

# **Study to Realign the AMBDC with the ASEAN Economic Community**

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## **EXECUTIVE SUMMARY**

1. Given that the AMBDC was established in 1996 at a time when Vietnam just joined ASEAN (in 1995) and Cambodia, Lao PDR and Myanmar were not yet members of ASEAN, there is a need to fine-tune this framework so that it can be realigned with ASEAN's current efforts to realise the AEC by 2015.
2. While there are clearly many points of realignment with the AEC objectives and goals, emphasis should be given to narrowing the economic development gap that exists in the region, specifically between the economies of the ASEAN-6 and the CLMV. ASEAN policy-makers will have to seriously address the wide economic development divide that exists in the region given that the AEC deadline is only six years away. If this economic divide is not effectively addressed, a "two-tier" ASEAN would clearly slow down the integration process and undermine the AEC initiative.
3. The Initiative for ASEAN Integration (IAI) is the main mechanism in addressing the development gap in ASEAN. However, we propose that the AMBDC framework focuses on overseeing the economic element of the IAI. It will also give the implementation of AMBDC projects more focus and coherence. Meanwhile, given the short-timeline to realize the AEC, AMBDC projects will have to be designed to be more time-sensitive and consistent with the relevant actions plans in the AEC Blueprint.
4. We suggest three areas of development cooperation which should be given priority: i) Trade and Investment; ii) Human Resource Development (HRD); and iii) Transport Infrastructure. These three priority areas are the most crucial in supporting AEC objectives over the next six years to 2015 because we believe they are the most effective in accelerating the economic integration process in ASEAN. Nonetheless, an annual assessment of progress made in these three priority areas should be undertaken to determine if new areas of development cooperation could be added at a later stage.
5. Currently, the AMBDC institutional process runs on a parallel track with that of the ASEAN Economic Ministers (AEM). Instead of running on a parallel track, we propose that the AMBDC should be more ASEAN-driven and therefore should report to the AEM.

This realignment of the institutional process between AMBDC and AEM will better synchronize the economic integration activities under the AEC.

6. We propose that AMBDC working groups be formed for the suggested priority areas of trade and investment, HRD and transport infrastructure which are then mainstreamed into the AEM process through the ASEAN sectoral committees and working groups.
7. Given that both the AMBDC and the IAI have similar objectives which is to narrow the development gap, there is a need to streamline the programs and projects to avoid overlap or duplication of activities. The IAI aims to take a more holistic approach to NDG as the IAI process will be aligned with to the three pillars of the ASEAN Community i.e. the AEC, the ASEAN Security Community (ASC) and the ASEAN Socio-Cultural Community (ASCC).
8. NDG efforts under the AMBDC framework will have a more economic focus due to its realignment with the AEC. Therefore, the AMBDC Steering Committee should be given the responsibility to oversee and implement the economic component of the IAI. This leaves the IAI Task Force to take care of implementing NDG activities that support the security and social-cultural components of the IAI. It also provides a clear division of labor on the implementation of NDG activities between the AMBDC Steering Committee and the IAI Task Force.
9. AMBDC could be made into a more interactive development forum which enhances coordination and collaboration among development partners operating in the subregion. The forum could be designed as a “development fair” where development partners can meet, discuss and exchange views. In this context, there is a need for better coordination and convergence of priorities and objectives among the various NDG initiatives such as the IAI, AMBDC and other subregional initiatives such as the GMS program. This would give development partners a better idea of the areas in which they can contribute in providing technical and capacity building assistance
10. On a project to project basis, the AMBDC Steering Committee could collaborate with other relevant ASEAN ministries and agencies such as labour and transport. Besides the IAI Unit, the AMBDC Steering Committee should also work closer with the Bureau of

Economic Integration of the ASEAN Secretariat especially in designing economic strategies to narrow the development gap. This would also allow AMBDC projects to be more in-line with relevant action plans under the AEC Blueprint.

11. The AMBDC Steering Committee could be given the following responsibilities:
  - Spotlight duplications/overlapping of programs and projects to streamline NDG activities;
  - Ensure that programs and projects are mainstreamed into the national development plans and implementation of the CLMV countries; and
  - Design economic strategies to narrow the development gap that are in-line with AEC objectives and goals (by collaborating with the ASEAN Secretariat).
  
12. We suggest that the IAI Unit should have the primary responsibility of monitoring the progress of the implementation of AMBDC's programs and projects. The IAI Unit will also work closely with the AMBDC Steering Committee in effectively spotlighting areas overlapping NDG activities. However, more resources will have to be allocated to the IAI Unit to support the AMBDC Steering Committee.
  
13. We propose a comprehensive evaluation exercise be carried out to determine the outcomes and impact of existing NDG projects on the economic development of the CLMV and to identify areas where development gaps remain. Furthermore, a more nuanced approach is also needed in identifying the development needs of the CLMV as they may vary from one country to another.
  
14. We suggest that an AMBDC Development Fund should be established to finance AMBDC projects. New innovative funding mechanism should be explored for this development fund e.g. through a share of sales or excise tax, airport taxes or visa fees.
  
15. Private sector participation can play an important role in the economic development of the CLMV. But the investment needs of the CLMV - such as physical infrastructure - have to be translated into commercially-viable projects for the private investors to take interest. In this regard, there has to be higher quality information on investment opportunities in the CLMV made available to the public.

## ABBREVIATIONS

ACMECS	Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy
ADB	Asian Development Bank
AEC	ASEAN Economic Community
AEM	ASEAN Economic Ministers
AFTA	ASEAN Free Trade Area
AMBDC	ASEAN-Mekong Basin Development Cooperation
AMEICC	AEM-METI Economic and Industrial Cooperation Committee
AMM	ASEAN Ministers Meeting
ASEAN	Association of Southeast Asian Nations
ASC	ASEAN Security Community
ASCC	ASEAN Socio-Cultural Community
BOT	Build-Operate-Transfer
CLMV	Cambodia, Lao PDR, Myanmar and Vietnam
EPG	Eminent Persons Group
ESCAP	Economic and Social Commission for Asia and the Pacific
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
GMS	Greater Mekong Subregion
HLTF	High Level Task Force
HRD	Human Resource Development
IAI	Initiative for ASEAN Integration
NDG	Narrowing the Development Gap
NTB	Non-Tariff Barrier
PPP	Private-Public Partnership
SEOM	Senior Economic Officials Ministers
SOM	Senior Officials Meeting
SKRL	Singapore-Kunming Rail Link
UNDP	United Nations Development Programme
VAP	Vientiane Action Programme

## **Study to Realign the AMBDC with the ASEAN Economic Community**

### **1. Introduction**

The Mekong Subregion comprising of five ASEAN countries - Cambodia, Lao PDR, Myanmar, Vietnam and Thailand and the Southwestern part of China - is a dynamic area for growth and development over the past two decades. The region includes the Lancang-Mekong River, which has approximately 70 million inhabitants within its boundaries. Since 1950, several multilateral frameworks were formed to support the region. In 1951, the then Economic Commission for Asia and the Far East conceived a grand scheme for Mekong development which eventually led to the establishment of the Mekong Committee in 1957 to investigate the lower part of the river basin. After that due to many years (1960s to 1980s) of wars and conflicts, implementation of the various plans was ceased. Large-scale, region-wide schemes were again revived in the early 1990s with the end of hostilities in the region. Against this backdrop, the Greater Mekong Subregional Economic Cooperation Program (GMS program) was established in 1992 with the aim of strengthening economic linkages between member countries. This was soon followed by others sub-regional frameworks for development cooperation such as the ASEAN-Mekong Basin Development Cooperation.

Given that most of the countries in this sub-region are from Southeast Asia, the AMBDC forum was established by ASEAN in 1996. AMBDC aimed to promote economic integration of non-member countries into ASEAN; assist in the construction of physical linkages among countries; and promote fairer utilization of limited resources. As Cambodia, Lao PDR, Myanmar and Vietnam joined the ASEAN during the second-half of the 1990s, it enabled ASEAN to forge closer economic cooperation. However, the economic divide among ASEAN countries would also become wider with the inclusion of these less developed economies.

AMBDC was also established at a time when Vietnam just joined ASEAN (in 1995) and Cambodia, Lao PDR and Myanmar were not yet members of ASEAN. Hence, there is a need to re-examine how this framework for development cooperation can be realigned with ASEAN's current efforts to achieve deeper economic integration and to realize the ASEAN Economic Community by 2015.

## 1.1 Objective of the Study

The main purpose of this study is to realign the ASEAN-Mekong Basin Development Cooperation (AMBDC) with the ASEAN Economic Community (AEC). This is to maximize the benefits from AMBDC cooperation, support the regional integration efforts under the AEC that has to be achieved by 2015. The study is structured as follows:

- Section 2 gives a brief overview of development cooperation in the Mekong Basin subregion particularly involving ASEAN countries.
- Section 3 examines the progress of AMBDC's projects and activities including its flagship project: the Singapore – Kunming Rail Link (SKRL).
- Section 4 examines ASEAN's efforts to implement the AEC Blueprint, particularly its goal of achieving equitable economic development. This section also discusses one of the most important challenges of ASEAN economic integration which is to narrow the economic development gap and ASEAN's main mechanism to address this economic divide i.e. the Initiative for ASEAN Integration (IAI).
- Points of alignment between the AMBDC and the AEC are highlighted in Section 5. The section also examines how AMBDC can support ASEAN's efforts to realize the AEC by 2015.
- Section 6 provides a new framework for AMBDC that will realign its institutional process with that of the AEC. It provides a detailed discussion on how the institutional processes of the AMBDC are realigned with the ASEAN Economic Ministers – the main ASEAN body overseeing the implementation of the AEC Blueprint. This section also provides an approach to streamline the activities of the AMBDC and the IAI so that overlapping/duplication of activities can be avoided or minimised.
- Section 7 discusses alternative approaches to resource mobilization for the funding of AMBDC projects and programs.
- Section 8 suggests a number of pilot projects (analytical studies and surveys) under the new AMBDC framework.

## **2. Brief Overview of the Greater Mekong Sub-Region**

Development cooperation in the Greater Mekong Sub-Region (GMS) involves five ASEAN countries (Cambodia, the Lao PDR, Myanmar, Thailand, Vietnam), and China (the provinces of Yunnan and Guangxi). The GMS program, which can be traced back to the 1957 establishment of the Mekong Committee, started with the market integration process and concentrated on the provision of physical cross-border infrastructure. The role that transport and communication infrastructure plays in driving economic integration should not be under-estimated (Mussa, 2000). Other than physical infrastructure, the GMS program also supports a range of measures to facilitate trade and investment in the region. These include improving procedures and transparency for customs clearance and enhancing technical skills to improve the application of various regulatory systems.

Menon (2005) found that the economic impact of the GMS program is already being reflected in trade and investment statistics of countries in the sub-region. Cross-border trade among the six GMS economies has increased sharply. For example, Thailand's imports from its three neighboring countries, Lao PDR, Myanmar, and Cambodia has been increasing by an annual compound growth rate of almost 10% since 2000. More than two thirds of Lao PDR's trade is with other GMS economies; more than a third is with Myanmar, and about a fourth is with Cambodia. In 2004, these three countries conducted more than 40% of their trade with each other. This is despite the fact that a significant portion of trade among the GMS economies is not recorded. A similar trend could be observed for foreign direct investments (FDI) as well. Net FDI flows from the six GMS economies to Cambodia, Lao PDR, Myanmar, Thailand, and Viet Nam combined rose sharply from \$130 million in 2000 to about \$210 million in 2002, and is on an upward growth trend. Like in the more industrialized ASEAN countries of Singapore, Malaysia and Thailand, this pattern suggests that a trade-investment nexus is already emerging whereby trade encourages investment and vice-versa - and this is a virtuous circle that links back to economic growth and development (Athukorala and Menon, 1997).

However, while trade and investment between GMS countries has shown an increasing trend lately, the intra-regional trade volume in this sub-region still represents only a small proportion of total trade compared with the rest of the world (i.e., GMS intraregional

trade is around 12% of the total trade). This clearly indicates that economic integration at the sub-regional level in the GMS is still at an early stage.

Given that increasingly dynamic economic activities were happening in this part of the Southeast Asian sub-region, the AMBDC initiative was discussed for the first time during the 5th ASEAN Summit in Bangkok in 1995. This is to enhance cooperation and encourage the dialogue process among ASEAN countries for the economic development of the Mekong Basin countries. Appendix A gives ADB's GMS Program links with the AMBDC projects.

### **3. Current AMBDC Projects**

Realising the great economic potential of the Mekong Basin, the Ministers of Brunei, Cambodia, China, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam, as the core group, agreed to establish the AMBDC framework on 17 June 1996. The AMBDC basic framework has the following objectives<sup>1</sup>:

- i) Enhance economically sound and sustainable development of the Mekong Basin.
- ii) Encourage a process of dialogue and common project identification which can result in firm economic partnerships for mutual benefit.
- iii) Strengthen the interconnections and economic linkages between the ASEAN member countries and the Mekong riparian countries.

The whole AMBDC cooperation was governed by the principle that it is supportive of and complementary to national development plans of countries in the Mekong Basin. It will result in direct benefits to people in the Mekong Basin in the form rising standards of living and will ensure stable and sustainable development. It was expected to complement cooperation initiatives undertaken by the Mekong River Commission, donor countries and other multilateral agencies. The cooperation was open for participation of private sector, all interested countries as well as regional and international development, financial aid agencies and institutions.

AMBDC projects tend to be large-scale projects and cover eight areas of development cooperation, namely, infrastructure (transport, telecommunications, irrigation and energy), trade & investment, agriculture, forestry & minerals, industry, tourism, human resource development and Science & Technology. Since AMBDC was established in 1996,

nine Ministerial Meetings has been held. According to the last Ministerial Meeting held on 27 August 2007, in Manila, Philippines, there are currently 45 projects at various stages of implementation with 14 projects still requiring funding of US\$48 million. The summary of AMBDC projects is given in Table 1. The aggregated estimated cost of the 44 projects (excluding the Singapore Kunming Rail Link Project) amounts to about US\$55.7 million.

**Table 1: Summary of AMBDC Projects**

COUNTRY	No of Projects	COST (US\$)	FUNDING STATUS	
			Country Contribution (US\$)	Funding Expected from Donors (US\$)
1. ASEAN Secretariat	3 <sup>2</sup>	1,558,038	-	1,558,038
2. Lao PDR	11	25,491,600	1,400,000	24,091,600
3. Malaysia	3	785,113	629,800 <sup>3</sup>	155,313 <sup>4</sup>
4. Myanmar	1	17,931,000	-	17,931,000
5. Singapore	25	7,040,660	7,040,660	-
6. Viet Nam	2	2,934,500	500,000	2,434,500
<b>Total</b>	<b>45</b>	<b>55,740,911<sup>5</sup></b>	<b>9,570,460</b>	<b>46,170,451</b>

*Source: Report of the 9th Ministerial Meeting of the AMBDC*

A summary of the projects that have secured firm funding (ongoing, planning underway and completed) is shown in Appendix B. So far 31 projects have secured funding amounting to about US\$14.7 million and are in various stages of implementation. Of the 31 projects, 25 are HRD projects by Singapore, some of which have been completed and others are ongoing.

For the remaining 14 projects, an overview has been presented in Appendix C. These projects need funding support of about US\$48 million. Out of this amount, the expected funding from donors for projects initiated by Lao PDR is US\$24 million (or 54.2% of funding required) followed by Myanmar (US\$17.9 million or 40.3 %) and Vietnam (US\$2.4 million or 5.5%).

### 3.1 Singapore – Kunming Rail Link (SKRL) Project

Singapore – Kunming Rail Link (also known as the Pan-Asian railway network) project was proposed at the Fifth ASEAN Summit in December 1995. It is one of the flagship projects under AMBDC framework. This railway linkage forms a crucial linkage in the “North-South Economic Corridor” by connecting Singapore-Malaysia-Thailand-Cambodia-Vietnam and southern China. It would also complement other infrastructure projects, such as the various transport corridors under the GMS, Asian Highway routes and other existing transport networks, thereby creating an integrated multi-modal transport network in the entire of South East Asia and the Asia region.

An SKRL feasibility study was completed in August 1999, examining six alternative routes to link Singapore to Kunming, China. All six routes have a common sector from Singapore to Bangkok via Kuala Lumpur.

**Table 2: SKRL Route Alternatives**

Study Route	Cost (US\$ bn)	Length (km)	Missing Links	Countries Involved
1	1.8	5382	431	Cambodia, Lao PDR, Vietnam
2	6.0	4559	1127	Myanmar, Thailand, China
3	1.1	4259	531	Lao PDR, China
4	5.7	4164	1300	Lao PDR, China
5	1.1	4481	616	Lao PDR, Vietnam, Thailand
6	1.1	4225	589	Lao PDR, Vietnam, Thailand

*Source: ASEAN Secretariat, Fact Sheet 2007/AEC/010*

The ASEAN Transport Ministers for its high social and economic impact selected route 1, which connects Cambodia, Lao PDR, Viet Nam and China. It was estimated to cost around US\$1.8 billion<sup>6</sup> to construct. Its 5,382 km (or 3,000 miles) length includes the missing links from Poipet to Sisophon (Cambodia), and from Phnom Penh (Cambodia) to Loc Ninh (border town between Cambodia and Vietnam) and Ho Chi Minh City (Vietnam), as well as the spur lines from Ho Chi Minh City to Vung Tau (Vietnam) and from Vientiane (Lao PDR)

to Vung Anh (Vietnam). Routes 2 to 6 will be considered for implementation in national rail plans or other railway network projects, such as the Trans-Asian Railway.

Since the completion of the feasibility study, the SKRL project has been hindered by a lack of funds and other technical issues in connecting the rail to major towns across the region. Nonetheless, ASEAN aims to have this project completed by 2015. A summary of the 3 major missing rail links are provided in Table 3.

**Table 3: Summary of the Missing Rail Links in the SKRL Project**

Missing Links	Length (km)	Estimated Cost (US \$ million)	Status
Poipet to Sisophon	45	73	Malaysia committed 106 km of railtracks while the ADB would be financing the construction work
Phnom Penh to Loc Ninh	225	500	feasibility study, funded and conducted by China, had been completed
Loc Ninh and Ho Chi Minh City	145	250	Viet Nam completed a feasibility study

*Source: various newswires*

The SKRL project has seen steady progress (as of September 2007):

- Cambodia's construction of the missing links, guided by the Inter-Ministerial Committee for SKRL, is on schedule.
- Viet Nam completed a feasibility study on the Ho Chi Minh City–Loc Ninh missing link and is negotiating with Cambodia for the location of rail connection points. A feasibility study for a spur link from Vung Ang to Tan Ap-Mu Gia for further linking with Vientiane is also being undertaken.
- In December 2006, the ADB approved a US\$60 million loan to Viet Nam to assist in the rehabilitation of the Hanoi–Lao Cai section and a US\$42 million loan to Cambodia to assist in the rehabilitation of Cambodia railways that include sections of the SKRL route. The ADB is also undertaking a detailed design study on the Phnom Penh–Loc Ninh sector with financing from China.

- China has made progress on the Chinese sectors of the SKRL, including the Yuxi-Hekou route (Eastern portion), the Yuxi-Mohan (Middle portion) and the Dali-Ruili (Western portion). Construction of the Yuxi-Mengzi railway is scheduled to be completed in 2009. The feasibility study of the Dali-Ruili railway has been completed.
- The Republic of Korea has completed a US\$1.2 million feasibility study on the SKRL portion linking Bangkok to Yangon.

According to the last MM held on 27 August 2007, in Manila, Philippines, for the SKRL project, about US\$ 4.7 million has been secured as grants and another US\$ 40 million for Cambodia in the form of soft loan by Asian Development Bank (ADB) in 2006. This does not include the SKRL feasibility study conducted by Malaysia from March 1997 to August 1999 at a cost of US\$533,000. The details are given in Table 4.

**Table 4: SKRL – Funding Secured**

COUNTRY	ASSISTANCE	AMOUNT (US\$)	
		Loan	Grant
1. PR China	Preliminary Study for the Phnom Penh – Loc Ninh link	-	1,000,000
2. ADB	Rehabilitation of Cambodia Railway Network in 2006	40,000,000	-
3. Malaysia	Donation of used rail tracks	-	2,500,000
4. ROK	Feasibility study of missing links and spurs lines.	-	1,200,000
	<b>Total</b>	<b>40,000,000</b>	<b>4,700,000</b>

*Source: Report of the 9th MM of the AMBDC*

#### **4. The AEC Goal of Equitable Economic Development**

The idea of an AEC was first proposed by Singaporean Prime Minister Goh Chok Tong at the 8th ASEAN Summit in Phnom Penh in 2002. In line with the ASEAN Vision 2020, the AEC is envisaged to become a single market and production base with free flow of goods, services, investments, capital and skilled labour.<sup>7</sup> Hence, at the 2003 ASEAN Summit in Bali, Indonesia, ASEAN leaders agreed to embark on a bold project to integrate their economies by 2020 and establish an ASEAN Economic Community. At the ASEAN Summit

held in Cebu, Philippines in January 2007, the deadline to realise the AEC was brought forward by five years to 2015.<sup>8</sup>

To achieve this, a number of initiatives were introduced, which eventually led to the adoption of the AEC Blueprint at the November 2007 ASEAN Summit in Singapore. The AEC Blueprint essentially lays out a roadmap to accelerate economic integration and realise the AEC by 2015. This includes action plans, targets and timelines for implementing economic integration measures to move the AEC process forward. The main highlights of the AEC Blueprint are depicted in Figure 1.

**Figure 1: Main Highlights from the AEC Blueprint**
**I. Single Market and Production Base**

5 core elements:

	Liberalisation	Facilitation
Free flow of goods	Tariff and NTB elimination Synchronised external tariff alignment	Customs integration Standard and technical barriers to trade
Free flow of services	Full market access and national treatment Remove substantially all restrictions on trade in services	MRAs on professional services; professional exchange
Free flow of investment	All industries and services incidental to these industries to ASEAN investors	Transparency; streamlined procedures, avoidance of double taxation; joint promotion
Free flow of capital	Relax capital control measures on intra-ASEAN portfolio investment	Harmonise capital market standards; facilitate market driven efforts to establish exchange and debt market linkages
Free flow of skilled labour	Remove discrimination on employment	Harmonisation of standards in education and training;MRA on vocational training

**Priority Integration Sectors (PIS)**

- Conduct a bi-annual review to monitor the status, progress and effectiveness of the PIS roadmaps to ensure timely implementation
- Identify sector-specific projects or initiatives through regular dialogues or consultation with stakeholders, particularly the private sector.

**Food, Agriculture and Forestry**

- Enhance trade and long-term competitiveness of ASEAN food, agriculture and forestry products
- Promote cooperation with international, regional organizations and private sector

**II. Competitive Economic Region**

- Develop a competition policy
- Strengthen consumer protection
- Regional cooperation in Intellectual Property Rights (IPRs)
- Regional cooperation in infrastructure development
- Complete network of bilateral agreements on avoidance of double taxation
- Promote electronic commerce (e-commerce)

**III. Equitable Economic Development**

- Accelerate the development of small and medium sized enterprises (SMEs)
- Enhance the Initiative for ASEAN Integration (IAI) to narrow the development gap

**IV. Integration into the Global Economy**

- Achieve a coherent approach towards external economic relations, including its negotiations for FTAs and comprehensive economic partnerships (CEP)
- Enhance participation in global supply networks

What seems clear from this is that economic integration could potentially provide the means to revitalize ASEAN's economies. Given that ASEAN countries are at very different levels of economic development, this economic diversity can be a comparative advantage as it maximizes the complementarities among its member countries and encourages the development of regional production networks. An integrated market and production base would clearly boost intra-regional trade and investment flows across the region while ASEAN's consumer market of almost 600 billion people would be a lucrative place for companies to set-up shop and do business. In a recent EIU report, ASEAN governments need to respond to rising competition from China by improving education, infrastructure and the business climate<sup>9</sup>.

However, one of the greatest challenges to ASEAN economic integration lies in addressing the development divide among its member countries. As mentioned earlier, ASEAN is made up of member countries at very different stages of economic development. This development gap can not only be manifested in terms of differences in GDP per capita (income per capita) but also in terms of gaps in other human development indicators such as incidence of poverty, life expectancy, literacy, public expenditure in health and education. This divide is particularly pronounced in terms of income per capita between the ASEAN-6 countries and the less developed newer members i.e. Cambodia, Lao PDR, Myanmar and Vietnam (CLMV). In current prices, income per capita of the ASEAN-6 is 5 times larger than that of the CLMV. Appendix D, E and F provide economic, human development and poverty indicators that underscore this wide economic and human development divide within ASEAN.

There are concerns that deeper economic integration could lead to huge social costs incurred by the CLMV countries due to structural adjustments and the risk of falling into a low-cost labour trap (where there is little incentive for domestic industries to move up the value chain) (Vo, 2005). Appropriate resources should therefore be allocated to these countries to ensure the full participation of all member countries in the integration process. This would include financial and technical assistance, transfer of technology, education, training facilities and other capacity building activities.

In the Eminent Persons Group (EPG)'s report on the ASEAN Charter, it was noted that ASEAN's ability to achieve its long-term economic goals would depend on how the

development gap is addressed today. New strategies to narrow the development gap should therefore be focused on ensuring the less developed member countries will be in a position to participate and fully benefit from the economic integration process. ASEAN policy-makers should therefore focus on narrowing the economic divide given the short timeline to realize the AEC. Otherwise, a “two-tier” ASEAN that divides the more developed ASEAN-6 countries and the CLMV countries will surely slowdown the economic integration process and undermine the AEC project.

#### ***4.1 The Initiative for ASEAN Integration***

In this regard, ASEAN launched in 2001 the Initiative for ASEAN Integration (IAI) to address the development divide. Over the years, the IAI has evolved from a platform of mutual assistance between the ASEAN-6 and the CLMV to an expanded framework to involve Dialogue Partners and development agencies. Under this policy framework, the IAI Work Plan, a six-year Plan (July 2002-June 2008) currently has over a hundred projects in four areas, namely, infrastructure, human resource development, information and communications technology and regional economic integration. The IAI Work Plan also involves the development of legal, institutional and regulatory frameworks and the building of technical capabilities and capacities of the CLMV.

ASEAN leaders at the 2004 Vientiane Summit recognized that deeper economic integration has to be accompanied by technical and development cooperation to address the development gap among member countries. In this regard, the VAP highlighted the strategic importance of narrowing the development gap to realize the ASEAN Community. As part of the strategies to narrow the development gap, the VAP recommends that the IAI be strengthened to address the needs of the CLMV countries and sub-regional areas (such as BIMP-EAGA and IMT-GT). This would include:

- broadening the scope of the IAI CLMV Work Plan as well as developing new modalities for resource mobilization
- strengthening the framework for sub-regional economic cooperation
- maximize the benefits of economic integration and ensure that these benefits are equitably distributed to all member countries

- minimize the cost of economic integration in terms of economic dislocation and disruption arising from market adjustments
- assist less developed member countries in removing tariff, non-tariff and physical barriers to the free flow of goods and services

#### ***4.2 Effectiveness of AMBDC in supporting Economic Cooperation***

For more than a decade now, the AMBDC served as an important framework for economic cooperation in advancing the development and prosperity of the Mekong riparian states. AMBDC focused on:

- advancing ASEAN integration (highway, rail and energy networks) by strengthening the interconnections and economic linkages between the ASEAN member countries and the Mekong riparian countries
- enhancing the competitiveness of the region and opening up trade, investment, services, tourism, etc, to promote an economically sound and sustainable development of the Mekong Basin.

As mentioned earlier, ASEAN embarked on the AEC project to create a single market and production base by 2015. By this time, ASEAN is to become an economically integrated region where there is a free flow of goods, services and investments, a freer flow of capital and labour, equitable economic development and reduced poverty and socio-economic disparities. However, ASEAN currently faces formidable economic challenges viz., the development gap between its more developed nation (ASEAN-6) and the newer members - CLMV. One key development gap lies in the infrastructure sector, in terms of both hard and soft infrastructure.

The transport, electric power, water supply and sanitation infrastructure in the CLMV countries is characterized by various structural weaknesses - low responsiveness to users, organizational inefficiencies, insufficient budgetary funding, heavy dependence on Official Development Assistance (ODAs), lack of FDI, and lack of environmental awareness. Besides, the CLMV countries also lack the ‘soft’ infrastructure (Information and Communication Technology, ICT systems), which are important prerequisites for the next stage of development (Salazar and Basu Das, 2007). Thus huge present and future needs for

infrastructure exist in the CLMV group and the costs of underinvestment in critical infrastructure can be enormous.

Given this, at the sub-regional level, activities such as the AMBDC and others are needed to assist the integration of the four CLMV Countries. Infrastructure development is the critical element to improve access, efficiency and quality of transport and energy infrastructure networks of CLMV in order to enhance their productivity and hence regional economic competitiveness.

Further, a well developed physical infrastructure will lead to increased economic activities in terms of trade and investment, tourism etc. Under this, AMBDC is again effective for providing “soft” infrastructure that would serve as a prerequisite for the next stage of development. AMBDC framework include training to build up capacity, assistance in policy development, conducting feasibility studies etc, to facilitate the development of legal, institutional and regulatory frameworks in the CLMV countries.

Given that AMBDC involves all 10 ASEAN countries and one important Dialogue Partner (China), it entails for greater economic cooperation. The projects and activities on infrastructure linkages and capacity building is expected to lead to better integration. In addition, while the newer members will benefit from uplifting their economies, developed members will also enjoy the economies of scale. Overall, AMBDC, which requires deeper cooperation, will play a critical role in building ASEAN’s competitiveness.

## **5. Points of Realignment with the AEC**

To reiterate the main objective, the AEC was primarily designed to enhance competitiveness for economic growth and development by achieving a higher level of economic integration. The VAP 2004-2010 states that the overall strategy for realizing the AEC involves deepening and broadening economic integration in the product and factor markets, and accelerating the integration process towards creating a single market and production base. Similarly, AMBDC was set up to mainly foster economically sound and sustainable development of the Mekong Basin through the establishment of economic partnerships and linkages between the riparian and non-riparian members of the forum (Sunchindah, 2005).

Looking more closely, one can argue that the overall strategic objectives of both initiatives are the same i.e. that all member countries of ASEAN will be in a position to enjoy the economic benefits of economic integration. While AEC is envisioned on a much larger scale involving 10 ASEAN countries, AMBDC was designed for the economic development of Mekong Basin countries, supported mainly by the more developed ASEAN members.

However, AMBDC faces a number of challenges to achieve its objectives. For instance, most AMBDC projects lack funding and other resources due to insufficient dissemination of information and lack of public awareness of investment opportunities. There were also frequent incidences duplication of activities/projects and lack of coordination with other sub-regional and regional initiatives. Given these problems, ASEAN leaders agreed to bring the AMBDC into the ASEAN and the ASEAN Plus Three main forum of regional cooperation.

ASEAN also approved of the realignment of the AMBDC process with AEC. In this context, there are points of realignment of the AMBDC with the AEC which are highlighted below:

- Although AMBDC is a sub-regional activity, its impact will be felt regionally. Regional public goods such as physical infrastructure, although built for the sub-region, will also improve the physical connectivity in the ASEAN region as a whole. As transportation linkages are strengthened, it is expected to open up opportunities in trade, investment, services, finance and tourism. In turn, this is likely to strengthen the soft infrastructure through the acceleration of domestic reforms such as legal, financial and regulatory reforms. Trade and investment facilitation measures that are nondiscriminatory and WTO-consistent will likely be promoted, which will strengthen the ASEAN Free Trade Area (AFTA) framework at the regional level (Menon, 2007). Thus not only will the AMBDC be consistent with AEC, but the former can also be a catalyst for economic liberalization and reforms for the latter.
- AMBDC involves countries that are very strategically located between the fast rising economies of China and India. This provides opportunities for forging greater economic

integration beyond the ASEAN region and offers enormous opportunities to boost trade and investment. Recognizing this, AMBDC can be a potential building block to support greater economic regionalism and to enhance ASEAN's overall economic competitiveness.

- The basic framework of the AMBDC essentially allows the ASEAN-6 and Dialogue Partners to assist the CLMV in achieving their economic development goals and to narrow the economic development divide that exist in the region. Hence, the AMBDC could potentially be an effective framework to narrow the economic development gap in the region which would contribute to achieving ASEAN's vision of achieving equitable economic development in the region.

What seems clear is that AMBDC can potentially support ASEAN's efforts to realize the AEC by 2015. It is involved in projects and activities which are in line with AEC's four pillars which are:

- (i) a single market and production base;
- (ii) a highly competitive economic region;
- (iii) a region of equitable economic development; and
- (iv) a region fully integrated into the global economy.

AEC's idea of a single market and production base is about providing consumers with an enlarged integrated market and producers with an expanded economic space in which they can undertake their production activities irrespective of national boundaries. This is to generate economies of scale and scope and hence greater efficiency and productivity. Under AMBDC framework, the SKRL is expected to be fully operational by 2015, coinciding with the establishment of the AEC. The rail link will facilitate rapid and smooth movement of people and goods among ASEAN countries, and therefore enhance the economic connectivity throughout the region.

AEC emphasizes the need on developing an appropriate competition policy regime as healthy competition in the region ensures a competitive economic region. Regarding this, infrastructure development is a key catalyst. AMBDC projects involve both "hardware" and "software" infrastructure in the CLMV. It handles projects on technical assistance, grants-in-

aid, preferential market access and other privileges. These regional public goods are offered with the objective of strengthening human and institutional capacity in the less developed members. And ultimately, these regional public goods are provided by AMBDC to ensure that they benefit the economic well-being of all ASEAN members.

ASEAN is currently engaged in negotiating a number of “ASEAN+1” free trade agreements (FTAs), including the ASEAN-China FTA which is potentially the world’s largest free trade pact. The region hopes to have a fully operational free trade agreement with China by 2010. Under this proposed ASEAN-China FTA, the Mekong Basin development features prominently as one of the key areas of cooperation between the two sides. This is in line with AMBDC’s strategy for a cooperative framework involving all ASEAN countries and China and serves as a building block to achieving the ASEAN-China FTA.

#### **6. Fine-tuning the AMBDC Framework to Realign with the AEC**

Given that the AMBDC was established in 1996 at a time when Vietnam just joined ASEAN (in 1995) and Cambodia, Lao PDR and Myanmar were not yet members of ASEAN, there is a need to fine-tune this framework so that it can be realigned with ASEAN’s current efforts to achieve a higher level of economic integration and to realise the AEC by 2015. Initiatives under the AMBDC are also seen to be progressing too slowly and perceived to be overtaken by other more dynamic sub-regional initiatives such as the GMS Program, the Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy (ACMECS) and AEM-METI Economic and Industrial Cooperation Committee (AMEICC) West-East Corridor. (See Appendix A and G.)

While there are clearly many points of realignment with all 4 AEC pillars as highlighted earlier, emphasis should be given to narrowing the economic development divide that exists in the region, specifically between the economies of the ASEAN-6 and the CLMV. Given that the AEC deadline of 2015 is only six years away, ASEAN policy-makers will have to seriously address the development divide if economic integration is to succeed. If this economic divide is not effectively addressed, a “two-tier” ASEAN would clearly slow down the integration process and undermine the AEC initiative. What seems clear here is that narrowing the development gap (NDG) poses the greatest challenge for the AEC.

Therefore, this study recommends that the approach in realigning the AMBDC with the AEC be focused on narrowing the development gap between the economies of the ASEAN-6 and the CLMV. Narrowing the economic development gap within ASEAN is one of the main goals set out in the ASEAN Vision 2020, which envisages ASEAN to be a stable, prosperous and highly competitive economic region where there is equitable economic development and reduced poverty and socio-economic disparities. In line with the Vision 2020, the Bali Concord II further elaborated that the ASEAN Community is made up of three pillars: the ASEAN Security Community (ASC), the ASEAN Socio-Cultural Community (ASCC) and the AEC<sup>10</sup>.

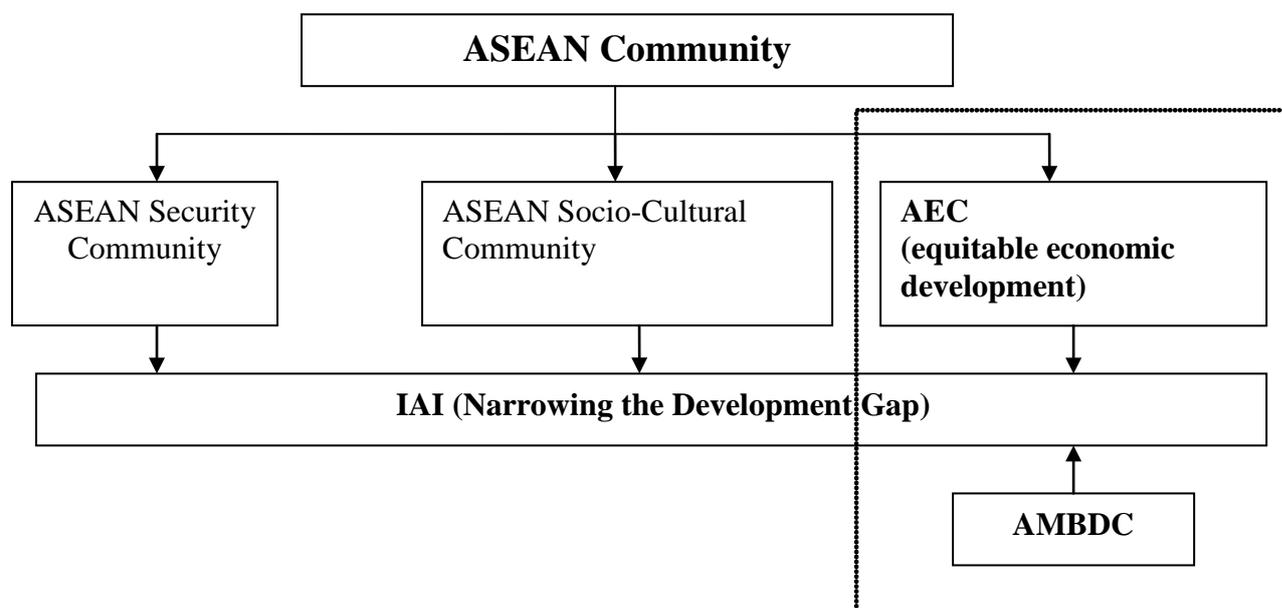
With regards to achieving equitable economic development, the IAI will be the main mechanism to narrow the development gap in ASEAN. The IAI takes a holistic approach to NDG i.e. the IAI framework is based on the three pillars of the ASEAN Community (this is elaborated further in section 6.6).

We propose that the realigned AMBDC framework focuses on overseeing the economic component of the IAI. Besides providing a clear division of labour among relevant ASEAN ministries, it will also give the implementation of AMBDC projects more focus and coherence (see Figure 2). Meanwhile, given the short-timeline to realize the AEC, AMBDC projects will have to be designed to be more time-sensitive and consistent with the relevant actions plans in the AEC Blueprint.

Although the AMBDC is an ASEAN initiative, it provides an opportunity for ASEAN's Dialogue Partners to be stakeholders in the AEC process. Given that membership is open to ASEAN's Dialogue Partners such as China, the AMBDC has the strategic advantage of integrating the CLMV not only with the more developed ASEAN-6 but also to the wider global economy. For example, the AMBDC can play an important role in supporting the ASEAN-China FTA process.

However, in fine-tuning the AMBDC framework, it is important to keep in mind the need to streamline approaches and delineate program responsibilities given the many regional and sub-regional initiatives that often have similar or overlapping objectives, strategies and action plans.

**Figure 2: Fine-Tuning the AMBDC Framework**



### 6.1 NDG Concepts

Before realigning the institutional process, it is important to note that there are two important NDG concepts that underpin the economic integration of the CLMV<sup>11</sup>.

The first concept is that accelerating the process of economic development to narrow the development divide refers to building or strengthening capacity to manage various dimensions of a country’s development agenda such as policy formulation, physical planning (e.g. infrastructure), managing the reform process, implementation of programs and projects so that the country can achieve the goals of development at a faster pace and therefore catch up with the rest of ASEAN. It is premised on the fact that each of the CLMV countries has defined its own development agenda but needs assistance to build or strengthen the capacity to manage the development processes effectively. The extent to which the development process in individual CLMV countries can be accelerated and enhanced will contribute to the shared ASEAN goal of establishing the AEC by 2015.

The second concepts of bringing the CLMV more fully into the ASEAN process of regional economic integration as envisaged in the AEC pertains to a narrower, more focused set of activities or measures to reduce cross-border barriers - both physical and non-physical - so that goods, capital and services can move freely and seamlessly across ASEAN, making it eventually a single market and an integrated production base that is ultimately linked to the global economy.

These two concepts underpinning integration are not mutually exclusive and are very much inter-linked. But not all activities covered under the first concept are part of the second one. For instance, expanding educational services to rural areas is clearly covered under the first idea but would not fall under the second. Thus, it is important that the design of the NDG strategy take into account these differences in orientation, with its attendant implications on the approach and mechanisms of implementation. In the AMBDC context, the design of NDG activities will take into account of these two concepts but realignment with the goals of the AEC (the second concept) will be given more emphasis. This will frame the underlying NDG approach in realigning the institutional process of AMBDC with the AEC.

## **6.2 *Priority Areas of Cooperation***

ASEAN will need to build capacity to address the needs of the CLMV in meeting the goals of the AEC. A first step would be to find out the challenges faced the CLMV in implementing the AEC Blueprint. Projects can then be packaged with ASEAN-6, China and other external partners participating at an early stage in its design.

AMBDC can focus on NDG activities that can play a role in accelerating the economic development in the CLMV countries so that they can fully benefit from the AEC process. Although AMBDC has eight main areas of development cooperation, we suggest that three areas of development cooperation should be given priority:

### **i) Trade and Investment**

Trade and investment are the key drivers of economic integration that will enable ASEAN to achieve the AEC's end-goal of creating a single market and production base. However, as discussed earlier, intra-regional trade and investment in the Mekong Basin sub-region is relatively low and indicates that economic integration at the sub-regional level is still at an early stage of development. Trade facilitation and investment

liberalization in the CLMV will really need to be fast-tracked to avoid a “two-tier” ASEAN. This will include identifying the barriers to facilitating freer movement of trade (in goods and services) and investment in the region.

ii) **Human Resource Development**

Given the wide disparity in the level of economic development among ASEAN countries, human resource development should form the core component of NDG activities. In meeting the training needs of the CLMV in capacity building, the 2005 IAI Mid-Term Review found significant shortcomings such as the lack of coordination and duplication of training courses, lack of responsiveness to the differentiated development needs of the CLMV, the suitability of trainers and participants and the level of English proficiency. Better coordination mechanisms as well as a more nuanced approach in identifying of the needs of the CLMV in capacity building would be absolutely crucial to achieve equitable economic development.

iii) **Transport Infrastructure**

The development of transport infrastructure is critical to realize the AEC because it enhances physical connectivity in the region and expedites economic integration. Cross-border infrastructure development, especially transport infrastructure, can enhance economic competitiveness by facilitating greater trade and investment. More importantly, transport infrastructure can significantly narrow the development gap by providing less developed countries, like the CLMV countries, with better access to international and regional markets as well as to regional production networks (Bhattacharyay, 2008).

These three priority areas are the most crucial in supporting AEC objectives over the next six years to 2015 because we believe they are the most effective in accelerating the economic integration process in ASEAN. Nonetheless, an annual assessment of progress made in these three priority areas should be undertaken to determine if new areas of development cooperation could be added at a later stage.

### **6.3 Realigning the Institutional Process of AMBDC with AEM**

Currently, the AMBDC institutional process runs on a parallel track with that of the ASEAN Economic Ministers (AEM). The AMBDC Ministerial Meeting is normally held

back to back with the ASEAN Economic Ministers (AEM) Meeting while the AMBDC Steering Committee which comprises mainly of senior economic/trade officials have their meetings back to back with the Senior Economic Officials Meeting (SEOM).

Instead of running on a parallel track, we propose that the AMBDC should be more ASEAN-driven and therefore should report to the AEM. This realignment of the institutional process between AMBDC and AEM will better synchronize the economic integration activities under the AEC<sup>12</sup> (see Figure 3). Furthermore, AMBDC will provide more effective implementation of economic NDG activities of the IAI and maximize the synergistic benefits between the two institutional frameworks.

#### **6.4 AEC Institutional Process**

Relevant ASEAN ministerial bodies, assisted by the ASEAN Secretariat, are involved in the implementation and monitoring of AEC commitments under their purview. However, it is the AEM as the Ministers-in-Charge of Economic Integration in the Council of the ASEAN Economic Community that takes the main responsibility for the overall implementation of the AEC Blueprint (AEC Blueprint, 20 November 2007). The Council of the AEC meets twice a year and is supported by SEOM which meet between council meetings. The ASEAN Secretariat (Bureau of Economic Integration and Finance) is responsible for reviewing and monitoring compliance of the implementation of the AEC Blueprint.

In terms of the implementation process of the AEC Blueprint, the High Level Task Force for ASEAN Economic Integration (HLTF) provides the strategic inputs to the AEM on issues related to the implementation of the Blueprint. The HLTF also has regular consultations with the various sectoral bodies in economic and functional cooperation to discuss and elicit feedback on the implementation process. ASEAN sectors for economic cooperation would include trade (AFTA), investment, transport, telecommunication, energy, tourism and finance. Each sector would have a hierarchy of committees from ministerial, senior officials to working groups.

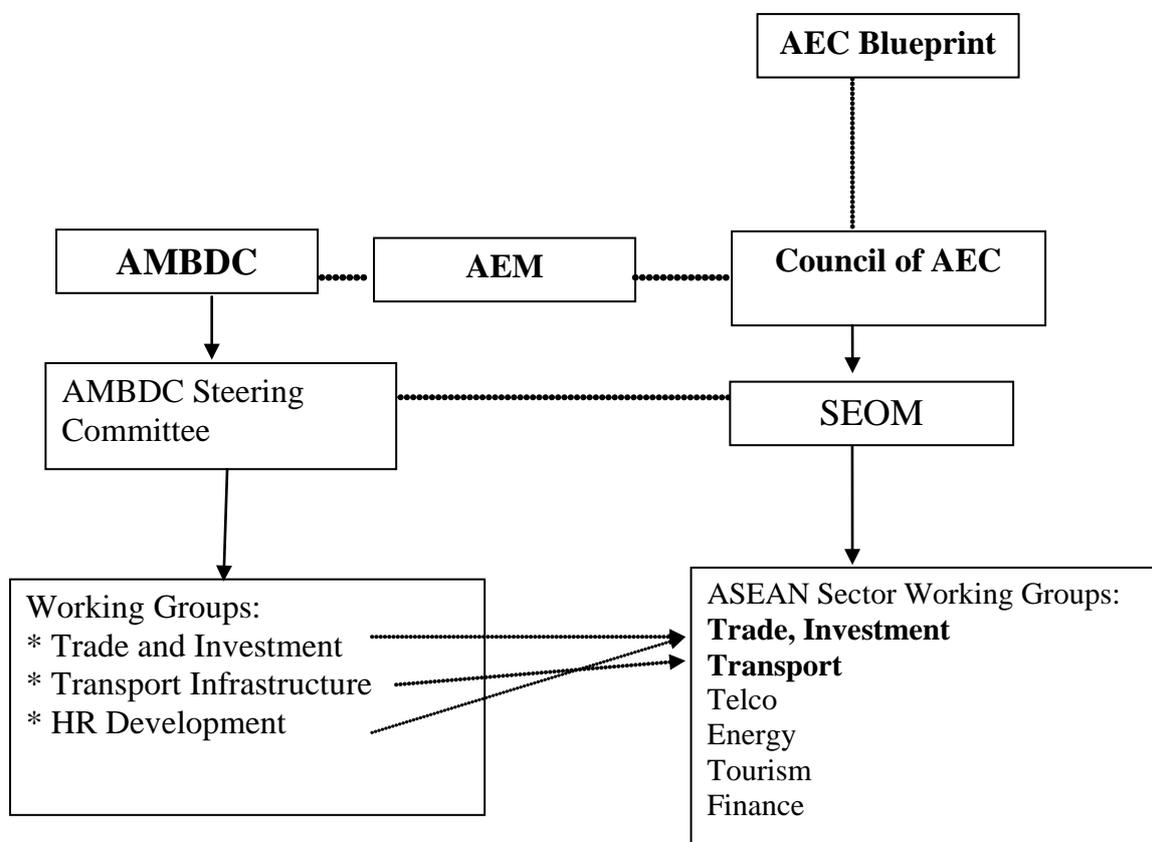
***Mainstreaming AMBDC Working Groups into the AEM process***

We propose that AMBDC working groups be formed for the suggested priority areas of trade and investment, HRD and transport infrastructure which are then mainstreamed into the AEM process through the ASEAN sectoral committees and working groups.

The HRD working group will need to work closely with the IAI Unit to identify key focus areas that meet the CLMV needs in training and capacity building. We believe that formulating training and human capacity programs that facilitates greater trade and investment integration should be given priority (see Figure 3).

By taking an NDG approach, AMBDC working groups should be aligned to AEM working groups that address the development needs of the CLMV. This would also mean that the AEC will now include AMBDC projects in its development agenda. (This is already happening with the SKRL project as special working groups have already been mainstreamed into the AEM institutional process).

**Figure 3: Mainstreaming AMBDC into the AEM Institutional Process**



### 6.6 Streamlining the Activities of the AMBDC and the IAI

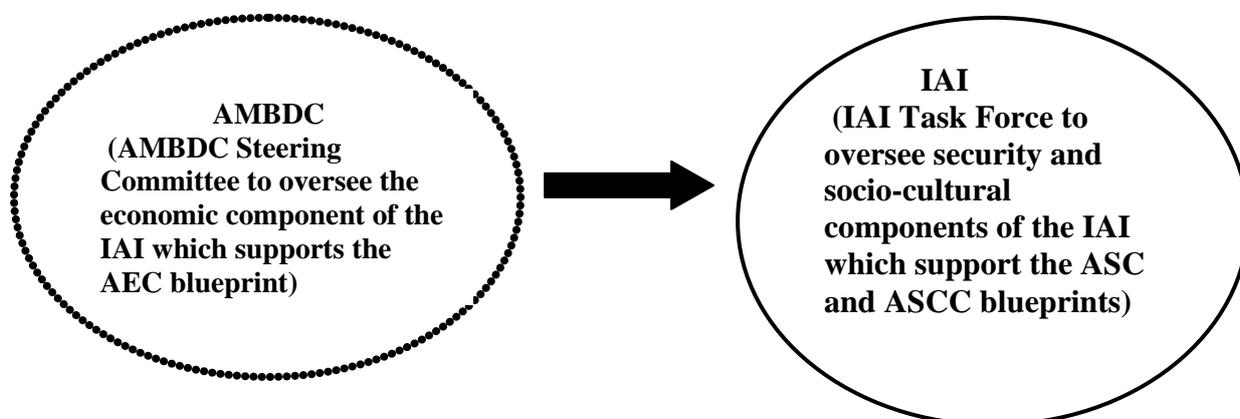
Given that both the AMBDC and the IAI have similar objectives which is to narrow the development gap, there is a need to streamline the programs and projects to avoid or minimise overlap/duplication of activities.

The IAI will remain the main NDG mechanism for the ASEAN-6 to assist the CLMV. The IAI aims to take a more holistic approach to NDG as the IAI process will be aligned with the three pillars of the ASEAN Community i.e. AEC, ASC and ASCC. Hence, the IAI

Work Plan for the 2008-2015 will be formulated based on key program areas in each of the three ASEAN Community blueprints.

Meanwhile, the NDG efforts under the AMBDC framework will have a more economic focus due to its realignment with the AEC. Therefore, the AMBDC Steering Committee should be given the responsibility to oversee and implement the economic component of the IAI. This leaves the IAI Task Force to take care of implementing NDG activities that support the security and social-cultural components of the IAI. This provides a clear division of labor on the implementation of NDG activities between the AMBDC Steering Committee and the IAI Task Force. (See figure 4.)

**Figure 4: Streamlining NDG Activities**



One approach to streamline activities by making the AMBDC a more interactive development forum for ASEAN to engage with its Dialogue Partners, international organizations and development agencies as well as bilateral donors (such as Japan for the West-East Corridor) particularly in funding large-scale costly projects such as physical infrastructure. This would improve coordination and monitoring as well as to reduce the degree of overlapping NDG activities. The AMBDC could also play a role, on an ad hoc basis, as a “pressure group” to enable the AEM to push through NDG projects that would not necessarily be undertaken.

On a project to project basis, the AMBDC Steering Committee could also collaborate with other relevant ASEAN ministries and agencies such as labour and transport. Besides the

IAI Unit, the AMBDC Steering Committee should also work closer with the Bureau of Economic Integration of the ASEAN Secretariat especially in designing economic strategies to narrow the development gap. This would also allow AMBDC projects to be more in-line with relevant action plans under the AEC Blueprint.

Therefore, the AMBDC Steering Committee could be given the following responsibilities:

- Spotlight duplications/overlapping of programs and projects to streamline NDG activities.
- Ensure that programs and projects are mainstreamed into the national development plans and implementation of the CLMV.
- Design economic strategies to narrow the development gap that are in-line with AEC objectives and goals (by collaborating with the ASEAN Secretariat).

#### **6.7 Program and Project Formulation**

AMBDC programs and projects will be formulated based areas identified as key priority areas that address the needs of the CLMV in NDG and are consistent with AEC goals. The focus on equitable economic development and NDG (the third pillar of the AEC), will ensure clear direction and coherence, and form the basis by which to assess progress made in AMBDC projects.

The AMBDC Steering Committee with feedback and consultation from AMBDC working groups that have been mainstreamed with the AEC process will play a key role in program and project formulation. Programs and projects that have been approved by the AMBDC Steering Committee will then seek the endorsement of the AMBDC Ministers and AEM.

#### **6.8 Monitoring and Evaluation**

Given the IAI is the main ASEAN mechanism to support and meet the CLMV's development needs, we suggest that the IAI Unit should have the primary responsibility of monitoring the progress of the implementation of AMBDC's programs and projects. The IAI Unit will also work with the AMBDC Steering Committee in effectively spotlighting areas of

duplication or overlapping of programs and projects not just between AMBDC and the IAI but with other regional initiatives such as the GMS program, ACMECS and AMIECC.

In the regard, we propose a comprehensive evaluation exercise be carried out to determine the outcomes and impact of existing NDG projects on the economic development of the CLMV and to identify areas where development gaps remain. Furthermore, a more nuanced approach is also needed in identifying the development needs of the CLMV as they may vary from one country to another. For example, the development needs of Cambodia may be very different from Vietnam.

In terms of coordination within the ASEAN Secretariat organizational structure, the IAI Unit will also need to work closely with the Bureau of Economic Integration as the latter is the main bureau that monitors and ensure compliance on AEC commitments. The increased responsibilities will mean that ASEAN would need to devote more resources to strengthen the capacity of the IAI Unit.

#### **6.9. *Engaging Dialogue and Development Partners***

The new approach envisages a more active engagement of donors and other development partners in different aspects of the AMBDC. Donor institutions are a rich source of knowledge and development experience that could be brought to bear on sector analysis, program formulation, project design, execution and implementation, and even in impact monitoring and evaluation. Engaging donors at the early stages of the analytical work and program/project design is a factor that can influence funding decisions for projects at a later stage with a greater chance of having donor priorities aligned with the priorities set by AMBDC.

By making AMBDC a more interactive development forum, as mentioned earlier, it will enhance coordination and collaboration among development partners operating in the sub-region. The forum could be designed as a “development fair” where development partners can meet, discuss and exchange views. In this context, there is a need for better coordination and convergence of priorities and objectives among the various NDG initiatives such as the IAI, AMBDC and other sub-regional initiatives such as the GMS program. This

would give development partners a better idea of the areas in which they can contribute in providing technical and capacity building assistance<sup>13</sup>.

While identifying AMBDC projects solely on the basis of funding availability should be avoided, the harsh reality is that most of the projects under the AMBDC especially in transport infrastructure will need to depend on external assistance. For this reason, a tight focus on cost-efficient and affordable projects and activities would be essential. While most of these projects will likely be in the software aspect of NDG, they nevertheless could play a role in supporting the infrastructure projects (e.g. private-sector outreach activities viz. trade fairs, trade and investment roadshows and marketing and promotion of the SKRL).

In this context, the establishment of an AMBDC Development Fund to fund such projects may be crucial in demonstrating ASEAN's commitment and resolve to underwrite with its own resources, the costs of narrowing the development divide and creating a region of equitable development. New innovative funding mechanism should be explored for this development fund e.g. through a share of sales or excise tax, airport taxes or visa fees. It may also be possible to tap the ASEAN Development Fund for projects particularly in human resource development given that its underpinning objective is to narrow the development gap.

## **7. Alternative Approaches to Resource Mobilization**

As of August 2007, the AMBDC has 45 projects at various stages of implementation with 14 projects still requiring funding of US\$48 million. Resource mobilisation for the implementation of programmes and projects under the AMBDC framework always remains a critical factor. Few possible approaches and initiatives to increase the funding are as follows:

- The AMBDC core group membership could be opened to other interested parties and international organisations to attract more funds and resources for its projects. To start with, the core group could be extended to ASEAN's major Dialogue Partners such as Japan and Korea (both countries already have observer status at AMBDC meetings.)
- Several multilateral agencies - United Nations Development Programme (UNDP), the Asian Development Bank (ADB), and the Economic and Social Commission for Asia and the Pacific (ESCAP) – are also invited to participate as observers in the AMBDC meetings. These international community and international financial institutions should

be encouraged to actively contribute in the implementation of projects under the AMBDC framework.

- Private sector participation can play an important role in the economic development of the CLMV. But the investment needs of the CLMV such as physical infrastructure have to be translated into commercially-viable projects for the private investors to take interest. In this regard, there has to be higher quality information on investment opportunities in the CLMV that are made available to the public. In addition, governments must create an enabling environment that assures investors of predictability, a level playing field, low transaction costs and fair rates of return commensurate with the risks they take.
- Each participant country should focus on national projects related to regional development schemes. This way it can facilitate better information gathering, which is important to attract donors from both within and outside the region.

### **7.1 Private Sector Participation**

Traditionally, in most of the countries, the largest part of the infrastructure finance has been provided by central governments. However, with the growing infrastructure deficits, this model of finance has never been fully satisfactory. With changing technology, growing demand and fierce competition, public ownership, operation and direct ownership are not always felt necessary. It is believed that infrastructure may be provided by the private sector, through which higher efficiency may be achieved.

The role for private sector involvement in ASEAN could be considerable. In the past, public or multilateral agencies provided the bulk of financing for investment with little private involvement. These investments were then left to be operated by the government. However, with the involvement of the private sector, the entrepreneur competes for the right to deliver public goods/services on 15-30 year of lease contracts, which are then regulated by an appointed regulator. Importantly, the private sector is involved in financing as well as operating public services.

Approaches to Private Sector Financing include:

- Private-public partnership (PPP) – PPP describes a government service or private business venture which is funded and operated through a partnership of government and

one or more private sector companies. Prior to the Financial Crisis, Southeast Asia relied heavily upon the private sector for much of infrastructure investment, especially in energy. In ASEAN, the hydropower sector in Lao PDR provides a recent example of private-public partnership.

- **Build-Operate-Transfer:** The most widespread private sector financing method is the Build-Operate-Transfer (BOT) system. The state grants a 15-35 years concession to a private construction and engineering consortium of firms backed by ample financial resources (the contractors). The private firms build the infrastructure project, operate it for the concession period at the end of which they transfer it to the state without compensation. All the income during the operating period goes to the contractors. If the period of concession is sufficiently long - the contractors have an interest to observe high standards of quality in order to minimize maintenance costs.
- The private sector has also begun to tap the international capital market to raise financing for transportation infrastructure projects. An example of this approach is the M2 Motorway in Australia.
- The privatization of utilities has attracted greater attention recently. The privatized companies are expected to operate with greater efficiency and with improved rates of return on capital and many times may provide the service at a lower price.

It is however worth noting that there are some issues related to private sector financing of infrastructure projects. The main ones are: (a) avoidance of monopolistic situations, (b) existence of competition, which requires a minimum set of good operators bidding for contracts, (c) avoidance of negative externalities, (d) tariff controls by means of regulation, (e) protection of vulnerable groups by means of budget subsidies, (f) regulation, ensuring independence and credibility on the part of the regulator.

## **8. Suggested Pilot Projects**

Pilot projects in the three priority areas of cooperation could act as catalysts for further technical and development cooperation. Possible examples of pilot projects – which are essentially analytical studies and surveys - for AMBDC are outlined below.

### ***8.1 Trade and Investment***

- Non-Tariff Barriers (NTBs) continues to be a major impediment for the free flow of goods and services in the region. According to the AEC Blueprint, ASEAN aims to eliminate all NTBs by the latest 2018. Hence, a study of NTBs encountered by the CLMV-based companies when trading in ASEAN-6 countries could be a useful project to support AEC initiatives.
- Foreign direct investments (FDI) have been an important drive of economic growth for ASEAN over the past three decades. While FDI inflows to the region have traditionally been derived from the more developed countries such as the US, Japan and Europe, there is an increasing trend of intra-regional foreign investment. In this context, conducting a survey to identify the opportunities and challenges in attracting FDI from ASEAN-6 companies to the CLMV would be a worthwhile project.

### ***8.2 Human Resource Development***

- Given the tight time to achieve the AEC, a training needs assessment should be undertaken quickly to clearly determine the key focus areas for capacity building in the CLMV. For example, a special training program on trade facilitation could be packaged for the CLMV countries considering that they form a contiguous land mass where cross-border trade facilitation offers a unique opportunity for regional cooperation distinct from that with other ASEAN members.

### ***8.3 Transport Infrastructure***

- Transport infrastructure plays a critical role in enhancing economic connectivity in the region and therefore facilitates deeper economic integration. While the SKRL continues to be one of AMBDC flagship projects, other projects in the area of transport infrastructure could be explored. For example, strengthening the infrastructure of river links in the GMS and its implications on cross-border trade could be a possible project. Given the high financial costs of such hardware infrastructure projects (beyond what most ASEAN-6 countries can afford), there will be a need to pro-actively engage development partners in these projects at an early stage. In this case, the ADB could play an important role by providing valuable technical assistance drawing from its successful experience in developing transport infrastructure throughout the Greater Mekong subregion.

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**Appendix A**  
**ADB's GMS Program Links with the**  
**ASEAN-Mekong Basin Development Cooperation (AMBDC)**  
**(as of July 2008)**

<b>AMBDC Proposed Projects</b>	<b>Related GMS Activities</b>
<p>ASEAN Secretariat</p> <p>1. Project Preparation Studies for the ASEAN Highway Network and Inland Freight Development</p> <p>Covers 34 road sections involving 3,192 km in the CLMV countries and Thailand</p>	<p>The GMS Transport Sector Strategy covering the period 2006-2015 (TSS) was finalized at the 10<sup>th</sup> Meeting of the GMS Transport Forum in Vientiane, Lao PDR in March 2006, and was endorsed by all the GMS countries in early 2007. The key thrusts of the TSS include: (i) exploiting synergies in the GMS transport system, (ii) moving toward an open market for transport services, (iii) facilitating economic efficiency to reduce transport costs, (iv) completing the GMS network and improving links with South Asia, and (v) encouraging multi-modalism. The TSS identified more than 150 investment projects in all modes—road, rail, air, inland waterway, and seaports— and about 40 technical assistance projects to address software issues related to the development of an efficient subregional transport network.</p> <p>Some of the sections of the ASEAN Highway Network coincide or interface with the road projects in the TSS, particularly in the CLMV countries (e.g., Siem Reap-Stung Treng in Cambodia, Hanoi-Haiphong in Viet Nam).</p> <p>The projects in the TSS were further prioritized, particularly those for implementation in the medium term (2008-2012), resulting in the GMS Transport Sector Action Plan adopted at the 11<sup>th</sup> Meeting of the STF (STF-11, March 2007, Bangkok) and further endorsed and refined by the Third GMS Leaders' Summit (March 2008, Vientiane) under the Vientiane Plan of Action for GMS Development (2008-2012).</p>
<p>2. Singapore – Kunming Rail Link (SKRL)</p>	<p>ADB is providing assistance under the GMS Program to two railway projects that form part of the SKRL:</p> <p>Rehabilitation of the Railway in Cambodia, with total cost of \$73 million financed by an ADB loan (\$42 million); OPEC Fund for International Development (\$13 million); Malaysia (in kind, \$2.8 million); and Cambodian Government (\$15.2 million).</p> <p>Kunming-Haiphong Transport Corridor: Yen Vien-Lao Cai Railway Upgrading in Viet Nam, with total cost of \$60 million financed by by ADB (loan of \$60 million); France (\$77.5 million); and Vietnamese Government (\$22.5 million).</p>

AMBDC Proposed Projects	Related GMS Activities
	<p>million).</p> <p>The construction of various parts of the SKRL in the PRC are being pursued: On the east route, the construction of Yuxi-Mengzi Link (142km) commenced in 2005 and is scheduled to be completed by 2009. On the middle route, active preparation is now underway with Yuxi-Mohan Section (599km). On the west route, the feasibility study has been conducted with Dali-Ruili Section (336km).</p>
<p>3. ASEAN Interconnection Master Plan Study (ASEAN Power Grid)</p>	<p>An ADB-financed Regional Indicative Master Plan for Power Interconnection and Trade in the GMS was completed in 2002. The ASEAN Secretariat has considered the findings of this Master Plan in the preparation of ASEAN Interconnection Master Plan Study. An updated GMS Master Plan for Power Interconnection and Trade has been developed in 2008, and is currently undergoing refinements.</p> <p>Under GMS energy cooperation, a two-pronged approach has been adopted in developing GMS power interconnection and trade: (i) to develop policies and institutions for cross-border power dispatch and trade; and (ii) to install grid interconnection infrastructure through a building block approach. The Intergovernmental Agreement on Regional Power Trade (IGA), which GMS members signed in November 2002, committed them to develop power trading and to harmonize their power systems with interconnection in mind. GMS members have adopted a step-by-step approach to formulating the Regional Power Trade Operating Agreement (PTOA) to provide the operational guidelines for power trade. The MOU on the Guidelines to Initiate Stage 1 of the PTOA was signed at the Second GMS Summit in Kunming in July 2005. Another MOU on the power trade road map was signed at the Third GMS Summit in Vientiane, Lao PDR in March 2008.</p> <p>A GMS Energy Sector Strategy Study was completed recently, which looked at various feasible energy mix scenarios for the subregion, with the aim of identifying potential areas for expanding GMS cooperation beyond the power sector. With oil prices at an all time high, the study's proposed actions will encourage more optimal use of abundant local energy resources, while reaping greater economic benefits and ensuring more stable and secure supplies.</p>

<b>AMBDC Proposed Projects</b>	<b>Related GMS Activities</b>
<b>People’s Republic of China (PRC)</b>	
4. Train Officials in-charge in Navigation Monitoring and Waterways Inspecting	<p>There is an existing Joint Committee on Coordination of Commercial Navigation (JCCCN) on the Lancang-Mekong River, based on Quadripartite Agreement among PRC, Lao PDR, Myanmar, and Thailand, under which the four countries agree to pursue joint projects on the improvement of inland waterways navigation on the said river system, including capacity building.</p> <p>The GMS Transport Sector Strategy Study identified a technical assistance project on “Upgrading of Inland Water (Passenger and Freight) Transport Industry.” This project is envisaged to promote the training and professional competence of inland water transport operators in GMS countries to, among other things, improve safety (resulting in fewer injuries and loss of cargo) and reduce river pollution. It will identify training requirements and a capacity building program for inland water transport, and enhance the capacity of line agencies, the private sector, and other stakeholders to manage and implement inland water transportation along the Mekong and other rivers in the GMS.</p>
5. Capacity Building for the Yunnan Provincial Environmental Monitoring System	<p>The Second GMS Summit in Kunming in July 2005 endorsed the implementation of the Core Environment Program (CEP) and its flagship component, the Biodiversity Conservation Corridors Initiative (BCI), to address the environmental stresses likely to be brought about by subregional integration, especially corridor development. As designed, the CEP will secure critical ecosystems and environmental quality in economic corridors, ensure investments in key sectors such as energy, transport and tourism are sustainable, conserve biodiversity in protected areas and corridors, integrate environmental considerations in development planning, develop environmental indicators and performance assessment systems and establish a secretariat, the Environment Operations Center (EOC) to provide full-time support to the Working Group on Environment (WGE).</p> <p>The EOC was established in Bangkok in April 2006, and since then the EOC has been guided by coordination arrangements and work plan agreed to by the GMS countries and development partners for implementing the CEP and the BCI. Strategic environmental assessments are currently being undertaken in the tourism, hydropower and transport sectors, while BCI piloting in selected sites are in full swing, with livelihood interventions, participatory</p>

AMBDC Proposed Projects	Related GMS Activities
	<p>planning, ecosystem reforestation and capacity building activities currently underway.</p> <p>At the Third GMS Summit in Vientiane, Lao PDR in March 2008, GMS Leaders reaffirmed their commitment to sound environmental management to achieve sustainable development and poverty reduction. They also called for enhancing climate change assessment and adaptation in the pursuit of development. The 14<sup>th</sup> meeting of the Working Group on Environment (Luang Prabang, July 2008) agreed to steps to come up with a plan by November 2008, to implement these directives during the period 2009-2011.</p>
6. Forest Shelter Construction of Lancang Watershed	No comment
7. Bio-diversity Conservation of Upper Lancang-Mekong, Nu-Salween Basins in Yunnan	<p>As the aim of the BCI is to establish pro-poor sustainable management and use regimes to enhance livelihoods and protect ecosystem services in important biodiversity areas, Phase I (2005-2008, later extended to 2009) involves carrying out pilot projects in selected sites of biodiversity conservation landscapes. Piloting spans the five BCI components, namely: (i) poverty reduction through livelihood interventions; (ii) integrated land use planning and management; (iii) restoring ecosystem connectivity; (iv) capacity building; and (v) sustainable financing. One of the pilot sites covered in Phase I of BCI is the Xishuangbanna Tropical Rainforest Landscape in Southern Yunnan stretching down to the border of Lao PDR.</p>
8. Research Confirm Professional Qualifications Coordinating with ASEAN	No comment.
9. Prevention and Control Infectious Disease, Local Disease in Border Area	<p>An ADB RETA on <i>ICT and HIV/AIDS Preventive Education in Cross-Border Areas of GMS</i> (RETA 6083) was completed with the collaboration of UNESCO and SEAMEO. The project aimed at increasing awareness about risks and threats among ethnic minorities through the development of information and communication technology systems and multimedia materials for HIV/AIDS awareness and prevention in local languages. Innovative approaches to disseminating information on HIV/AIDS that were culturally and linguistically appropriate (e.g., through the popular medium of radio soap operas) were developed. A clearinghouse facility on preventive HIV/AIDS education for the Mekong border</p>

AMBDC Proposed Projects	Related GMS Activities
	<p>region (accessible through the internet) was also created to help consolidate information on formal and non-formal methods of prevention. A geographic information system (GIS) exercise in Thailand led to the production of animated HIV/AIDS distribution maps at the household level. The project also facilitated GMS regional cooperation and dialogue on the subject.</p> <p>Building on the achievements of RETA 6083, another ADB-funded project approved in July 2005 for \$700,000, RETA 6247 on HIV/AIDS Vulnerability and Risk Reduction Among Ethnic Minority Groups through Communication Strategies, was recently completed. The project aimed to reduce the vulnerability to, and risk of, HIV/AIDS among selected minority groups in Cambodia, Lao PDR, Thailand, and Yunnan Province (PRC) through radio dramas developed and broadcast in ethnic languages.</p> <p>A subregional grant project in Cambodia, Lao PDR, and Viet Nam on <i>Communicable Diseases Control in Border Areas</i> is ongoing, approved by ADB in November 2005 for \$30 million. The project aims to strengthen capacities for prevention and control of communicable diseases through strengthened national surveillance and response systems, improved provincial capacities for integrated communicable disease control (CDC) in selected provinces with high proportion of vulnerable groups, and strengthened regional coordination for CDC through capacity building, regional policy dialogue, and support for operations research.</p> <p>RETA 6243 on Strengthening Malaria Control Strategies for Ethnic Minorities in the GMS approved for ADB funding in May 2005 for \$750,000 was recently completed. The project helped build capacity of national malaria institutions to develop malaria control strategies for ethnic minorities, scaling-up malaria control efforts for target populations, and promoting regional collaboration for malaria control.</p> <p>ADB approved in 2006 a grant project on the Prevention and Control of Avian Influenza in Asia and the Pacific Project (AI Project) for \$38 million. The project has 4 components, namely: (i) support for country responses through regional technical agencies, i.e., supporting teams of experts in WHO, FAO, and ASEAN; (ii) regional cooperation and communication, i.e., technical coordination, rapid response and containment capacity with logistics coordinated at regional level, risks</p>

AMBDC Proposed Projects	Related GMS Activities
	<p>communication strategy, including regional workshops and training, regional stockpiling of drugs and supplies; (iii) regional Avian Influenza Emergency Fund, which will be made available to countries or regional organizations as needed, to finance (a) regional stockpile of drugs, supplies and equipment, (b) critical and urgent needs to rapidly contain an AI outbreak; and (c) urgent needs for responding to human influenza outbreaks; and (iv) project management.</p> <p>ADB and the ASEAN Secretariat signed on 12 April 2006 a grant agreement on the ASEAN subproject to prevent and control avian flu under ADB's project on Avian Flu for Asia and the Pacific.</p>
<b>Lao PDR</b>	
10. Human Resources Development on Remote Sensing	No comment.
11. Lower Sebanghieng Multipurpose project (Savannakhet Province)	No comment.
12. Protected Areas and Wildlife Management Strengthening	Covered under the GMS Core Environment Program.
13. Strategic Transport System Programme	<p>In August 2001 ADB published a document entitled, "Transport Sector Development: A Medium-Term Strategy for Lao PDR". A Northern Region Development Strategy for Lao PDR was also completed in March 2004, and includes an infrastructure development strategy for the northern region.</p> <p>A GMS Transport Sector Strategy Study was completed and finalized in March 2006, which is expected to help define the next stage of ADB investments in the GMS countries. (See item 1 above.)</p>
14. Provision and Construction of Transport Facilities	<p>ADB has assisted in the following transport projects in Lao PDR: (i) GMS East-West Economic Corridor (Route 9 – Muang Phin to Lao-Vietnamese border, \$32 million ADB Loan); (ii) GMS Northern Economic Corridor (\$90 million, with cofinancing from the Governments of the PRC and Thailand); (iii) Roads for Rural Development (\$30 million with cofinancing from OPEC Fund and Nordic Development Fund; and (iv) Mekong Tourism Development Project, which has components for upgrading of roads and Louang Namtha airport (\$10.9 million)<sup>14</sup>. An ADB loan to Lao PDR for the Northern GMS Transport Network Improvement Project was approved in September 2007, which will improve the entire length of Route 4, from the junction with Route 13 at Xieng Ngeun, near</p>

AMBDC Proposed Projects	Related GMS Activities
	<p>Luangprabang, to Ban Nakha, including connections to the border with Thailand near Kenthao. A Second Northern GMS Transport Network Improvement Project is included in ADB's indicative lending pipeline for Lao PDR in 2009, as well as a GMS East West Economic Corridor II project in the pipeline for 2010.</p>
<p>15. Institutional Strengthening and Capacity Building</p>	<p>Institutional Strengthening and Capacity Building measures in various aspects of the power and transport sectors have been addressed under a number of ADB-financed TA and loan projects, including for example: (i) strengthening of the social and environmental division of the Department of Roads of the Ministry of Communications, Transport, Post, and Construction (MCTPC), (ii) development of management information systems for MCTPC, (iii) capacity building for border officials on risk management and modern border management for the effective implementation of the GMS Cross-Border Transport Agreement; and (iv) capacity building for Electricité du Laos in project implementation, financial management, social and environmental management, benefits monitoring and evaluation, and reduction in technical losses.</p> <p>Since 2002, ADB has been supporting through regional technical assistance, the Phnom Penh Plan (PPP) for Development Management, which aims to improve the efficiency and effectiveness of development management in the GMS countries by developing a core group of competent and motivated change agents who will manage the complex and challenging GMS development agenda. PPP offers short-term, high-impact learning programs for senior civil servants, thematic and sector-specific courses for middle-level managers, and leadership and general development management courses for future Mekong leaders and policy makers. A total of about 300 GMS civil servants per year are trained under the PPP. PPP, now on its 3<sup>rd</sup> phase, has received generous funding assistance from other development partners including the French, New Zealand, and PRC governments.</p>
<p>16. Urban Transport System (Electric Trolley)</p>	<p>ADB has assisted the following urban development projects in Lao PDR that include improvements to road infrastructure: (i) Secondary Towns Development Project (\$27 million); (ii) Second Vientiane Urban Infrastructure and Services Development Project (\$25 million); and (iii) Small Towns Urban Development (\$16 million).</p>
<p>17. Road Safety Programme</p>	<p>Under ADB RETA 6077 approved in 2002, ADB-ASEAN</p>

AMBDC Proposed Projects	Related GMS Activities
	<p>Workshops on Regional Road Safety Programs were organized to assist key government agencies, private sector, non-government stakeholders to strengthen their institutional capacity to address road safety issues, the development of national road safety action plans, and prepare regional action plan for ASEAN.</p> <p>The ADB loan for Roads for Rural Development approved in June 2004 includes a component for a National Road Safety Program.</p> <p>The TSS as well as the Vientiane Plan of Action (2008-2012) includes a Technical Assistance Project on Cooperation between the ADB-ASEAN Regional Road Safety Program and the PRC, which seeks to strengthen institutional capacity in all GMS countries to address road safety issues.</p>
18. Environment Programme	See item 5 above.
19. Installation of Seismic Station	No comment.
20. Provision of the hydro-meteorological equipment	No specific action proposed by ADB, but this project has been included in the GMS Development Matrix.
21. Flood forecasting & Flood mapping	<p>ADB approved in December 2003 RETA 6149: Support for the Mekong River Commission (MRC) Flood Management and Mitigation Program (FMMP), which will help reduce people's vulnerability to the negative impacts of floods, through delivery of an implementation plan for components 2 (structural measures) and 5 (flood proofing) of MRC's FMMP.</p> <p>ADB's Indicative Rolling Regional Cooperation Operations Business Plan for GMS, 2009-2011, (for ADB Management approval in September 2008) includes a \$2 million project preparatory technical assistance in 2008 for GMS Flood and Drought Risk Management and Mitigation, which will prepare the investment project to reduce vulnerability of flood-affected communities to the negative impacts of floods in Cambodia, Viet Nam, and, possibly, Lao PDR. This could include the following measures: essential social services and infrastructure, coordinated communications network and means of evacuation, flood hazard mapping, improved flood forecasting and flood warning capability, capacity building for emergency-response agencies, etc. Investment project (\$70 million) is programmed for ADB's consideration in 2010.</p>

<b>AMBDC Proposed Projects</b>	<b>Related GMS Activities</b>
22. Provision of a Television Weather Presentation System	No comment.
23. Promotion of exports for GMS Countries	This is an objective that is being pursued in various trade and transport facilitation initiatives under the GMS Program, including the GMS Business Forum. The GMS Business Forum is a grouping of the chambers of commerce and industry of the six GMS countries, and serves as a platform for dialogues between the GMS governments and the private sector. For detail on the GMS BF, visit <a href="http://www.gmsbizforum.com">http://www.gmsbizforum.com</a> .
<b>Malaysia</b>	
24. HRD in Remote Sensing and GIS (Geographic Information System) for the Forestry Personnel of CLMV.	No comment.
25. Training in Groundwater Resources Management for CLMV.	No comment.
<b>Myanmar</b>	
26. Technical Feasibility Study on Rehabilitation and Modernization of Thanbyuzayat – Mawlamyine – Bago - Trunk line; and New Construction for Thanbyuzayat - Three Pagoda Pass (Spur line of recommended Singapore-Kunming Rail Link).	See item 1 above.
<b>Thailand</b>	
27. The Establishment of Public Border Warehouse for Trade Facilitation in the Greater Mekong Subregion	This initiative complements the ongoing GMS efforts to facilitate cross-border transport of goods and people, including single-stop customs inspection procedures at selected border crossings, and transform transport corridors into economic corridors.
28. Regional Food Industry Training Programme	This is one of the priorities of the Working Group on Agriculture (WGA). An ADB RETA on “Strengthening Capacity and Regional Cooperation in Advanced Agricultural Science and Technology in the GMS” approved for ADB funding in December 2004 for \$1 million. It has helped to (i) increase basic awareness about advanced agricultural science and technology and related food safety issues among key stakeholders in the GMS countries; (ii) strengthen technical capacity of relevant GMS institutions; (iii) enhance policy and regulatory

AMBDC Proposed Projects	Related GMS Activities
	frameworks; and (iv) strengthen cooperation on subregional strategies and country action plans on agricultural biotechnology and related intellectual property rights and food safety issues. Under the project, at least 6 training programs were organized and benefited researchers from training institutes and academic institutions of the GMS countries. A regional strategy and action plan that would strengthen subregional cooperation for the safe use of advanced agricultural science and technology, in particular, biotechnology, biosafety, and related food safety in the GMS countries, has been developed and formally adopted by the WGA in December 2007.
29. Training on the Production of Teaching Materials in the area of Technical and Vocational Education	Capacity building for skills exchange and accreditation for GMS labor markets was identified as a priority of the GMS Working Group on Human Resource Development. A TA for Strengthening HRD Cooperation in the GMS is ongoing, with ADB funding, to develop a Strategic Framework and Action Plan for the HRD Sector which is anticipated to include activities related to skills accreditation and standardization of skills competencies in the GMS.
30. Development of Agricultural Staff for Sustainable Agriculture for Lao PDR, Viet Nam, Cambodia and Myanmar	PRC and Thailand have standing offers to co-finance training to build capacity of agriculture technicians of neighboring countries.
<b>Viet Nam</b>	
31. Setting up an ASEAN laboratory working on the foot and mouth disease	<p>The GMS Working Group on Agriculture (WGA) has identified livestock diseases control, focusing on regional approaches and transboundary issues, as one of the priority areas for subregional cooperation, in light of high morbidity and mortality rates of livestock due to transboundary animal diseases (TADs), e.g., classical swine fever, foot-and-mouth disease, and highly pathogenic avian influenza. ADB funded Phase 1 of a RETA on “Transboundary Animal Diseases Control in the GMS” which helped to develop a regional cooperation framework, upgrade regional and national laboratories, and strengthen staff capacity in the participating GMS countries to control TADs. Phase 2, cofinanced by ADB and PRC is now underway.</p> <p>At the Third GMS Summit held in March 2008 in Vientiane, Lao PDR, one of the directives issued by the GMS Leaders in their Joint Summit Declaration concerned the expansion of transboundary animal disease control programmes. This topic is included as a continuing</p>

<b>AMBDC Proposed Projects</b>	<b>Related GMS Activities</b>
	priority under the Core Agriculture Support Program (CASP) for 2006-2010 that was endorsed by the GMS Agriculture Ministers at their meeting in Beijing in April 2007.
32. Programme community based sustainable irrigated agriculture development for poverty alleviation in the remote areas of Mekong Basin	No comment.

*Source: Southeast Asian Department, Asian Development Bank.*

**Appendix B: Summary of AMBDC Projects - Secured Funding**

PROJECT	COUNTRY	DONOR/S	AMOUNT (US\$)	STATUS
1. Project Preparation Studies for the ASEAN Highway Network and Inland Freight Development	ASEAN Secretariat	ROK	1,558,038	Ongoing
2. ASEAN Inter connection Master Plan Study (ASEAN Power Grid)	ASEAN Secretariat	-	N/A	Ongoing
3. Singapore – Kunming Rail Link <sup>15</sup> (For details see Table 3).	ASEAN Secretariat	ROK , PR China, Malaysia, ADB	5,400,000 <sup>16</sup>	Ongoing
4. HRD in Remote Sensing and GIS (Geographic Information System) for the Forestry Personnel of CLMV.	Malaysia	ASEAN Foundation	57,325	Planning underway
5. Training in Groundwater Resources Management for CLMV.	Malaysia	ASEAN Foundation & Malaysian Government	97,988 (AF) 96,800 (Malaysia)	Completed
6. SKRL Feasibility Study (March 1997 – August 1999)	Malaysia	Malaysian Government	533,000 <sup>17</sup>	Completed
7. SCP Training Awards	Singapore	-	1,453,525	Implemented and Ongoing
8. Singapore-ADB Cooperation Programme	Singapore	ADB	49,092	Implemented and Ongoing
9. Singapore Canada TCTP	Singapore	Canada	2,160,508	Implemented
10. Singapore-Colombo Plan TCTP	Singapore	Colombo Plan	101,463	Implemented
11. Singapore-EU TCTP	Singapore	EU	52,192	Implemented and Ongoing
12. Singapore-France (ADETEF) Joint Training Programme	Singapore	France	39,340	Implemented and Ongoing
13. Singapore-Hanns Seidel Foundation Joint Training Programme	Singapore	Hanns Seidel Foundation	135,226	Implemented and Ongoing
14. Singapore- IAEA TCTP	Singapore	IAEA	42,247	Implemented and Ongoing
15. Singapore-ICAO DCTP	Singapore	ICAO	69,676	Implemented and Ongoing
16. Singapore-IMF TCTP	Singapore	IMF	823,894	Implemented and Ongoing
17. Singapore-IMO TCTP	Singapore	IMO	48,011	Implemented and Ongoing
18. Singapore Luxembourg TCTP	Singapore	Luxembourg	37,991	Implemented
19. Singapore-Norway TCTP	Singapore	Norway	107,834	Implemented and Ongoing
20. Singapore- ROK TCTP/ESCAP TCTP	Singapore	ROK, ESCAP	496,337	Implemented and Ongoing
21. Singapore-Sweden Joint Training Programme	Singapore	Sweden	16,892	Implemented

<b>PROJECT</b>	<b>COUNTRY</b>	<b>DONOR/S</b>	<b>AMOUNT (US\$)</b>	<b>STATUS</b>
22. Singapore- Thailand TCTP	Singapore	Thailand	92,861	Implemented and Ongoing
23. Singapore-UNDP (TCDC) Programme	Singapore	UNDP	25,435	Implemented and Ongoing
24. Singapore-UNICEF Joint Training Programme	Singapore	UNICEF	89,501	Implemented and Ongoing
25. Singapore-US Joint Training Programme	Singapore	US	24,830	Implemented
26. Singapore-Vatican TCTP	Singapore	Vatican	187,629	Implemented and Ongoing
27. Singapore-WHO Joint Training Programme	Singapore	WHO	38,926	Implemented
28. Singapore-WIPO TCTP	Singapore	WIPO	56,141	Implemented and Ongoing
29. Singapore-World Bank TCTP	Singapore	World Bank	20,440	Implemented
30. Singapore-WTO TCTP	Singapore	WTO	30,063	Implemented and Ongoing
31. Japan Singapore Partnership Programme for the 21 <sup>st</sup> Century (JSPP21)	Singapore	Japan	840,606	Implemented and Ongoing
<b>Total</b>			<b>14,783,811</b>	

*Source: Report of the 9th MM of the AMBDC*

**Appendix C: Summary of AMBDC Projects - Funding Required**

COUNTRY	No of Projects	COST (US\$)	FUNDING STATUS		%
			Country Contribution (US\$)	Funding Expected from Donors (US\$)	
Lao PDR	11	25,491,600	1,400,000	24,091,600	54.2
Myanmar	1	17,931,000	-	17,931,000	40.3
Vietnam	2	2,934,500	500,000	2,434,500	5.5
<b>Total</b>	<b>14</b>	<b>46,357,100</b>	<b>1,900,000</b>	<b>44,457,100</b>	<b>100</b>

*Source: Report of the 9th MM of the AMBDC*

**Appendix D: ASEAN Macroeconomic Indicators**

	GDP (USD bn), 2004	Population (mn), 2005	Per Capita GDP (USD), 2004	Share of Agriculture in GDP, 2003	Share of Industry in GDP, 2003	Share of Services in GDP, 2003	Imports /GDP (per cent), 2004	Exports /GDP (per cent), 2004
Brunei	5.2	0.4	13879	2.1	58.4	39.5	28.8	98.1
Indonesia	258	219	1193	15.4	45.0	39.6	18.0	27.8
Malaysia	118	26.2	4625	8.1	42.1	49.8	89.2	107.2
Philippines	86.1	84.2	1042	19.8	33.5	46.7	51.1	46.1
Singapore	106.9	4.3	25207	0.1	31.1	68.8	152.5	167.4
Thailand	163.5	65.0	2537	10.2	45.8	44.0	58.3	59.6
Cambodia	4.9	13.9	358	36.8	27.9	35.4	40.8	51.0
Lao PDR	2.4	5.9	423	50.2^	24.6	25.1	--	--
Myanmar	9.1	56.0	166	42.9*	17.3	39.7	20.9	42.9
Vietnam	45.4	83.1	554	21.1	38.5	40.5	--	--

Note: ^ the share pertains to year 2002; \* share pertains to year 2000

Source: ASEAN Yearbook of Statistics, Salazar and Das (2007)

**Appendix E: ASEAN Human Development Indicators**

	Human Development Index (Rank) (2003)	GDP per capita (PPP US\$) (2003)	Life expectancy at birth (years) (2003)	Adult literacy rate (per cent age 15 & above) (2003)	Gross enrolment ratio for primary, secondary & tertiary schools (percent) (2002/03)	Public Expenditure on Health (percent of GDP) (2002)	Public Expenditure on Education (per cent of GDP) (2000-02)
Brunei	33	19210	76.4	92.7	74	2.7	9.1
Indonesia	110	3361	66.8	87.9	66	1.2	1.2
Malaysia	61	9512	73.2	88.7	71	2.0	8.1
Philippines	84	4321	70.4	92.6	82	1.1	3.1
Singapore	25	24481	78.7	92.5	87	1.3	--
Thailand	73	7595	70	92.6	73	3.1	5.2
Cambodia	130	2078	56.2	73.6	59	2.1	1.8
Lao PDR	133	1759	54.7	68.7	61	1.5	2.8
Myanmar	129	--	60.2	89.7	48	0.4	--
Vietnam	108	4230	63.1	96.5	77	1.5	--

Source: UNDP Human Development Report, Salazar and Das (2007).

**Appendix F: Incidence of Poverty in ASEAN**

	Population in Poverty (National Poverty Line, in percentage)	Proportion of population below \$1 (PPP) a day (in percentage)
Indonesia	18.2	7.5
Malaysia	7.5	0.2
Philippines	30.4	15.5
Singapore	--	--
Thailand	9.8	1.9
Cambodia	35.9	34.1
Lao PDR	38.6	39.0
Myanmar	22.9	--
Vietnam	28.9	13.1

*Source: Asian Development Bank, Salazar and Das (2007).*

**Appendix G: AMEICC and ACMECS Project Activities**

<b>AMEICC West-East Corridor Development (AMEICC WEC-WG)</b>		
<i>Projects under the Guideline of New Project Formulation (multi-year's projects)</i>		
<b>Initiatives</b>	<b>Status</b>	<b>Remarks</b>
Assistance Program for SEZ Development	Adopted in 2006, Project is under implementation	This project also includes "Establishment of the Industrial Estate at O'Neang (Cambodia) and Ban Pa Rai Mai (Thailand)"
Assistance Program for Natural Rubber Industry Development	Adopted in 2006, study was implemented in 2006, policy recommendation was reported, expert for quality control improvement is dispatched to Cambodia from Mar-08 as a pilot project.	This project also includes the Study on Promotion of Para Rubber-based Industrial cooperation between Thailand and Cambodia
<i>Promotion of Promising Industries (short-term projects)</i>		
Assessment of Handicraft Development Potentials in Myanmar	Adopted in 2003, under implementation	Project proposal has been approved by the Myanmar govt and will be approved by UNIDO HQ. Project will be implemented in 2008
Entrepreneurship Education Support Program	Adopted in 2003, under implementation	Training Courses for Entrepreneurship Development (Myanmar & Vietnam)
CLMV Automotive Repair and Maintenance Engineers Training Program	Under Implementation	Next session will be held in Lao PDR and Myanmar
Study on Process Food with Export Potentiality	Adopted in 2008 and project has been approved	
<i>Promotion of foreign investment in the CLMV countries (short-term projects)</i>		
Investment Missions to CLMV Countries	Adopted in 2003 and completed	
Investment Seminar for CLMV Countries	Adopted in 2004 and completed	
<i>Improvement of the business environment through capacity-building (short-term projects)</i>		
Training Programs for CLMV under COE Progressive Development Program	This is under implementation (2005-2010 – 5 year program)	
Industrial Statistics Seminar in CLMV	This is under implementation	
Dispatch of Experts on "Supporting the Implementation of Responsible Care Activities in CLMV countries"	Partially Funded – Planning and Implementation Underway	
SME Development Strategy	Funding Request made	Consultation with UNESCAP and ERIA is needed

Development of Logistics Service Centre and Roadside Station/Rest Area and improvement of ICT facilities of custom offices	Adopted in 2008, funding request made	
<b>Ayeyawady - Chao Phraya - Mekong Economic Cooperation Strategy (ACMECS)</b>		
<i>Trade and Investment</i>		
Establishment of wholesale and distribution centre at Cambodia, Lao PDR and Myanmar	Cost estimate done, Source of assistance not decided	Project proposed in 2004
One stop service arrangement at Border Gate of CLMTV Countries	Financing Arrangements not yet done	Project proposed in 2004
<i>Industrial</i>		
Building GIS Linkage for ACMECS Industrial Development	Cost estimate done, Source of assistance not decided	Project proposed in 2004
<i>Agriculture and Industry</i>		
Establishment of a Mechanism to Facilitate the Transfer of Standardized Production Technology		Proposal done
Establishment of Knowledge Base on International Standards for Industrial Manufacturers in Neighboring Countries under ACMECS	Cost estimate done, Source of assistance not decided	Project proposed in 2004
Exploration of Market Opportunities for Key Agricultural Products	Cost estimate done, Source of assistance not decided	Project proposed in 2004
Feasibility Study on Cooperation in Agriculture, particularly Cash Crops and Livestock		Proposal done
Study on Promotion of Para Rubber-based Industrial cooperation between Thailand and Cambodia	Cost estimate done, Source of assistance not decided	Project proposed in 2004
<i>Transport/Aviation Sector</i>		
Aviation Sector Policy Development Project	Cost estimate done	Proposal done
Mondulkiri, Preh Vihea and Battambang Airport Upgrading and Improvement Project		Proposal done
<i>Transport Linkages</i>		

Development of Road Linkages under Asian Highway Project (border area and cities along the AH or economic corridors)	Cost estimate done	Proposal done
Feasibility Study of Additional Routes and Corridors among CLMTV and Nearby Countries (or Inter-Corridor Linkages)	Cost estimate done, Source of assistance not decided	Proposal done
Feasibility study of the cross-country movement of tourist cars among ACMECS countries		Project proposed in 2004
Feasibility study of the establishment of road links among Vietnam – Lao PDR – Myanmar		Project proposed in 2004
Feasibility Study on the Rehabilitation of NR78 from Banlung (Ratanakiri) to O Pong Moan (Stung Treng)	Cost estimate done, Source of assistance not decided	Proposal done
<i>Transport, Tourism, Customs, Immigration, Quarantine, etc.</i>		
Formulation of an Arrangement between and among the Governments of the Kingdom of Cambodia, the Lao People's Democratic Republic, the Union of Myanmar, the Kingdom of Thailand and the Socialist Republic of Viet Nam on the Admittance of Tourism Vehicles Operating on Designated Routes	Cost estimate done, Source of assistance not decided	Proposal done
Study on Facilitation of Cross Border Movements of Goods and Passengers among Lao PDR, Myanmar and Viet Nam on the Route: Yangon- Meikhtila- Tarlay- Kenglap (Myanmar)- Kengkoc- Loungnamtha- Oudomxay- Deptaechang (Lao PDR)- Tay Trang- Ha Noi (Viet Nam)	Cost estimate done, Source of assistance not decided	Proposal done
<i>Transport/Inland Waterway transport</i>		
Upgrade Inland Waterway College No 2 into a Training centre for 5 ACMECS countries	Cost estimate done, Source of assistance not decided	Proposal done
<i>Tourism</i>		

Feasibility Study on Eco-Tourism and Cultural/Historical Tourism for ACMECS Tourism Industry	Cost estimate done, Source of assistance not decided	Proposal done
<i>Human Resource Development</i>		
Human Resource Development to support Koh-Kong Industrial Estate	Cost estimate done, Source of assistance not decided	Project proposed in 2004
The set up of a training center for waterway navigation skills for the five ACMECS countries		Project proposed in 2004
Training on Enhancing the Competitiveness of the Industrial Development Planning Process of ACMECS member countries	Cost estimate done, Source of assistance not decided	Project proposed in 2004
Transfer of technology and technical Know-how of industry (HRD)	Cost estimate done, Source of assistance not decided	Project proposed in 2004

*Source: Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy (ACMECS) and AEM-METI Economic and Industrial Cooperation Committee (AMIECC).*

<sup>1</sup> Basic Framework of ASEAN-Mekong Basin Development Cooperation, 17 June 1996 <[www.aseansec.org/2474.htm](http://www.aseansec.org/2474.htm)>.

<sup>2</sup> The cost of ASEAN Interconnection Study (ASEAN Power Grid) is not included as all members have made contributions in kind. Funding for the Preparation Studies for the ASEAN Highway Network has been secured from Korea (US\$ 1,558,038). The cost of the SKRL projects will be borne by individual countries with assistance from donors.

<sup>3</sup> This amount is only for two projects – “Training in Groundwater Resources Management for CLMV” and “Feasibility Study on SKRL”. Does not include the donation of used rail tracks and fasteners.

<sup>4</sup> Funding from the ASEAN Foundation amounting to of US\$ 155,313 has been secured. One project has been completed and planning for the other project is underway.

<sup>5</sup> Does not include the cost of SKRL “Route 1” of US\$1.8bn (based on year 2000 estimates)

<sup>6</sup> As of October 2007, the rail link will cost more than US\$2 billion

<sup>7</sup> The ASEAN Vision 2020 envisaged “*a stable, prosperous and highly competitive ASEAN Economic Region in which there is a free flow of goods, services and investments, a freer flow of capital, equitable economic development and reduced poverty and socio-economic disparities*” (ASEAN 1999, p12).

<sup>8</sup> Cebu Declaration on the Acceleration of the Establishment of an ASEAN Community by 2015, Cebu, Philippines, 13 January 2007 <[www.aseansec.org/19261.htm](http://www.aseansec.org/19261.htm)>

<sup>9</sup> EIU (2007), “Trading Up: A new export landscape for ASEAN and Asia”, Economist Intelligence Unit.

<sup>10</sup> Declaration of the ASEAN Concord II (also known as the Bali Concord II), Bali, Indonesia, 7 October 2003.

<sup>11</sup> Concept is adapted from the report by Carol Guina and Denis Hew on “Narrowing the Development Gap in ASEAN: Toward a New Strategy for the Initiative for ASEAN Integration (IAI)” to the ASEAN Secretariat, 3 September 2007.

<sup>12</sup> The Eighth Ministerial Meeting of the ASEAN-Mekong Basin Development Cooperation, 26 August 2006 <[www.aseansec.org/18846.htm](http://www.aseansec.org/18846.htm)>.

<sup>13</sup> For example, a Memorandum of Understanding (MOU) was signed between ADB and the ASEAN Secretariat in August 2006 under which the two institutions agreed to enhance coordination and cooperation in their support for regional cooperation and integration in ASEAN through, among other modalities, exchange of information, attendance at meetings and periodic consultations.

<sup>14</sup> Under the Ayeyawaddy-Mekong-Chao Phraya Economic Cooperation Strategy (ACMECS) among Cambodia, Lao PDR, Myanmar, and Thailand, the following transport projects in Lao PDR are being/planned to be implemented: (i) Huay Khon-Pakbang road (\$21 million); (ii) Railway from Thai-Lao Friendship Bridge and Tha Na Lang (\$5 million); (iii) Wattay Airport renovation (\$8 million); and (iv) Pakse Airport renovation (\$8 million).

<sup>15</sup> The rest of the funding for the hard physical infrastructure will be borne by individual countries.

<sup>16</sup> Does not include ADB’s loan of US\$ 40 million to Cambodia in 2006.

<sup>17</sup> Equivalent to 2.0 Million Ringgit.