local organizing are lacking as in the southern Balkans. The best efforts of the Italian government and expatriate business leaders to engeander grassroots capabilities in this region have as yet met with disappointing results. In the Sijori case as well, grassroots involvement has been lacking. In its absence, an enclave model of development has left local communities on the fringes, impoverished and disenchanted.

4.5 The GMS faces the potential danger of the corridors taking the form of expressways that by-pass border communities and other backward areas. With implementation of the CBTA finally at hand, the way is open for truck traffic to speed across borders and past the small villages that line the way. Access to a transport corridor creates economic opportunities for these formerly isolated areas, but without local organizing and community based approaches to development these opportunities will be little realized.

4.6 At a high level, the ECF brings together the right constituencies for corridor development encompassing public and private sectors, and even civil society. But public sector representation is at national and provincial levels where on

[10] ADB News Release, "Old Southeast Asia Combat Zone Gives Way to Burgeoning Trade Corridor", 11 June 2009, http://www.adb.org/Media/Articles/2009/12909-southeast-asian-transports-developments/, accessed 28 August 2009.

the Chinese side the latter involves jurisdictions of some 40 million people; the private sector is captured by national chambers of commerce and large corporations; and civil society is exclusive to international development organizations. Going forward, this whole structure will need to be replicated at the local level. On the Chinese side that means prefectures and even counties getting involved, and more generally among the countries of the GMS small businesses, local chambers of commerce, and domestic NGOs coming into play.

4.7 Authorities in GMS countries hold strong reservations about decentralizing corridor development and relinquishing tight control over borders. Real concerns about the drug trade, communicable diseases, trafficking in women and children, and criminal gang activity cannot be downplayed. Developing the institutions to manage open borders and extract the mutual gains from economic integration is a process. Of note, in the assessment of the ADB, for the GMS "progress, while slow, has been positive."[11]

[11] ADB (2008), RCAPE, op. cit., p. ii.