

Main Report

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Subregional Development Strategy in ASEAN after COVID-19:

Inclusiveness and Sustainability in the Mekong Subregion (Mekong 2030)

Fukunari Kimura

Summary

The Mekong Subregion (MSR) has been a model subregional development initiative, having achieved high economic growth and rapid poverty alleviation with extensive and innovative international collaboration over the past 3 decades. The remaining development gaps within the region remain substantial, however.

Over the next decade, the MSR will face the challenge of raising the whole region to upper middle-income status. To achieve inclusive and sustainable economic growth, clear policy guidance will be required to upgrade its industrial structure and enhance people's welfare.

This report proposes four priority policy areas – connectivity, industrialisation, human welfare, and sustainability – and provides a series of policy recommendations.

The subregional approach has proved to be particularly effective for addressing development gaps, enhancing connectivity, and promoting international coordination. The Association of Southeast Asian Nations (ASEAN) is encouraged to continue to adopt a multilayered approach to deeper economic integration and to activate other subregional initiatives.

1. Subregional Development in the Association of Southeast Asian Nations

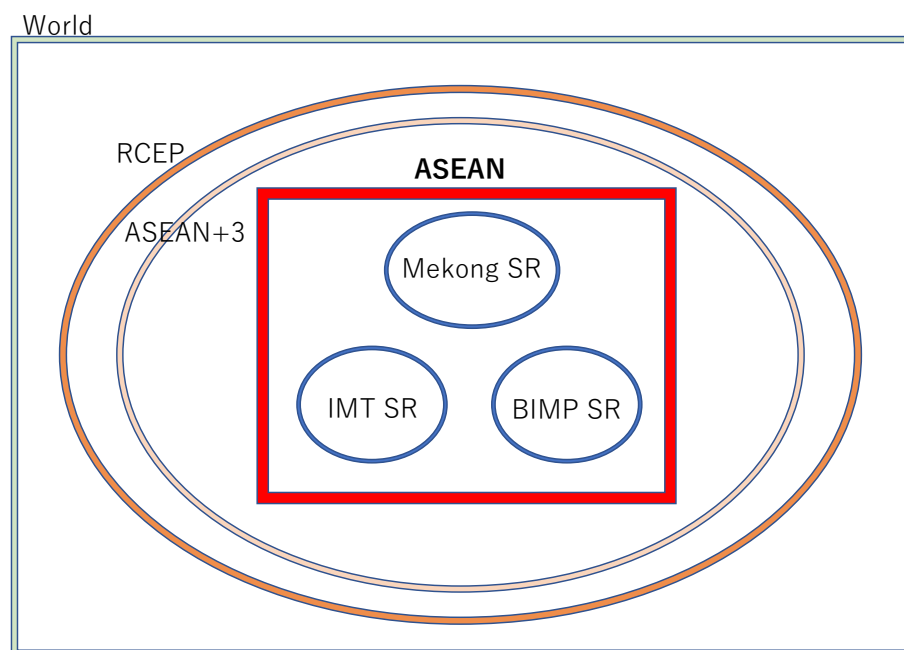
The process of economic integration is geographically multilayered. Whilst national borders set the boundary of jurisdiction and national sovereignty, economic activities follow the law of economic geography. To effectively utilise economic forces for economic development, economic integration in the political sense must be designed as the combination of different layers of policies. The Association of Southeast Asian Nations (ASEAN) has proactively utilised multiple levels of initiatives to promote various aspects of economic integration, placing ASEAN at the centre and setting larger and smaller layers around it (Figure 1).

In the framework of ASEAN integration, subregional initiatives are particularly effective in tackling (i) development gaps, (ii) connectivity, and (iii) international coordination. How to narrow development gaps by strengthening connectivity is a central theme for ASEAN integration, which must be pursued by the whole region and by the subregions. Several sustainability issues are subregional, not just national. The subregional approach is a powerful channel for exploring inclusiveness and sustainability for the whole ASEAN.

Important elements of the approach are well-coordinated policies across national borders and the involvement of international development partners.

Mekong Subregion (MSR) development has been one of the most successful subregional initiatives in the developing world for 3 decades, having achieved rapid economic growth and poverty alleviation. Various international initiatives, particularly the Greater Mekong Subregion led by the Asian Development Bank, have been vigorously promoted. However, huge development gaps remain within the subregion. Lessons must be drawn for other subregional initiatives such as Indonesia–Malaysia–Thailand and Brunei Darussalam–Indonesia–Malaysia–Philippines.

Figure 1: ASEAN’s Multilayered Structure of Regional Economic Integration



ASEAN = Association of Southeast Asian Nations, BIMP = Brunei Darussalam–Indonesia–Malaysia–Philippines, IMT = Indonesia–Malaysia–Thailand, RCEP = Regional Comprehensive Economic Partnership, SR = subregion.

Source: ERIA.

The policy recommendation on over-arching issues and international collaboration is as follows:

- a) Facilitate domestic economic reforms to address weaknesses of socio-economic development. Maintain a regular review of the status of the MSR as a whole and individual countries relative to other countries in the region (ASEAN, China, etc.) to recommend appropriate policy recommendations. Promote a better balance between economic and social targets via scoping of inclusive and sustainable development.
- b) Encourage greater cooperation amongst member countries in undertaking economic promotion activities, accelerating the development of economic corridors,

connectivity, cross-border trade, and investment, etc. Promote effective consultations with individual member countries to better understand their reform process and their need for assistance in order to develop more suitable assistance and/or cooperation programmes. New areas of economic development (such as information and telecommunications technology [ICT], circular economy, etc.) should be prioritised. Adopt a more proactive approach to planning and the management of trade-offs between sectors and countries.

- c) Promote synergies and complementarities between the current MSR cooperation programmes and other global and regional initiatives for the development of a sustainable, integrated, and prosperous subregion. From this perspective, rethinking of institutional arrangements for regional cooperation at both the national and subregional/regional levels may be considered in order to facilitate the participation of a more representative set of stakeholders in the prioritisation of activities and to ensure synergies between the various initiatives.
- d) Foster the development a long-term, diversified, and sustainable financing system, enhancing financial infrastructure connectivity and encouraging development financial institutions to play active roles in subregional cooperation.
- e) Facilitate a regional and open approach for addressing new challenges and taking advantage of opportunities for the most sizeable benefits of all participating countries and social groups. Collaboration with external international institutions and donors will help promote the effectiveness of the assistance programmes, especially subregional ones. A cooperation mechanism between MSR countries, with financial/technical support provided by a more advanced country/international institution, needs to be encouraged.

2. COVID-19 and the new normal

The MSR countries have so far managed to block the coronavirus disease (COVID-19) pandemic at national borders. However, the pandemic may have second and third waves before vaccines are readily available, and developing countries are generally fragile in the face of pandemics. Human life is of the utmost importance, and policies to help healthcare systems keep the pandemic under control should be prioritised.

Formulating an exit strategy requires understanding the COVID-19 pandemic's economic shocks. The pandemic first caused a supply shock and a demand shock.¹ In January and February, ASEAN Member States (AMS) perceived a temporary negative supply shock in the form of a supply shortage of intermediate inputs from China and an abrupt positive demand shock for medical and emergency goods. After the pandemic's arrival, social distancing froze part of supply and demand. Because the containment of the disease is uneven across countries and regions, the removal of restrictions on people's movements, both domestic and cross-border, seems to take time. In addition, the trough of recession

¹ For example, see Baldwin (2020).

in Europe and North America looks deep and prolonged so that a negative demand shock is likely to block a V-shaped recovery (Kimura, 2020). Therefore, macroeconomic policies, both monetary and fiscal, must be implemented to save severely affected sectors and people and to stimulate demand, whilst carefully considering long-term fiscal health (Zen and Kimura, 2020).

MSR countries must make efforts to retain international production networks during the low-demand period and become more internationally competitive by improving location advantages and upgrading connectivity to strengthen their position in Factory Asia. Even before COVID-19, some positive trade and investment diversion started in the form of China Plus One, and the MSR countries attracted some economic activities from China due to rising wages in China and the United States–China trade war. The trend seems to be accelerating with COVID-19. ASEAN Member States must act in concert to revive the regional economy and deepen economic integration (ERIA, 2020).

Big slumps in the transportation and tourism sectors are likely to continue, and the income from remittances will stay low for several years at least. This may force some people's income levels down below the poverty line. Some alternative job creation and industrial activities, in addition to mitigation policies, may be needed.

COVID-19 will accelerate the application of information and communication technology, which will lead to a new normal. The MSR countries must catch up with technological transformation.

The policy framework for the exit strategies in MSR countries and ASEAN Member States is summarised in Table 1.

Table 1: Policy Framework for Overcoming COVID-19 by ASEAN Member States

	Emergency responses	Exit policies	Policies for the new normal
Health policy	<ul style="list-style-type: none"> • Conduct social distancing • Provide testing • Keep medical treatments within capacity 	<ul style="list-style-type: none"> • Carefully remove social distancing • Set medical services back to normal • Develop international collaboration to exit (medical supply, vaccines, quarantine) 	<ul style="list-style-type: none"> • Establish long-term healthcare system • Disseminate health insurance • Develop international cooperation for future pandemic prevention
Macroeconomic policy	<ul style="list-style-type: none"> • Stabilise exchange rates and avoid a collapse of asset markets • Provide mitigation to help businesses and people at risk 	<ul style="list-style-type: none"> • Provide macroeconomic stimulus (monetary, fiscal) • Develop international macro policy coordination 	<ul style="list-style-type: none"> • Resume fiscal health and address inclusiveness and sustainability • Develop macro policy coordination framework
Policies for IPNs	<ul style="list-style-type: none"> • Keep IPNs and related industries (logistics, transportation, SMEs, local firms) alive with social distancing 	<ul style="list-style-type: none"> • Keep IPNs and related industries alive with worldwide recession and some restriction on people's movements • Strengthen location advantages and reduce service link costs (connectivity, trade and investment liberalisation/facilitation) 	<ul style="list-style-type: none"> • Better positioning in IPNs with competitive location advantages (human capital, infrastructure, institutions) and reduced service link costs • Make Asia-Pacific as a competitive region to attract innovative IPNs
Policies for digital economy	<ul style="list-style-type: none"> • Remove bottlenecks for teleworking and other digital connectivity 	<ul style="list-style-type: none"> • Utilise IT and CT to strengthen international competitiveness in IPNs • Apply IT and CT in traditional industries and government services • Encourage digital-related businesses • Establish domestic and international policy discipline for the free flow of data and data-related businesses 	<ul style="list-style-type: none"> • Effectively utilise IT and CT for economic/social development • Develop innovation hubs to promote the application of IT and CT • Establish a secure policy environment for free flow of data • Further develop the ASEAN Digital Integration Framework, E-commerce Agreement, and other initiatives
Economic situation	<ul style="list-style-type: none"> • Forced halting of economic activities for social distancing 	<ul style="list-style-type: none"> • Prolonged recession in the world • Slow recovery of the cross-border movement of people 	<ul style="list-style-type: none"> • The new normal • More efficient/thick value-added PNs • More penetration of digital technology

COVID-19 = coronavirus disease, IPN = international production network, IT = information technology, CT = communications technology.

Note: Items in red font are international initiatives for Asia-Pacific.

Source: Kimura (2020).

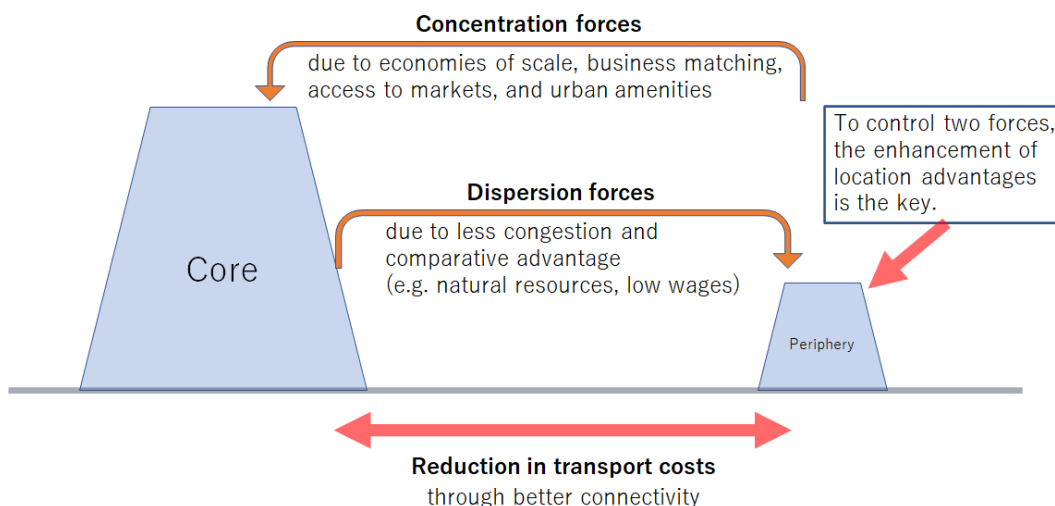
3. New Development Strategies for the Mekong Subregion

3.1. Connectivity for Inclusive Growth

How can we utilise connectivity for inclusive growth? The new economic geography will provide a workable conceptual framework.

The basic framework is presented in Figure 2. There are a core and a periphery in a geographical distance. The core is an agglomeration or a cluster of economic activities and/or populations whilst the periphery is a less concentrated location. The core and the periphery may represent developed and developing economies, a newly developed country and a lagging country, or an urban or suburban and a rural area. A key idea of the new economic geography is that reduced transport costs between the core and the periphery generate 'concentration forces', which attract economic activities and people to the core, and 'dispersion forces', which move such elements to the periphery (Fujita, Krugman, and Venables, 1999; Baldwin et al., 2003). Typical theoretical equilibria between advanced countries are characterised by the domination of concentration forces; the periphery may lose economic activities and people through reduced transport costs. However, when comparative advantage is strong due to different development stages of the core and the periphery, dispersion forces may become strong. To avoid the loss of economic activities and population and utilise dispersion forces effectively, location advantages at the periphery must be boosted and connectivity improved. To make economic growth rapid and inclusive, the two forces must be controlled (ERIA, 2010; 2015).

Figure 2: The Core–Periphery Structure and Reduction in Transport Costs



Source: ERIA (2010).

In a subregional setting such as the MSR, huge gaps still exist between development stages and income levels within national borders and beyond. Suppose that the core is a subregional centre such as the Bangkok Metropolitan Area, Ha Noi, or Ho Chi Minh City,

whilst the periphery is the rest of the MSR. Based on the new economic geography, to ensure inclusiveness, the income and welfare of people in the periphery can be raised through three major channels by strengthening connectivity (Figure 3). First, production activities, particularly labour- or natural resource-intensive ones, may move to the periphery and increase the income of the people there. Second, people in the periphery may move to the core to work and send money home. Third, better connectivity reduces the price of goods and services or makes them available in the periphery, thus enhancing people's welfare.

To attract production activities to the periphery (channel [i], Figure 3), improvement of connectivity must be balanced by reinforcement of location advantage. Otherwise, production activities and people will move out of the periphery. Labour-intensive industries such as garment and footwear, and labour-intensive production blocks in machinery industries may be a choice if a certain mass of labour resides in the periphery and wage gaps with the core are large enough. Otherwise, some natural resource-based industries such as agriculture, fishery, mining, cottage industries, and tourism are a possibility.

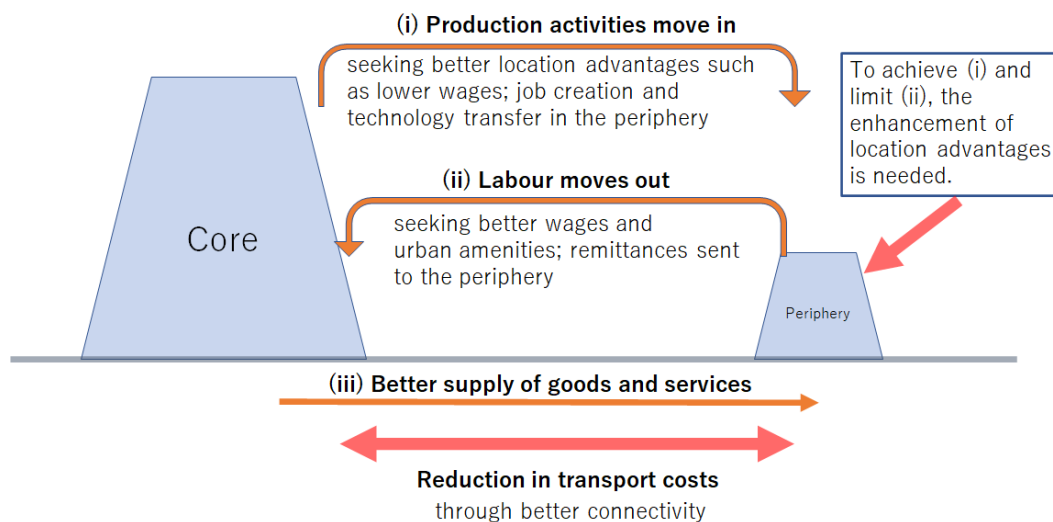
Labour movements from the periphery to the core are a powerful tool for raising the welfare of rural people (channel [ii], Figure 3). Massive labour movements have been occurring in the MSR since the mid-2000s, within and across national borders. Some labour movements to the core within national borders are necessary for the core to have a critical mass of labour for efficient industrial agglomeration. In the last couple of decades, the MSR has witnessed considerable movements of labour across national borders, which have become an important source of income for some rural people. However, policymakers may want to avoid overreliance on cross-border movements of labour, particularly of unskilled labour. To keep cross-border labour movements at a controllable level, latecomers must generate good jobs at home.

Better supply of goods and services (channel [iii], Figure 3) due to improved connectivity can boost people's welfare. Through upgraded physical connectivity, rural people can more easily access food and other consumption goods. Transport costs for food and other consumption goods borne by rural people are not at all negligible. Some parts of the costs are reflected in retail prices at a village market whilst the cost for rural people to come to the market is an additional cost. The availability of a variety of goods and services is another element of raising people's welfare. Although it is not easy to quantitatively measure the effect of enhancing connectivity on rural people's welfare, it will certainly be significant in the development of road networks and other logistics infrastructure in MSR countries.

Related to channel (iii), digital technology expands the scope of connectivity. Digital connectivity is different from traditional physical connectivity and both are partially substitutable and largely complementary (Figure 4). Through physical connectivity, goods and people become mobile. Through digital connectivity, data, information, and digitalised services become mobile. Distance penalises physical connectivity whilst it does not matter much for digital connectivity. Once digital connectivity is established,

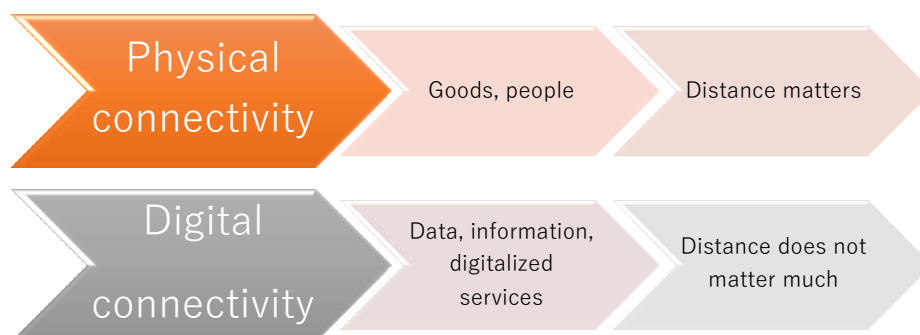
information gathering at a distance becomes much easier, and some services, including educational, medical, and government services, can be mobile for people in rural areas. Service outsourcing for channel (i) may become one of the major economic activities for people in the periphery. By overcoming a possible digital divide, MSR countries may aggressively take advantage of digital connectivity.

Figure 3: Three Channels for Connectivity to Achieve Inclusiveness



Source: ERIA (2010).

Figure 4: Differences between Physical and Digital Connectivity

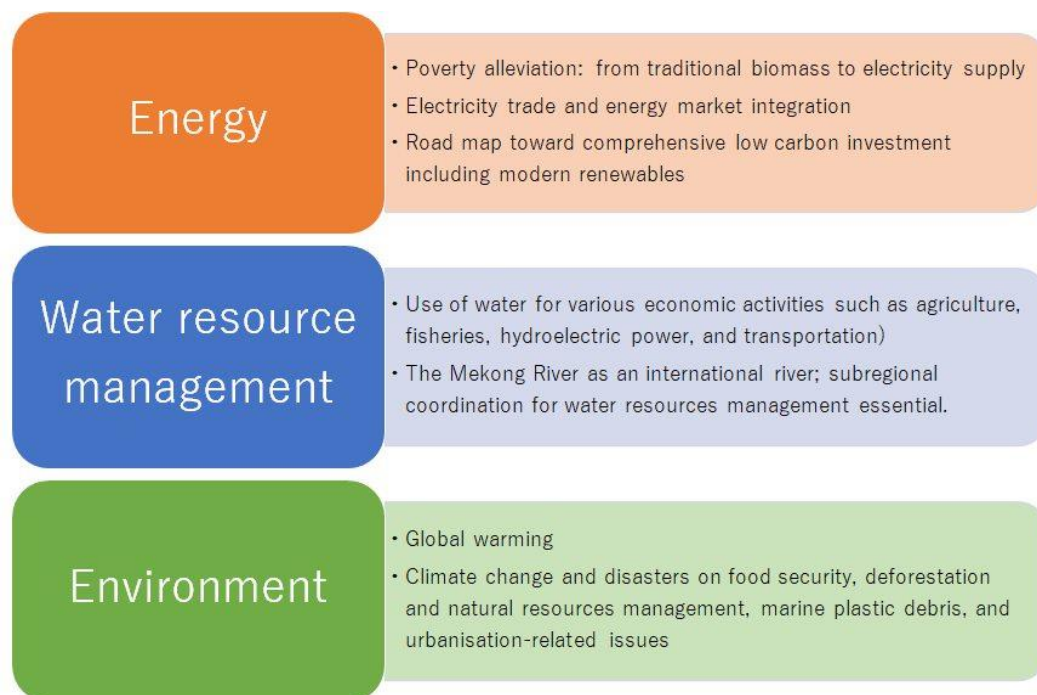


Source: ERIA.

3.2. The Subregional Approach to Sustainable Growth

Sustainability is an important long-term aspiration set by the United Nations in the form of the Sustainable Development Goals. The MSR is starting to face a serious development backlash, particularly in energy, water resource management, and the environment. Solving this challenge is not just a long-term issue but also an urgent one.

Figure 5: Sustainability Issues in the Subregional Approach



Source: ERIA.

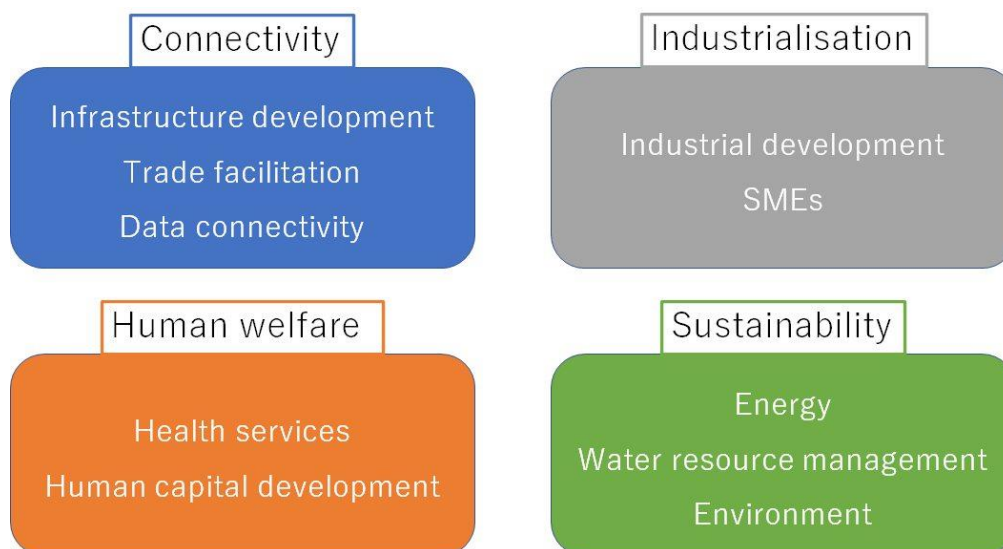
Several important sustainability issues are subregional, and the subregional approach to policy coordination is inevitable (Figure 5). An immediate issue is the transition from traditional biomass to electricity supply, which is deeply linked with poverty. The region has already developed some electricity trade, and further energy market integration is in the scope of subregional development. A comprehensive road map for a low-carbon economy must be drawn up to meet rapidly increasing energy demand with hydro and renewable energy. Water resource management is subregional. In the MSR, water is utilised for economic activities such as agriculture, fisheries, hydroelectric power, and transport. The Mekong River is an international river, and subregional coordination for water resource management is essential. International cooperation initiatives including international development partners can be developed for the subregion. Various issues besides global warming require a subregional approach, notably climate change and food security, deforestation and natural resource management, marine plastic debris, and urbanisation-related issues.

4. The Mekong Subregion Policy Framework for Inclusiveness and Sustainability

4.1. Four Priority Policy Areas

To achieve inclusive and sustainable growth, four policy areas must be emphasised in the MSR's development strategy: (i) connectivity, (ii) industrialisation, (iii) human welfare, and (iv) sustainability (Figure 6). These areas are deeply intertwined in order to address inclusiveness and sustainability. Policies for connectivity and industrialisation are needed to realise inclusive growth in the MSR on the basis of the new economic geography. Policies for sustainability not only work as a back-up for economic growth but also promote inclusiveness. Human welfare is a foundation of economic growth.

Figure 6: Four Prioritised Policy Areas



Source: ERIA.

To achieve all of the above, international cooperation and collaboration must be extended within the region and with international development partners to exploit the strength of a subregional approach to achieving inclusive and sustainable growth.

4.2. Connectivity

Connectivity will enhance people's welfare in lagging regions by attracting economic activities, mobilising people, and making goods and services more available. Physical and institutional connectivity as well as digital connectivity must be further developed. The required connectivity depends on the sort of international division of labour promoted. Applying the concept of unbundling by Baldwin (2016), we can summarise the key elements for infrastructure development, trade facilitation, and digital connectivity (Table 2). The first unbundling is the industry division of labour; most operations in traditional industries, including agriculture and food, mining, labour-intensive ones such as garment and footwear, and tourism, fall into this category. The level of connectivity for the first unbundling is modest; medium-grade logistics and logistics services suffice. The second unbundling is a more sophisticated division of labour in terms of production processes or tasks. Typical industries are machinery and others operating in tight global value chains. Required connectivity is more demanding; high-grade logistics and logistics services as well as urban and suburban development for industrial agglomeration are prerequisites. Trade facilitation and e-customs are of particular importance at this stage. The third unbundling is the person-wise division of labour, in which cross-border service outsourcing may become a major form of international division of labour, backed by digital technology. All sorts of unbundling are going on in parallel, with different weights depending on locations, industries, and corporate strategies.

Table 2: Connectivity and International Division of Labour

	The first unbundling	The second unbundling	The third unbundling
International division of labour	Industry-wise (production and consumption are unbundled)	Task-wise (an industry is unbundled)	Person-wise (a task is unbundled)
Typical industries	Traditional industries: agriculture/food, mining, labour-intensive industries, tourism	Machinery industries and industries in global value chains	Service outsourcing
Infrastructure development [physical connectivity]	Medium-grade logistics infrastructure, infrastructure services	High-grade logistics infrastructure, urban/sub-urban development	
Trade facilitation [institutional connectivity]		Quick and reliable customs clearance, transport and traffic facilitation, TBT	SPS, standards and conformance
Digital connectivity [both physical and institutional]		e-customs	ICT infrastructure, free flow of data with trust

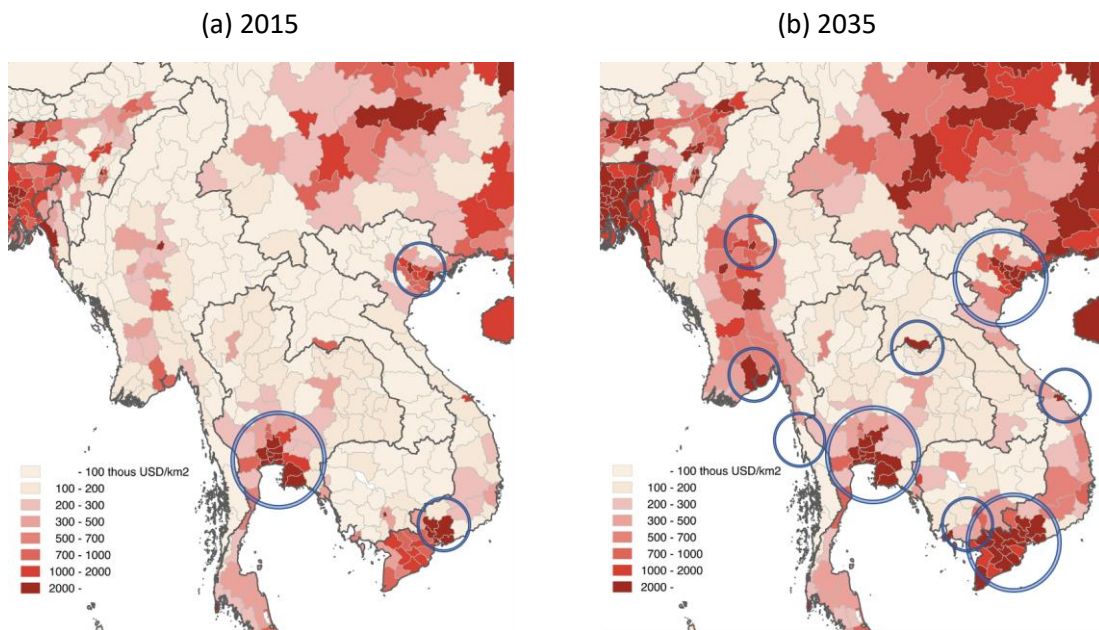
Source: ERIA.

The MSR must continue to emphasise infrastructure development, although substantial improvements have been made over the past 3 decades

The policy recommendation on infrastructure development is as follows:

- a) In the coming years, the formation of efficient industrial agglomerations will be crucial for further industrialisation. The MSR may want to aggressively deepen its involvement in global value chains when COVID-19 forces the private sector to reorganise production networks. In the coming decade, Ha Noi and Ho Chi Minh City will become large industrial agglomerations, in addition to the Bangkok Metropolitan Region. Midsize industrial agglomerations are likely to develop in Phnom Penh, Vientiane, and Yangon. Depending on the industrialisation strategy, Danang, Mandalay, Dawei, and some border cities may become industrial clusters. Logistics links connecting large and midsize industrial agglomerations must be expanded (Figure 7).

Figure 7: Industrial Agglomerations in ASEAN: 2015 and 2035



ASEAN = Association of Southeast Asian Nations, km² = square kilometre, thous = thousands, USD = United States dollar.

Source: ERIA-IDE-GSM team.

- b) Medium-grade logistics infrastructure is still needed in rural areas, particularly in Myanmar. Connectivity will provide people with new business opportunities as well as enhance their access to goods and services.
- c) It is important to establish a mechanism that shares the benefits of infrastructure development and fairly distributes the cost burden of infrastructure construction amongst the MSR countries.

- d) The consultation system needs to be reinforced in existing international collaboration frameworks such as the Mekong River Commission (MRC), the Ayeyawady–Chao Phraya–Mekong Economic Cooperation Strategy (ACMECS), and the Lower Mekong Initiative to push forward intergovernmental agreements, burden sharing of infrastructure construction and maintenance costs, public–private partnerships, and others.
- e) The MSR countries may agree on a mechanism to assess the impacts of infrastructure development on economies, environments, and societies; and present recommendations to avoid or mitigate possible negative effects of infrastructure development.
- f) The MSR countries may need to increase reliance on private sector investment. There is an urgent need for workable mechanisms to facilitate public–private partnerships, since many countries will spend their budgets on huge stimulus packages to address the COVID-19 pandemic.

Trade facilitation is becoming a bottleneck for enhancing connectivity after the development of physical infrastructure. Although the MSR has developed a cross-border transport system in formal and informal agreements, the implementation is still an issue.

The policy recommendation on trade facilitation is as follows:

- a) It is vital to simplify cross-border trade procedures, e.g. single-stop inspection or single-window service regarding customs clearance. A common control area must be introduced as soon as possible in border checkpoints along economic corridors.
- b) It is important to accommodate both the operations and regulations of the Cross-Border Transport Facilitation Agreement, which still has some complications with trilateral driving licenses.
- c) The MSR countries must fully implement existing subregional and ASEAN-wide transit and transport agreements such as the Cross-Border Transport Facilitation Agreement, the ASEAN Framework Agreement on the Facilitation of Goods in Transit, and the ASEAN Framework Agreement on the Facilitation of Inter-State Transport – including ratification, amendments to relevant domestic laws and regulations, and the establishment of implementing mechanisms/institutions.
- d) The MSR countries must ensure regular updating of their National Trade Repositories for the transparency of laws, regulations, and measures; and exchange best practices on regulatory management.
- e) Priority may be placed on investing in ICT infrastructure and building the capacity of officials so that all government agencies can issue all trade-related documents (e.g. the ASEAN Trade in Goods Agreement [ATIGA] Form D) through the National Single Window and ASEAN Single Window.

- f) The MSR countries may coordinate border procedures (e.g. integrated risk management, joint time release studies, and others) to reduce the time cost for traders at common checkpoints.

Digital connectivity provides a different dimension in connectivity. Many services will move online, including some medical, educational, financial, and governmental services. Universal e-identity and e-bank accounts have already been implemented in developing countries such as India, and some ASEAN Member States are considering introducing them. Although the digital divide is a concern, digital connectivity could offer another channel of inclusiveness.

The policy recommendation on digital connectivity is as follows:

- a) Subregional cooperation in ICT infrastructure building and related logistic construction is vital. Improving digital connectivity requires substantial efforts on improving connectivity infrastructure in both the physical world and cyberspace, rule setting to support a development-friendly ecosystem for digitalisation, and combining countries' national strategies and regional collaboration in eliminating institutional barriers.
- b) Public–private partnerships in capacity building and mitigating market inefficiency are important. To overcome obstacles in data connectivity and digital infrastructure, the public sector needs to take the lead to initiate and drive the increased supply of public goods in both quantity and quality. Private sector involvement will be equally important to make the development sustainable.
- c) Information sharing, in support of production sharing and economic cooperation, will be a new component of MSR cooperation to realise the free flow of data with trust and establish an integrated digital ecosystem that facilitates trade and investment effectively and accelerates digital adoption in the region.

4.3. Industrialisation

Industrialisation strategy can be organised according to type of unbundling or international division of labour (Table 3). Industrial development might not automatically follow improved connectivity. Some intentional effort is often required to gain international competitiveness in the first unbundling and strengthen location advantages in the second.

Table 3: Industrialisation Strategy

	The first unbundling	The second unbundling	The third unbundling
Industrial development	<ul style="list-style-type: none"> - Utilise comparative advantage and gain international competitiveness by productivity growth and medium-grade logistics - Apply IT and CT to rejuvenate industry [feedback] 	<ul style="list-style-type: none"> - Deepen the involvement in production networks by enhancing location advantages and reducing service link costs - Develop mid-size industrial agglomeration, encouraging local firms to get involved - Introduce IT and CT to better position in production networks [feedback] 	<ul style="list-style-type: none"> - Engage in service outsourcing [leap-frogging]
MSMEs	<ul style="list-style-type: none"> - Take care of small players in traditional industries - Well-disciplined workers needed 	<ul style="list-style-type: none"> - Foster supporting industry to take part in production networks - Engineers and managers in demand 	<ul style="list-style-type: none"> - Incubate start-ups - Programmers and entrepreneurs required

CT = communication technology; IT = information technology; MSMEs = micro, small, and medium-sized enterprises.

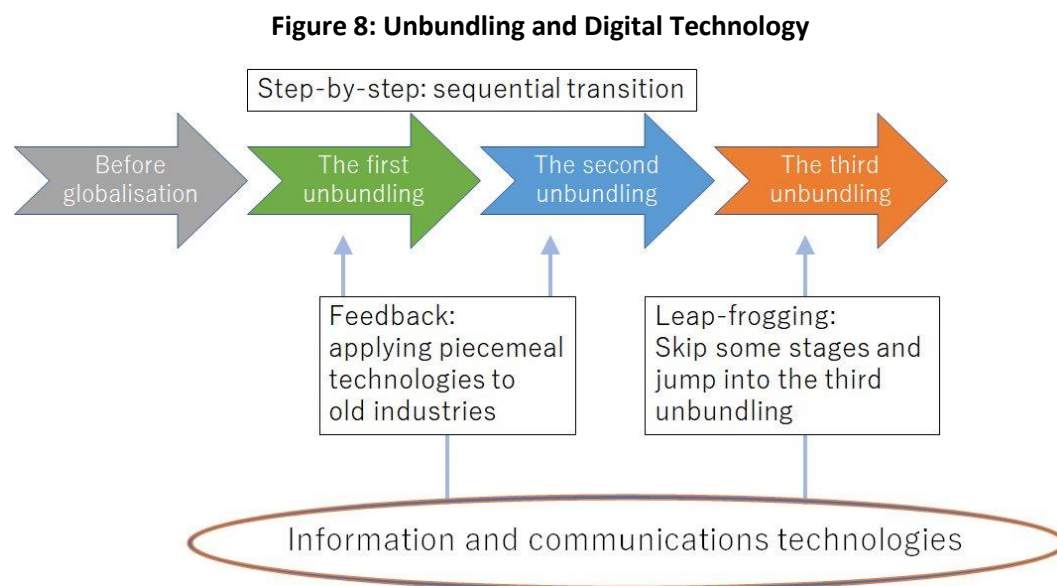
Note: Items in red indicate that they are related to IT and/or CT.

Source: ERIA.

The policy recommendation on industrialisation is as follows:

- To deepen involvement in international production networks in the second unbundling, strengthening location advantages is crucial, together with reducing service link costs (Jones and Kierzkowski, 1990). Improving the business climate and providing industrial estate services are amongst the ways to upgrade location advantages. Forming efficient industrial agglomerations stabilises the industrial structure, encourages local firms to participate in production networks, and accelerates technology transfer and spillover (Kimura and Ando, 2005).
- The MSR countries are encouraged to eliminate obstacles to businesses, industrialisation, and technological upgrading. There is much room for improvement in the conditions for starting a business and attracting foreign direct investment.
- Industrial estates and special economic zones are often effective in encouraging local and multinational companies to tap into global and regional markets and helping to upgrade the industrial and export structure. In addition, industrial policies should lend support for innovation conducted by private firms.
- The economic corridor concept is effective in coordinating various policy modes for industrialisation. For example, the MSR and neighbouring countries may want to promote the Mekong–India Economic Corridor to generate industrialisation that connects Ho Chi Minh City, Bangkok, and Dawei in Myanmar. The Mekong–India Economic Corridor has great potential for becoming a major manufacturing corridor because the transit time of cargo going to India, the Middle East, and European Union countries will shorten without circumventing the Malay Peninsula, based on the planned deep seaport in Dawei.

- e) The use of digital technology will add a new dimension to development. A step-by-step transition through the stages of unbundling is a way to steadily upgrade industries but may not be the only choice for developing countries after digital technologies become available (Kimura, 2018) (Figure 8). Some stages can be skipped and a new type of international division of labour, service outsourcing or the third unbundling (leapfrogging) explored. Traditional industries in the first and second unbundling benefit by introducing piecemeal digital technologies or ‘feedback’.



Source: ERIA.

Micro, small, and medium-sized enterprises (MSMEs) must be given special attention because their development augments international competitiveness and achieves inclusive growth. MSMEs range from small players in traditional industries to parts producers in supporting industries to high-tech start-ups. Their human capital requirements differ. The policies applied may need to be adapted depending on the nature of the MSMEs.

The policy recommendation on MSMEs is as follows:

- a) Further liberalisation of investment and trade is required in lagging member states in the region, especially Myanmar, the Lao People’s Democratic Republic (PDR), and Cambodia.
- b) The MSR countries may maximise the role of business development services in MSME development.
- c) Governments may provide more training for MSMEs, especially to improve entrepreneurial skills in micro and small enterprises.
- d) Governments may invent workable programmes that can establish the linkage between small and medium-sized enterprises and all actors in industrial clustering to deepen industrial agglomeration. This is especially pertinent for the linkage between

MSMEs and large corporations/multinational enterprises which are typically engaged in international production networks.

- e) The MSR countries may open up digital-related sectors – including telecommunications, retail, and logistics services – to increase the participation of MSMEs in e-commerce and in the IR4.0 model.

4.4. Human welfare

Health services and human capital development are central to human welfare as well as the foundation of rapid and inclusive growth in the long run. The MSR still has substantial disparities in human welfare, across countries and within each country. Much remains to be done. Digital technology will be one of the novel tools to improve human welfare.

Health services will draw particular attention due to the COVID-19 pandemic. Cambodia, the Lao People's Democratic Republic, and Myanmar are still struggling to provide quality universal healthcare. Health insurance systems are being developed but face various difficulties in most countries. Public and private initiatives require fine-tuning. International collaboration in advanced medical services has just started. Many issues need solving in individual countries and amongst countries.

The policy recommendation on health services is as follows:

- a) The MSR countries may want to upgrade their ability to respond to a potential contagious disease, which includes developing a system of medical laboratory facilities.
- b) It is important to enhance the access of vulnerable groups, including immigrants, to universal healthcare services by expanding the coverage of health insurance. It is vital to enrich nutritional interventions to reduce mortality, especially mortality under age five, ending all forms of malnutrition, diet, and diet-related non-communicable diseases. We need to promote public awareness about nutrition and health care, especially for disadvantaged and vulnerable populations in each of the MSR countries.
- c) MSR countries should commit to strengthening exchanges of the Greater Mekong Subregion Health Cooperation Strategy, 2019–2023, which includes three pillars: health security as a regional public good, health impacts of connectivity and mobility, and health workforce development.
- d) A high-level exchange on healthcare must be developed amongst MSR countries, including organising annual conferences and exchanging information amongst high-level leaders in healthcare. In addition, the quality of human resources in the healthcare sector can be upgraded through cooperative training, sharing experiences, and skill-sharing programmes.

- e) COVID-19 will accelerate the application of e-medicine throughout the world. The MSR must catch up with this trend to utilise a novel way of overcoming distance. In addition, the introduction of e-identity and e-insurance should be seriously discussed, considering privacy and data protection and government codes of conduct.

Human capital development is an element of location advantage, attracting economic activities. It is the basis of long-term economic growth and people's welfare. The disparities in human capital development across the MSR countries and within them are huge. Although enrolment ratios of primary and secondary education have been substantially enhanced in the past 2 decades even in lagging countries, quality needs substantial upgrading. The higher education sector is still small in some countries. Informal education, including vocational training, is not yet well organised.

The policy recommendation on human capital development is as follows:

- a) Policies aimed at educational achievements should include (i) reducing the learning gap in each country by focusing on learning outcomes, skills, and competencies so that students are able to adapt their skills, critical thinking, and collaboration in their work; and (ii) harmonising technical and vocational education and training standards.
- b) Cooperation mechanisms in student and academic exchanges, technical and vocational education, and training, as well as a mechanism for managing migrant labour amongst countries, should be identified. Regulations must be harmonised.
- c) Building databases and sharing information systems on education amongst MSR countries are required.
- d) The MSR countries are encouraged to enhance the attraction of private resources for the development of educational systems and facilitate the flow of investment capital amongst MSR countries.
- e) COVID-19 will accelerate the application of e-education as an important complement for on-site education throughout the world. The MSR should catch up with this important trend and start applying such methods at all levels of education.

4.5. Sustainability

Of development initiatives in the developing world in the last 3 decades, the MSR has been the most successful in achieving high economic growth with rapid poverty alleviation. The MSR can be a model case for sustainability for three reasons.

First, the link between economic growth and sustainability is salient in the MSR. Growth and sustainability are not always trade-offs; they are often complementary. The Sustainable Development Goals claim that sustainability can be achieved without giving up growth. The MSR can present several cases that prove that it is possible.

Second, subregional initiatives are imperative in the MSR. Policies for sustainability tend to be domestic and sometimes even strategic from a single country's viewpoint. The MSR shows that such an approach may not be optimal. Although effective collaboration in a subregion is not at all easy, the MSR will provide valuable lessons for the rest of the world.

Third, the MSR has enough intellectual resources to implement effective subregional cooperation. Energy, water resource management, and the environment are topics about which the MSR and ASEAN have accumulated knowledge from research and experience.

The policy recommendation on energy is as follows:

- a) The MSR must secure sufficient energy to drive economic growth in the coming decades. Enhancing hydropower-driven energy trade amongst the MSR countries through grid connectivity will not only help them to secure adequate supply but also help to achieve environmental goals. This necessitates conducting an overall assessment, optimisation, and adjustment of planned cross-border power connectivity plans, establishing technical standards, and improving institutional capacities to meet the goals.
- b) A bold vision of a regionally integrated energy market is needed to bring together all the demand and supply solutions at a national level. The MSR must find ways to develop a comprehensive low-carbon energy investment roadmap as a strategy to show leadership in removing the barriers to clean energy integration and to make new cross-border investments more cost-effective through effective regulations, replacing subsidies with incentives for energy efficiency, and financial innovations.
- c) Investment in new digital technology and communication infrastructure is needed to maintain robustness and competitiveness. The MSR must prioritise the integration of these technologies to modern renewables such as solar and wind, clean coal technologies, and hydrogen fuel, to make the conventional energy mix cleaner and more efficient. The related set of actions at multiple fronts needs earmarked financial resources.

The policy recommendation on water resources management is as follows:

- a) Riparian and partner countries should promote more rule-based governance of water management in regional cooperation by (i) encouraging riparian countries to adhere to international water law; and (ii) establishing common standards and rules for integrated water resources management, such as a code of conduct for the Mekong River Basin.
- b) The MSR countries should embrace the implementation of the 1995 Mekong Agreement through the five procedures and their technical guidelines, as they will provide an integrated water resources management rule-based system for water resources development, to provide the most benefit with minimum environmental and social harm.
- c) Members and partners should help strengthen the role and capacity of the MRC as a hub for water management and coordination amongst other mechanisms in the field of water management, and strengthen the above-mentioned implementation of MRC procedures and technical guidelines. Data sharing, not only in the rainy season but also in the dry season, is crucial for equitable water resources management as well as disaster prevention and management.

- d) Riparian countries should coordinate to promote synergy amongst Mekong regional cooperative mechanisms so that they can be complementary and help address the interests of riparian countries. ASEAN can play a more central role in the development of the MSR and facilitate the policy coordination process, paving the way for elevating water governance and diplomacy in the Mekong River Basin to the regional agenda.
- e) Looking at the bigger picture, riparian countries can find alternative development opportunities which are less dependent on hydropower and extensive water-use production. We can promote cooperation amongst Mekong riparian countries regarding equitable and sustainable use of the Mekong River's resources.
- f) Transboundary issues/conflicts should not always be looked upon as negative – they can be healthy when managed effectively. Healthy conflict management can lead to growth and innovation, new ways of thinking, and additional management options. It is important to understand transboundary conflict clearly so that it can be managed effectively by reaching consensus amongst all stakeholders.
- g) Ensuring transparency and providing for public consultation are amongst the keys to the success of transboundary issues. This would help to create an enabling environment for community participation, especially to enhance the role of women.
- h) The MSR countries should envisage the changes that will have significant impacts on water resources management in the Mekong basin, especially what the changes will be, how the patterns of spatial distribution will change, and the extent to which these changes will benefit people through effective state, community, and private sector action to ensure food security for the poor.
- i) Finally, water diplomacy – bilaterally and multilaterally – should be promoted on the basis of transparency and goodwill.

The policy recommendation on environment is as follows:

- a) The MSR is more vulnerable to climate risks than any other subregion. Adaptive capacity has to be implemented at two levels. Community-level strategies such as climate-smart agriculture, payment for ecosystem services, income diversification through afforestation, etc. must be put in place to reduce the risks by strengthening early warning systems. At the national level, policy response could include designing a contingency fund within national budgets to provide aid when a climate-induced natural disaster takes place.
- b) The Mekong River is regarded as a major source of marine plastic debris. Monitoring of plastics flowing in the river should be conducted to measure actual leakage and design an effective plastic waste management system. Governments should reduce single-use plastic, provide waste collection services, dispose of waste properly, and promote recycling of plastic waste, through regionally coordinated activities.

- c) Cities are where some of the MSR's sustainability challenges are concentrated: unsustainable resource consumption, air pollution, and water-borne diseases. Transforming cities into smart cities, based on the principles of a low-carbon and circular economy, provides opportunities to promote economic growth, offers equitable social benefits, and minimises environmental risks. Numerous instruments for sustainable cities are available and have been tested at the ASEAN level, but need to be applied in a tailored, context-specific way, with appropriate application of IoT technologies for the MSR.

5. Concluding Remarks

The path to raising all MSR countries to upper-middle-income status will require substantial upgrading of the industrial structure and enhancement of people's welfare. To achieve rapid, innovative, inclusive, and sustainable economic growth, the MSR is encouraged to place its policy priorities on connectivity, industrialisation, human capital, and sustainability.

ASEAN could accelerate its multilayered approach to deeper economic integration. A subregional approach is particularly effective for bridging development gaps, advancing connectivity, and promoting international coordination. Using the MSR as a model case, ASEAN could reactivate other subregional initiatives for the prosperity of the whole ASEAN.

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