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Infrastructure Development, Trade Facilitation, and Industrialisation in the Mekong Region

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1. Introduction

The Mekong region consists of the five continental Association of Southeast Asian Nations (ASEAN) countries: Cambodia, the Lao People's Democratic Republic (Lao PDR), Myanmar, Thailand, and Viet Nam. It has come under the spotlight for a long time given that it has great growth potential in the ASEAN economy. Meanwhile, Cambodia, the Lao PDR, and Myanmar (CLM) – the latecomer countries – need to catch up with the developed ASEAN Member States (AMS) to reinforce economic integration, to narrow development gaps within ASEAN, and to achieve sustainable economic development. Accordingly, economic development in the Mekong region is a critical factor for driving ASEAN overall.

Two theories – the flying-geese theory (Akamatsu, 1962) and the fragmentation theory (Jones and Kierzkowski, 1990) – can explain the rapid economic development that is ongoing in the Mekong region. Although they focus on different development mechanisms,⁶ both theories propose that a development or wage gap generates industrial dynamics across and within countries through international and regional trade. The industrial rearrangements we can observe in the manufacturing industries, e.g. China Plus One, Thailand Plus One, and (future) Viet Nam Plus One, are in line with this development trend.⁷ Thus, infrastructure and trade facilitation are essentially important if we want to take maximum advantage of the potentiality of industrialisation in the Mekong region. Infrastructure is expected to provide better logistics for trade, while trade facilitation enables a cost and time reduction in trade.

In this respect, Mekong development has been promoted mainly in the framework of the Greater Mekong Subregion (GMS) organised by the Asian Development Bank (ADB), which includes China's Yunnan Province and Guangxi Zhuang Autonomous Region in addition to the five Mekong countries. ADB initiated the seminal GMS Economic Cooperation Program in 1992, to which tremendous cooperation efforts have been devoted, especially

⁶ The flying-geese theory describes the process whereby a country upgrades its industrial structure by transforming itself from an import substitution to export orientation country in terms of final goods. On the other hand, the fragmentation theory stresses the process whereby a country moves up a step on a value chain through the export of both final and intermediate goods.

⁷ The 'plus one strategy' places CLM countries as production bases that complement mother factories in China, Thailand, and Viet Nam. More concretely, in the case of Thailand, labour-intensive manufacturing processes (e.g. wire harnesses) are transferred to factories in CLM, and parts manufactured there are moved back to Thailand to complete final products (e.g. assembling automobiles).

in the trade and transport sectors.⁸ Moreover, the construction of the three economic corridors – the East–West Economic Corridor (EWEC), North–South Economic Corridor (NSEC), and Southern Economic Corridor (SEC) – has been advanced to build an effective network of production and logistics. Following the ADB-led initiative, neighbouring countries such as China, Japan, and Australia have extended their development plans and programmes widely in the Mekong Subregion.

The important thing is that the Mekong region needs to enhance its connectivity not only within the region but also with bordering countries, especially China and India. Since intra- and extra-regional tariffs have been drastically removed or reduced (in particular, almost all intra-regional tariffs have been removed in the ASEAN Free Trade Agreement), the next step is to steadily promote infrastructure development and trade facilitation, which help Mekong countries reinforce economic connectivity. As the Economic Research Institute for ASEAN and East Asia (ERIA, 2015) indicated, based on the fragmentation theory, both transportation costs and service link costs should be steadily reduced to benefit from global/regional value chains. There is a high expectation of vigorous industrialisation, in tandem with cross-border trade, by using the three economic corridors effectively.

In this chapter, we highlight the following three important aspects: infrastructure, trade facilitation, and industrialisation. Importantly, these issues are not independent but rather closely connected with each other. We cannot necessarily develop comprehensive discussion of background information about their current progress due to the space limitation, but we aim at presenting straightforward and useful policy recommendations that can be applied to the Mekong region.

2. Infrastructure

The connectivity of the Mekong region with other neighbouring countries has been of increasing importance as a single conglomerate of ‘continental ASEAN’ countries. In particular, connectivity is strongly required with the emerging heavily populated China and India as well as other AMS, since the Mekong region is geopolitically located at the centre of these countries. The Mekong countries need to reap the fruits of the opportunities offered by the large markets of neighbouring countries through international trade, which will be enabled by the enhanced physical connectivity.⁹

The most critical bottleneck has been the Mekong River, which flows along the Myanmar–Lao PDR and Thailand–Lao PDR borders as well as the interior of Cambodia and Viet Nam. However, this bottleneck has been gradually eliminated through the construction of ‘friendship bridges’.¹⁰ Since international highways (e.g. ASEAN highways) are also being built, the amount of cross-border transportation that passes the three economic corridors

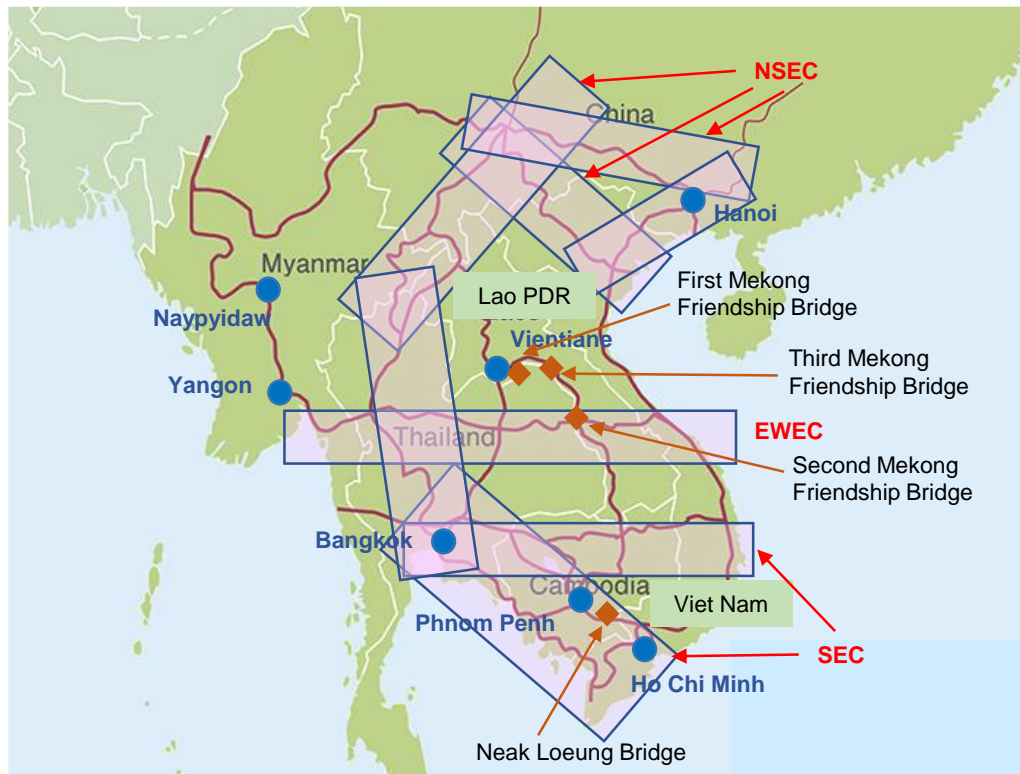
⁸ The GMS Economic Cooperation Program covers nine sectors: agriculture, energy, environment, human resources development, investment, telecommunication, tourism, trade, and transport.

⁹ ASEAN formulated the master plan on ASEAN connectivity (ASEAN, 2011 and 2016) to support measures undertaken by the ASEAN Community, particularly the ASEAN Economic Community (AEC).

¹⁰ Five ‘friendship bridges’ have been constructed so far with the support of Japanese official development assistance loans to facilitate cross-border transportation in the Mekong region.

(EWEC, NSEC, and SEC) is expected to increase in future.¹¹ In addition, railway projects which are expected to facilitate the movement of goods and people have been under consideration (e.g. the Singapore–Kunming Railway) and construction (e.g. the China–Lao PDR Railway). Figure 1 depicts the three economic corridors and main physical infrastructure, including roads and bridges.

Figure 1: Three Economic Corridors in the GMS



EWEC = East–West Economic Corridor, GMS = Greater Mekong Subregion, Lao PDR = Lao People’s Democratic Republic, NSEC = North–South Economic Corridor, SEC = Southern Economic Corridor.
 Source: Author compilation based on the map provided by Nippon Express.
<https://www.nipponexpress.com/press/release/2018/06-Jun-18-1.html> (accessed 12 March 2020).

The Comprehensive Asia Development Plan (CADP) series, published by ERIA, has focused on concrete infrastructure projects that are necessary for industrial development and innovation in ASEAN and East Asia.¹² The previous CADP 2.0 (ERIA, 2015) selected 761 infrastructure projects in total, of which 483 projects are concentrated in the Mekong region. According to Fujisawa, Wada, and LoCastero (2019), which followed up on the progress of these projects, 222 projects (46%) remain at the feasibility study or conceptual stage, while 96 projects (20%) are at the operational stage and 165 projects (34%) are at the construction stage (Table 1). Moreover, in the CADP 3.0 to be published in September 2020 (ERIA, forthcoming), as many as 402 (pending) projects (52% of the total) in the

¹¹ For example, the planned Hanoi–Vientiane Expressway is likely to link the main cities of the three economic corridors and consolidate the connectivity between Bangkok, Vientiane, and Hanoi (Ambashi, 2019).

¹² The types of infrastructure are classified as road/bridge, railway, port/maritime, airport, industrial estate/special economic zones (SEZs), energy/power, water supply/sanitation, urban development, telecommunication, and others.

Mekong region are considered indispensable for industrialisation and innovation. Thus, since the construction of physical infrastructure has not made much progress yet, it is important to carry out the planned projects promptly.

Table 1: Stages of Infrastructure Projects in the Mekong Region Assumed in CADP 2.0

Country	Operational	Construction	Feasibility study or conceptual	Total
Cambodia	26	19	23	68
Lao PDR	11	22	28	61
Myanmar	18	28	41	87
Thailand	13	51	51	115
Viet Nam	28	45	79	152
Total	96	165	222	483

Lao PDR = Lao People's Democratic Republic.

Note: Infrastructure projects are cited from ERIA (2015).

Source: Fujisawa, Wada, and LoCastero (2019).

The quality of infrastructure should be highlighted to ensure long-term benefits for the Mekong region.¹³ When it comes to planning infrastructure building, cost considerations are important to construct, operate, and maintain infrastructure efficiently. However, cost should not be the single criterion for adopting a project plan. Rather, infrastructure should be suited to the stage of industrialisation and economic development. The required resilience of infrastructure against various risks, such as natural and human-made disasters (including cybersecurity threats), is an important element in setting the appropriate infrastructure quality. ERIA (2015) discussed the quality of infrastructure in terms of effective project design, implementation, and partnership amongst stakeholders.

Finally, the forthcoming CADP 3.0 sheds light on the role of urban and socio-economic infrastructure such as smart cities, congestion control system, and disaster prevention and management, in addition to traditional economic infrastructure such as roads, bridges, and railways. In the near future, urban and socio-economic infrastructure that increases amenities will be necessary for Mekong countries and to attract professional skilled workers and immigrants who can create advanced product innovation.¹⁴ It should be noted that radical innovation tends to occur in agglomerations such as cities, where close interaction of people and creation of ideas is expected. In relation to this, large cities in the Mekong region – Bangkok, Hanoi, and Ho Chi Minh – would have the potential to transform into 'innovation cities' because they already have good resources for innovation, such as industrial agglomeration with foreign direct investment (FDI), public research centres, and universities. Hence, such cities need to initiate a better arrangement of urban and socio-economic infrastructure immediately and to construct economic infrastructure.

¹³ Asia-Pacific Economic Cooperation (2014) provided an overview of the whole cycle of infrastructure projects from the viewpoint of the quality of infrastructure.

¹⁴ According to Glaeser, Kolko, and Saiz (2001), urban amenities include (i) the presence of a rich variety of services and consumer goods, (ii) aesthetics and physical setting, (iii) good public services, and (iv) speed.

3. Trade Facilitation

3.1. Transport and Transit Facilitation

In addition to physical infrastructure, trade facilitation should be arranged so that production networks can work properly. Since the Mekong region has transboundary economic corridors, it has various cross-border procedures such as customs clearance. Generally, cross-border procedures involve significant costs and time requirements if each country implements its own procedures without coordination and harmonisation with other countries. For example, if cargo trucks are permitted to run only in their home countries, transport service providers arriving at the national border need to move their cargo to other trucks that are permitted to run in the destination countries – entailing risks of breakage, theft, and loss of cargo, as well as loss of time. To promote trade facilitation, ASEAN and Mekong countries have devoted many efforts to simplifying cross-border procedures in multi-country frameworks.

The Cross-Border Transport Agreement (CBTA), which is part of the GMS Economic Cooperation Program, is representative of such efforts. The CBTA consolidates key nonphysical measures for efficient cross-border land transport in areas such as (i) vehicles (on designated open routes), drivers (with mutual recognition of driving licences and visa facilitation), and goods (with regimes for dangerous and perishable goods) crossing national borders through the GMS road transport permit system; (ii) avoidance of costly trans-shipment through a customs transit and temporary importation system and a guarantee system for goods, vehicles, and containers; (iii) the reduction of time spent at borders through single-window inspection, single-stop inspection, information and communication technology (ICT) equipment and systems for information exchange, risk management, and advance information for clearance; and (iv) increases in the number of border checkpoints implementing the CBTA to maximise its network effects and economies of scale (ADB, 2011) (Table 2).

Table 2: Annexes and Protocols of the CBTA

Category	Document name
Annex 1	Carriage of Dangerous Goods
Annex 2	Registration of Vehicles in International Traffic
Annex 3	Carriage of Perishable Goods
Annex 4	Facilitation of Frontier Crossing Formalities
Annex 5	Cross-Border Movement of People
Annex 6	Transit and Inland Clearance Customs Regime
Annex 7	Road Traffic Regulation and Signage
Annex 8	Temporary Importation of Motor Vehicles
Annex 9	Criteria for Licensing of Transport Operators for Cross-Border Transport Operations
Annex 10	Conditions of Transport
Annex 11	Road and Bridge Design and Construction Standards and Specifications
Annex 12	Border Crossing and Transit Facilities and Services
Annex 13a	Multimodal Carrier Liability Regime
Annex 13b	Criteria for Licensing of Multimodal Transport Operators for Cross-Border Transport Operations
Annex 14	Container Customs Regime
Annex 15	Commodity Classifications System
Annex 16	Criteria for Driving Licences
Protocol 1	Designation of Corridors, Routes, and Points of Entry and Exit (Border Crossings)
Protocol 2	Charges Concerning Transit Traffic
Protocol 3	Frequency and Capacity of Services and Issuance of Quotas and Permits

CBTA = Cross-Border Transport Agreement.
Source: ADB (2011).

After it was signed in March 2007, the CBTA eventually entered into force amongst six members in 2015. However, as some of its content has already become obsolete, members are working on revising the CBTA into a new version (CBTA 2.0) with the support of the Australian Government (AusAID).¹⁵ In addition, an ‘early harvest’ measure has been

¹⁵ This description and the rest of this paragraph are indebted to Kasuga (2019), which reviewed cross-border road transport developed in the Mekong region.

introduced to increase the number of licences allocated to vehicles in international trade, but the system of issuing licences is extremely complicated given that licenses are exchanged only amongst bilateral or trilateral transport agreements (in other words, the ‘spaghetti ball phenomenon’). With respect to customs clearance procedures, although all Mekong countries have introduced electronic customs clearance, these systems are different and sometimes incompatible because they have been provided by different donors. The single-stop inspection¹⁶ is expected to be an effective tool to facilitate trans-border customs clearance in a more streamlined manner. However, the implementation of single-stop inspection has been delayed significantly as it requires considerable coordination and harmonisation of rules and regulations. Therefore, based on the above, the CBTA still has room for improvement.

At the regional level, ASEAN has negotiated important agreements on transport and transit facilitation, including the ASEAN Framework Agreement on the Facilitation of Goods in Transit (AFAFGIT), to achieve the ASEAN Economic Community (AEC), which is based on close production networks and the attraction of FDI. Other relevant agreements include Protocol 7 of the AFAFGIT on Customs Transit Systems, the ASEAN Framework Agreement on the Facilitation of Inter-State Transport (AFAFIST), the ASEAN Framework Agreement on Multimodal Transport, and the ASEAN Framework Agreement on the Facilitation of Cross Border Transport of Passengers by Road Vehicles (CBTP).¹⁷ The ASEAN Trade Facilitation Strategic Action Plan documents the full operationalisation of the ASEAN Customs Transit System (ACTS), while the transport facilitation subsection of the section on Enhanced Connectivity and Sectoral Cooperation of the AEC Blueprint 2025 specifies the operationalisation of the AFAFGIT, AFAFIST, the ASEAN Framework Agreement on Multimodal Transport, and the CBTA. However, the four major transport and transit agreements have yet to be fully implemented due to lack of ratification at the national level.

The ACTS provides good practice when fully implemented and could lead to seamless transit in the GMS. It includes a single electronic goods declaration from departure to destination; duties and taxes at risk covered by a single guarantee that is reduced or waived for authorised transit traders; the privilege of simplified procedures given to authorised transit traders; the application of common risk management techniques; waiver of the need to transfer goods to a different truck in each country; and comprehensive computerisation linking all customs offices in transit routes and linking all traders to customs offices of departure.

The GMS countries stand to benefit the most from the full implementation of these agreements and inspire the rest of the region to fully facilitate the regional movement of goods. The transport and transit agreements mentioned above, if fully implemented, will not only minimise choke points at the borders, but will also facilitate trans-shipment and

¹⁶ Single-stop inspection is a system where custom officials from exporting and importing countries collaborate to inspect cargo in a common control area based on the CBTA.

¹⁷ For more details on the AFAFGIT, see ASEAN Customs Transit System (2019).

transit of goods, especially for landlocked countries such as the Lao PDR which need other country's sea ports to export their goods.

3.2. Other Trade Facilitation Initiatives

Besides the transit and transport facilitation discussed above, other aspects of trade facilitation remain important issues that GMS countries can address to improve their development potential. The remaining aspects of trade facilitation include (i) transparency and information on laws, regulations, and procedures pertaining to trade; (ii) communication and active engagement with stakeholders, and release and clearance formalities at the border; (iii) import and export formalities behind the border; and (iv) cross-border coordination. These aspects of trade facilitation can be improved by GMS economies on a unilateral and concerted basis, building on several ASEAN-wide initiatives in which GMS economies could play a leadership role given their unique geographic situation.

ERIA, in collaboration with the ASEAN Trade Facilitation Joint Consultative Committee, conducted an ASEAN-wide study to understand the trade facilitation environment in the region in 2018, with a follow-up study planned for 2020. The objective of the study was to provide recommendations for reducing intra-ASEAN trade transaction costs by 10% by 2020, a goal set by the ASEAN Economic Ministers in 2017. The study involved taking stock of various trade facilitation initiatives adopted by individual AMS. Thus, the study results shed light on areas where further cooperation on trade facilitation could help reduce trade transaction costs in the region.

When it comes to transparency of information, there is a high level of facilitation across ASEAN, including the GMS countries. All countries supplied information on their trade-related laws and regulations, and procedures on their respective National Trade Repositories (NTRs), which make it easier for traders to obtain information. However, English language versions of such information are not universally available. In addition, one aspect of NTRs which may require further work is to ensure that they are updated regularly with information on non-tariff measures (NTMs) to improve the transparency of NTMs. A more transparent list of NTMs would help facilitate trade and encourage investment in the GMS, as the countries progress towards designing better NTMs and efficiently administering them. In this regard, one initiative that the GMS could build on is the ERIA–United Nations Conference on Trade and Development NTM Database (Doan and Rosenow, 2019), which was developed in 2019 with the participation of AMS and includes all NTMs in force as of 2018. The raw or more detailed data have been shared with the respective AMS to assist them in building their respective NTRs.

Regarding engagement with stakeholders, each economy has mechanisms in place for private sector participation in the reforms process through formal bodies such as national trade facilitation committees, although they take different forms in each country and the level of actual engagement varies. Strengthening these mechanisms, especially to resolve cross-border issues, will identify and address problems faced by the private sector in moving their goods.

However, countries vary in their facilitation of release and clearance procedures. While more advanced countries such as Thailand have in place facilitative measures such as advanced rulings, pre-arrival processing, and authorised economic operators, in other countries such provisions are lacking or in progress. Furthermore, one way to reduce the time cost of cross-border trade is to conduct regular Time Release Studies (TRS) of border procedures to identify inefficiencies and bottlenecks, and reduce the time cost for traders. While some countries such as the Lao PDR conduct regular TRS, others perform them on an ad-hoc basis. To improve the efficiency of the border process, border countries could conduct joint TRS to identify issues that could be solved through better coordination at the border.

The export/import formalities and coordination component of trade facilitation focuses on the drive towards paperless formalities and the establishment and operationalisation of the National Single Window (NSW) and the ASEAN Single Window (ASW). The NSW and ASW have been the flagship initiatives on trade facilitation in ASEAN since the mid-2000s. The Roadmap for an ASEAN Community, 2009—2015 targeted 2012 as the year when all NSWs of the 10 AMS would be operational. NSWs could play a pioneer role in the modernisation and simplification of procedures in customs and other major trade-related agencies. However, the extent to which countries have implemented paperless trading varies tremendously. Given the importance of the NSW to trade facilitation, greater focus on and investment in improving NSWs deserve top policy priority by GMS countries. Investment in ICT infrastructure and capacity building of officials to use electronic systems is necessary to unleash the full potential of the NSWs. Thailand and Viet Nam's NSWs are more advanced and, along with a few other non-GMS AMS (Indonesia, Malaysia, and Singapore), have been participating in the ASW pilot project for electronic exchange of the document required for the ASEAN preferential tariff treatment (e-ASEAN Trade in Goods Agreement Certificate of Origin Form D). They could lead in encouraging the GMS countries to pursue the exchange of other electronic data or forms, such as the e-sanitary and phytosanitary certificates, which are important documents used in clearance of goods.

The experience of the GMS countries provides some good practices in transit and transport facilitation through cross-border coordination of border agencies. For example, the GMS–CBTA single-stop inspection mechanism allows border control authorities from two countries to conduct one-stop inspections jointly at inbound checkpoints. An example of this mechanism is at the Lao Bao–Dansavanh border crossing between Viet Nam and the Lao PDR, where Vietnamese trucks are checked only at the Dansavanh border crossing and Lao PDR trucks are checked only at the Lao Bao border crossing. This has resulted in a drastic drop in the average clearance time for trucks from 90 minutes to 29 minutes. The GMS CBTA also has a single window inspection wherein the different inspections and controls of goods (e.g. customs, phytosanitary/plant protection, and veterinary) are carried out jointly and simultaneously by the respective competent authorities involved. Indeed, as agreed by the Lao PDR and Viet Nam, the initial one-stop inspection conducted by customs will be expanded to all the customs-inspection-quarantine border agencies, resulting in an even faster clearance time. There is a need to fully implement such mechanisms at all major land crossings in the Mekong Subregion.

The status of trade facilitation varies across GMS countries. For Cambodia, trade facilitation is of high policy priority for the country to maintain its international competitiveness and to prepare for the eventual loss of its preferential access to developed country markets as its per capita income rises. Significant dissatisfaction remains on the part of logistics professionals and executives regarding Cambodia's trade facilitation. This means that early successes at the start of the trade facilitation reform have not been sustained. More importantly, the sharp deterioration in recent years seems to indicate that the country, without an operational NSW, has been increasingly constrained by the much larger volume and wider range of imports and exports of a fast-growing trade- and FDI-driven economy.

The Lao PDR experienced the sharpest improvement in rating and ranking on the World Bank's Customs Logistics Performance Index (LPI) amongst AMS from 2016 (ranked 155) to 2018 (ranked 74) (Arvis et al., 2018). The country was one of the top 10 performing lower middle-income countries in 2018. Nevertheless, much remains to be done to improve the trade facilitation regime in the country. A top priority should be the operationalisation of the NSW and its component foundations, such as the use of digital copies and electronic payments.

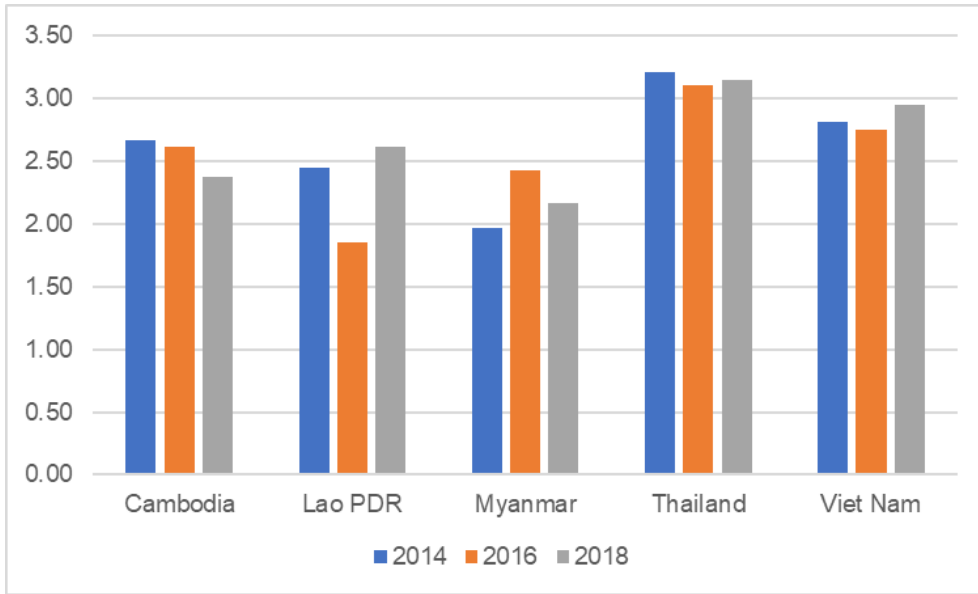
Myanmar's customs agency is significantly under-resourced, primarily in terms of technological capability and the human complement (despite the personnel expansion and training programmes), as the agency is undergoing significant organisational changes. Moreover, the agency only has about half a decade of experience of a large volume of (legal and formal) imports and exports, as the trade to gross domestic product ratio rose from less than 1% in 2011 to about 40% in 2016. One way forward is to complete the reforms while continuing the institutional strengthening of critical agencies, especially customs, in terms of both the necessary infrastructure and personnel.

Thailand was amongst the top five upper middle-income countries in logistics performance in 2018. With its 'Customs 4.0', Thailand has been rising its customs and border management to the next level towards greater trade facilitation while ensuring trade control and security. Such best practice could be emulated by other AMS in the GMS.

The improvement in Viet Nam's ranking on the LPI and the World Bank's Ease of Doing Business (World Bank, 2020) trading across borders indicator reflect the country's success in improving its trade facilitation regime. Viet Nam was the top-performing lower middle-income countries in the 2018 LPI (Arvis et al., 2018: 12). Such marked improvement in trade facilitation occurred alongside very robust FDI inflow and a sharp rise in exports and imports. There is still significant room for improvement for Viet Nam in terms of the efficiency and competence of customs and other border agencies, as well as the issue of informal payments.

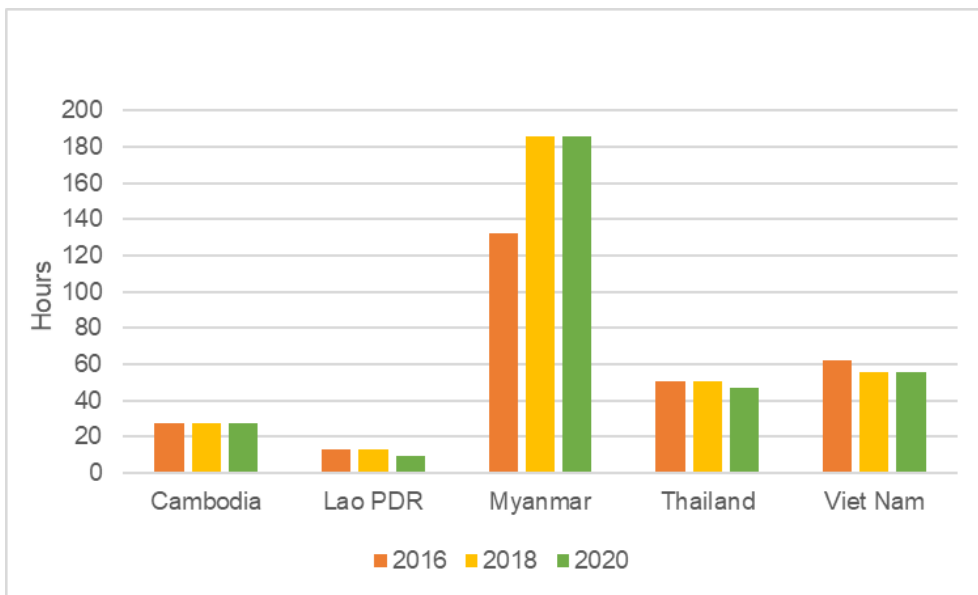
Figures 2 and 3 show the customs LPI and average border compliance time for GMS countries, respectively.

Figure 2: Customs LPI for GMS countries



GMS = Greater Mekong Subregion, Lao PDR = Lao People’s Democratic Republic, LPI = Logistics Performance Index.
 Source: World Bank (various years), Logistic Performance Index. <https://lpi.worldbank.org/> (accessed 29 May 2020).

Figure 3: Average Border Compliance Time for GMS Countries



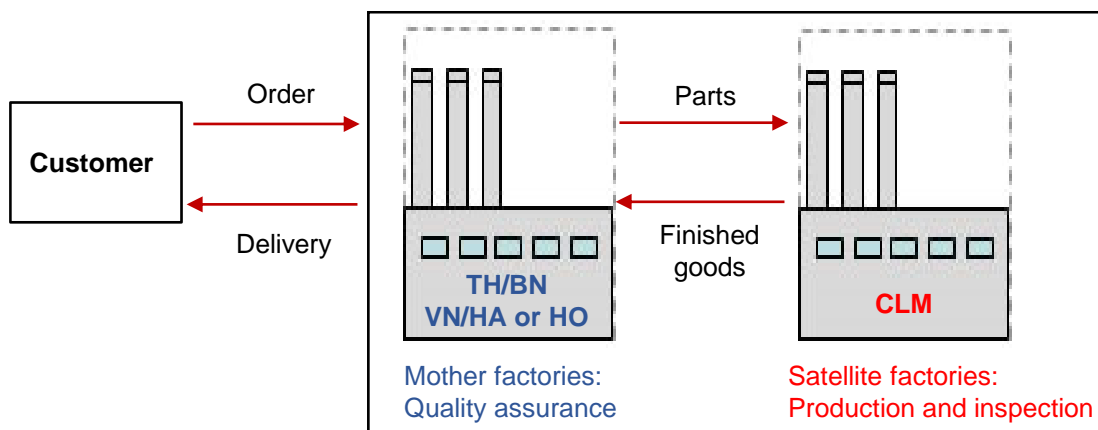
GMS = Greater Mekong Subregion, Lao PDR = Lao People’s Democratic Republic.
 Source: World Bank (various years), *Doing Business*. <https://www.doingbusiness.org/en/doingbusiness> (accessed 29 May 2020).

4. Industrialisation

As connectivity within the Mekong region and with neighbouring countries advances beyond physical bottlenecks, a supply chain network and industrial locations have been established alongside infrastructure. In connection with infrastructure development, it is crucial to form industrial agglomerations to enhance opportunities for local firms to link with international production networks. Through this linkage, local firms can access three technology channels: (i) affiliates of foreign firms in the same industrial agglomeration, (ii) universities and research institutes in the country, and (iii) direct learning from abroad through the exchange of experts and exports/imports. Furthermore, appropriate arrangements for industrialisation are highly likely to narrow development gaps in the region through the fragmentation of production and the movement of labour.

Notably, the Plus One strategies undertaken by multinational companies involve CLM countries with international production networks. In the manufacturing base, dispersion is occurring from Thailand to the borders with the CLM countries (i.e. Thailand Plus One strategy). At the same time, the Plus One strategy is being expanded to multinational firms in Viet Nam due to its rapid industrial advancement and wage increases around Hanoi and Ho Chi Minh City (i.e. Viet Nam Plus One strategy) (Figure 4).¹⁸ If these Plus One strategies are carried out in a full-scale operation, neighbouring countries will benefit from opportunities to be involved in deeper and wider global value chains, which will help them upgrade their industrial and export structures. In this respect, it is needless to emphasise that infrastructure and trade facilitation (described above) are essential to realise such Plus One strategies more effectively.

Figure 4: Thailand/Viet Nam Plus One



BN = Bangkok; CLM = Cambodia, the Lao PDR, and Myanmar; HA = Hanoi; HO = Ho Chi Minh; Lao PDR = Lao People's Democratic Republic; TH = Thailand; VN = Viet Nam.
Source: Ambashi (2019).

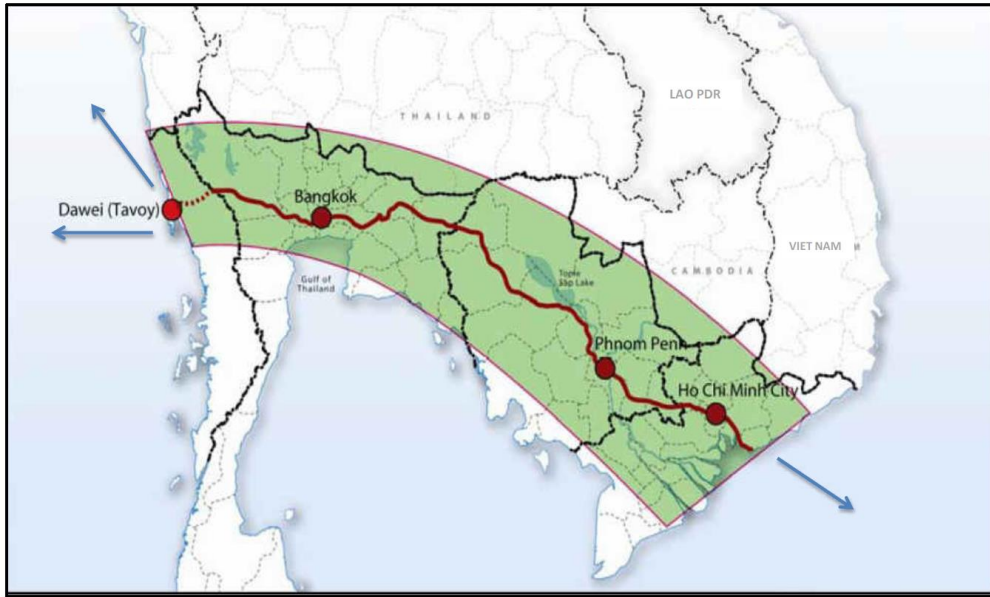
¹⁸ These Plus One strategies are envisioned by the private sector. For instance, in the ERIA capacity-building symposium addressing the Way Forward to Develop Industrial Parks and Special Economic Zones in the Lao PDR on 8 February 2019, Masao Suematsu, the president of a Japanese automobile-related company in ASEAN, argued that the Lao PDR would have the potential to receive production and inspection orders as satellite factories affiliated with mother factories in both Thailand and Viet Nam.

As an example of industrialisation visions in the Mekong region, Ambashi (2019) drew attention to the so-called Bangkok–Vientiane–Hanoi Economic Corridor that could be promoted by the possible construction of the Hanoi–Vientiane Expressway. On the one hand, policymakers and the private sector wish to connect Bangkok and Hanoi, both of which have been growing as pillars of economic development in the Mekong region. On the other hand, Ambashi (2019) stressed the importance of formulating effective industrial development strategies that take maximum advantage of infrastructure and depict the steady path to industrialisation of the region. Specifically, we should locate industrial estates and special economic zones (SEZs) close to essential infrastructure and large cities that are final consumption destinations while considering labour force mobility and wage levels. It is demonstrated that FDI will increase as more essential infrastructure is constructed and the distance to large cities becomes shorter (Ishida, 2020).¹⁹ In addition, logistics hubs and container depots should be established to help industrial estates and SEZs in the internal Mekong region cut cargo transportation costs and time.

Lastly, the Mekong–India Economic Corridor (MIEC) is a noteworthy effort to generate industrialisation that connects Ho Chi Minh City, Bangkok, and Dawei in Myanmar. The MIEC has great potential for becoming a major manufacturing corridor in the near future 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 sea port in Dawei. The Thailand and Viet Nam Plus One strategies are accelerated by the MIEC, so production networks can expand from the Bangkok Metropolitan Region to neighbouring countries including Cambodia, Myanmar, and Viet Nam. Above all, Cambodia and Myanmar are expected to accelerate their industrialisation through the MIEC, whereby the development gap would be narrowed amongst Mekong countries. Therefore, there are high expectations of cooperation and coordination amongst stakeholders engaging in the development of the Dawei deep seaport.

¹⁹ By conducting an econometric analysis of expressways' effects on FDI using the dataset of Viet Nam provinces, Ishida (2020) found that both the number and amount of FDI approvals tend to increase with the construction of expressways and proximity to Hanoi.

Figure 5: Mekong–India Economic Corridor



Lao PDR = Lao People’s Democratic Republic.
Source: ERIA (2015).

5. Policy Recommendations

Based on the review so far, we summarise policy recommendations with respect to infrastructure development, trade facilitation, and industrialisation in a concise manner.

5.1. Infrastructure Development

- Early construction of economic corridors in the GMS provides the benefits of integration, narrowing gaps, and sustainable development. However, Ishida (2019) showed that a trade deficit occurred or expanded in low-income countries although the international trade of all Mekong countries increased through economic corridors. Therefore, it is a pressing issue to establish a mechanism that facilitates the distribution of benefits stemming from infrastructure development, particularly to CLM, and that allocates the construction costs of infrastructure equally amongst relevant member countries. Mekong countries should establish or reinforce a consultation system in existing organisations such as the Mekong River Commission, the Ayeyawady–Chao Phraya–Mekong Economic Cooperation Strategy, and the Lower Mekong Initiative. Such systems could help member countries conclude intergovernmental and host government agreements, burden sharing of construction and maintenance costs of infrastructure amongst countries, public–private partnership mechanisms, etc.
- It is important to note that the entire inclusion of CLM through the construction of infrastructure would create potential synergies for Thailand and Viet Nam, which could consolidate their regional value chains through economic corridors developed in the Mekong region.

- Infrastructure is generally expected to produce the positive effects described above. However, we need to recognise the negative aspects of infrastructure development, such as traffic accidents, air pollution, environmental destruction, and water management.²⁰ Thus, the Mekong countries should have an agreed mechanism in which independent bodies assess the impacts of infrastructure development on economies, environment, and society in an appropriate manner, and present concrete recommendations to relevant governments to avoid or mitigate such negative effects and externalities.
- There is an urgent need for workable mechanisms to facilitate public–private partnerships, since many countries will spend their budgets on huge stimulus packages aimed at economic recovery during and after the COVID-19 pandemic. The Mekong countries should increase their reliance on private sector investment, at least in the medium term, after the pandemic.

5.2. Trade Facilitation

- The simplification of cross-border trade procedures is necessary, e.g. single-stop inspection or single window service regarding customs clearance. Although the common control area (CCA) was established in 2015 at the border checkpoint between Dansavanh (Lao PDR) and Lao Bao (Viet Nam) on the EWEC to promote cross-border trade facilitation, the CCA has not yet expanded to other border checkpoints. Moreover, the CCA has not dramatically reduced the time required for customs clearance due to limited opening hours of customs. Nevertheless, the Mekong countries are expected to introduce the CCA as soon as possible in other border checkpoints on economic corridors.
- There is a serious complication regarding the CBTA. Trilateral driving licences cannot be fully used due to transport restrictions, and as a result, only bilateral ones are available. It is necessary for the Mekong countries to make efforts to accommodate both the operations and regulations of the CBTA.
- GMS countries should fully implement existing subregional and ASEAN-wide transit and transport agreements such as the CBTA, AFAFGIT, and AFAFIST. Full implementation includes ratification, the formation of or amendments to relevant existing domestic laws and regulations, and the establishment of implementing mechanisms/institutions.
- GMS countries should develop a mechanism to ensure regular updating of NTRs to make laws and regulations (including NTMs) transparent, and comply with international commitments. GMS countries could exchange best practices to enhance cooperation.
- GMS countries should prioritize investments in ICT infrastructure and build the capacity of government officials so that all government agencies that issue permits and licences can participate in the NSW and ASW to facilitate electronic exchange

²⁰ See Chellaney (2019).

of relevant documents related to preferential tariff treatment, sanitary and phytosanitary certificates, etc.

- To reduce trade transaction costs at the border, Mekong countries should conduct regular, coordinated TRS of border procedures to identify inefficiencies and bottlenecks, and reduce the time cost for traders at common checkpoints. Furthermore, better coordination amongst border agencies is required to conduct inspections more efficiently by using integrated risk management.

5.3. Industrialisation

- The Mekong countries should implement industrial policies to eliminate obstacles to business, industrialisation, and technological upgrading. According to the World Bank's Doing Business 2020 (World Bank, 2020), their ease of doing business rankings are still low except for Thailand (Cambodia, 144; the Lao PDR, 154; Myanmar, 165; Thailand, 21; and Viet Nam, 70). Thus, there is much room for improving business conditions to start businesses and attract FDI. Moreover, since industrial agglomeration helps upgrade industrial and export structures, industrial estates and SEZs should be established to encourage local and multinational companies to tap into global and regional markets. In addition, industrial policies should lend support for innovation conducted by private firms by providing tax benefits, funds, access to foreign money, and so on.
- The adoption of the technology of the Fourth Industrial Revolution – such as artificial intelligence, the internet of things, automation, and robotics – gives manufacturing firms a better chance to increase production and strengthen competitiveness, although it is necessary to take care of employment displacement. Communication technology will also give service industries the opportunity to connect with global value chains through service outsourcing. The Mekong countries need to combine leapfrogging and feedback development strategies with the existing step-by-step development strategy. The former two strategies, based on digital technology, are particularly required in the impending new normal which will continue to restrict free movement of goods and services (particularly people).

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