



CONNECTIVITY AND INCLUSIVE GROWTH: LESSONS FROM THE GMS REGIONAL COOPERATION PROGRAM

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GREATER MEKONG SUBREGION PROGRAM: CONNECTIVITY AND INCLUSIVE GROWTH

- GMS Program created in 1992 groups Cambodia, Laos, Myanmar, Viet Nam, Thailand, Yunnan Province and Guangxi AR of PRC.
- Subregional cooperation based on improved connectivity (transport, power, telecommunications) to accelerate economic development and alleviate poverty in some of poorest regions of Southeast Asia.
- Poverty highly concentrated along unconnected border areas in all GMS countries.
- Most GMS countries implemented major market based economic reforms over past 20 years (Cambodia, Lao, Viet Nam and China); However to make these reforms inclusive, need to reach poorest people/regions which are unconnected to better off urban centers which benefited most from reforms.

GMS PROGRAM: CONNECTIVITY AND INCLUSIVE GROWTH

- 1995 Transport Master Plan leads to development of transport corridors to be progressively transformed into economic corridors.
- Better connectivity thru transport corridors cuts significantly time and cost of regional trade.
- Time cost equivalent to trade tariff (Hummels 2001: one day travel time to US=0.8% ad valorem tariff).
- Within GMS before connectivity, time cost could be infinite (closed borders), generally very large and unpredictable.
- Lack of connectivity reduced economic opportunities (industrial and agricultural investments, SMEs development, services development and generally employment generation), thus limiting inclusiveness of growth
- Link between growth, infrastructure investment and poverty reduction not unequivocal (Francois and Manchin 2007)
- Tested in case of GMS

GMS INFRASTRUCTURE AND TRADE FACILITATION

- Poor infrastructure is significant cost factor in economic activity
- Transport cost were significant in GMS (and still are to some extent): CIF/FOB ratio over 40 %
- Transport cost related to infrastructure development and realization of trade facilitation.
- Improved connectivity produces limited benefits without comensurated progress in trade facilitation.
- Progress in trade facilitation still limited in GMS and ASEAN: Cross border transport agreements, customs harmonization, transit regime, ROO and dispute settlement, phyto-sanitary controls.
- Border and behind border issues: very complex and lack of capacity (GMS and ASEAN)

GMS Connectivity

Road Transport Network

1992



GMS Connectivity

Road Transport Network

2006



GMS Connectivity

Road Transport Network

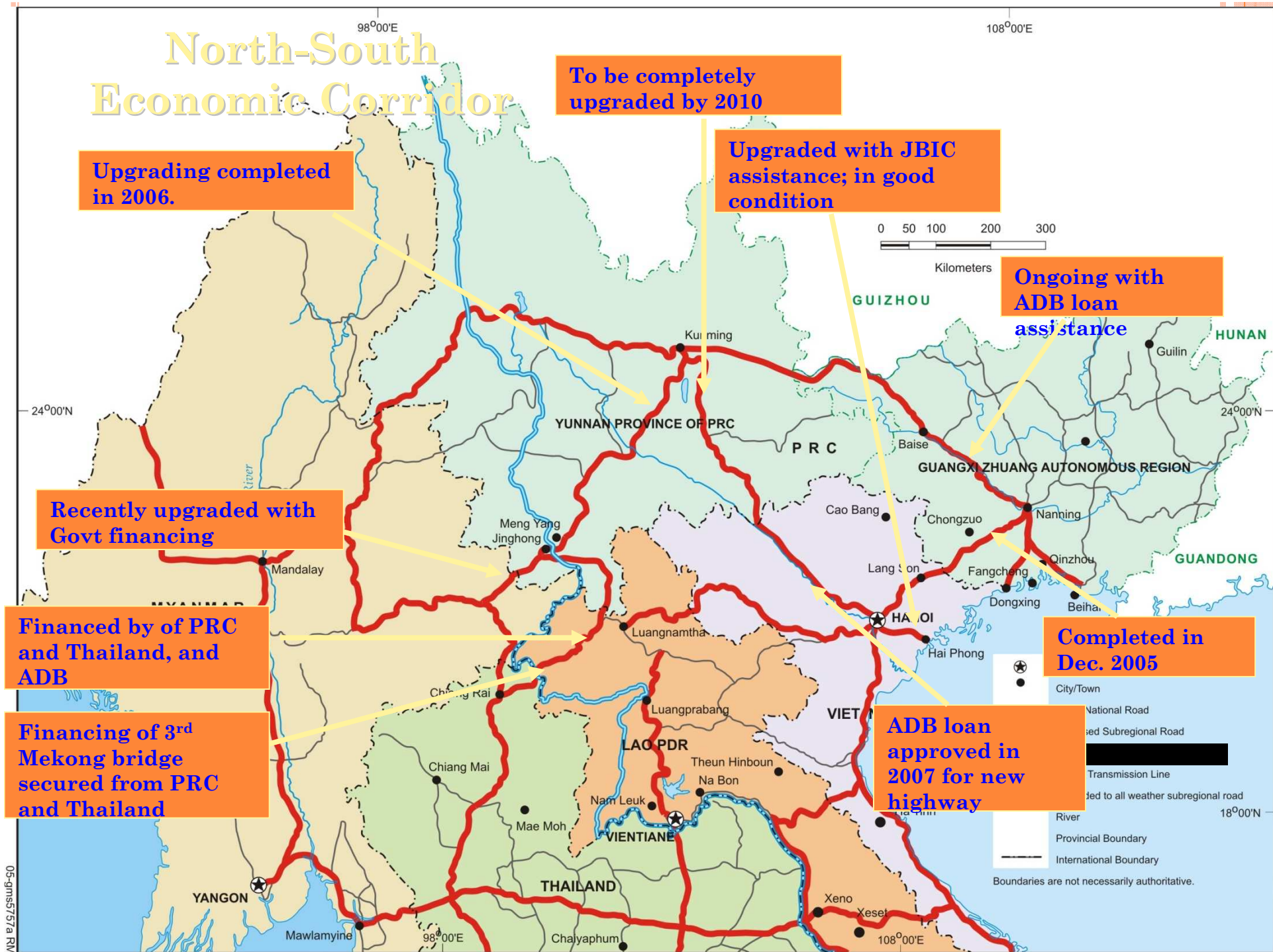
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Existing Corridors



North-South Economic Corridor



Upgrading completed in 2006.

To be completely upgraded by 2010

Upgraded with JBIC assistance; in good condition

Ongoing with ADB loan assistance

Recently upgraded with Govt financing

Financed by PRC and Thailand, and ADB

Financing of 3rd Mekong bridge secured from PRC and Thailand

Completed in Dec. 2005

ADB loan approved in 2007 for new highway

05-gms5757a RM



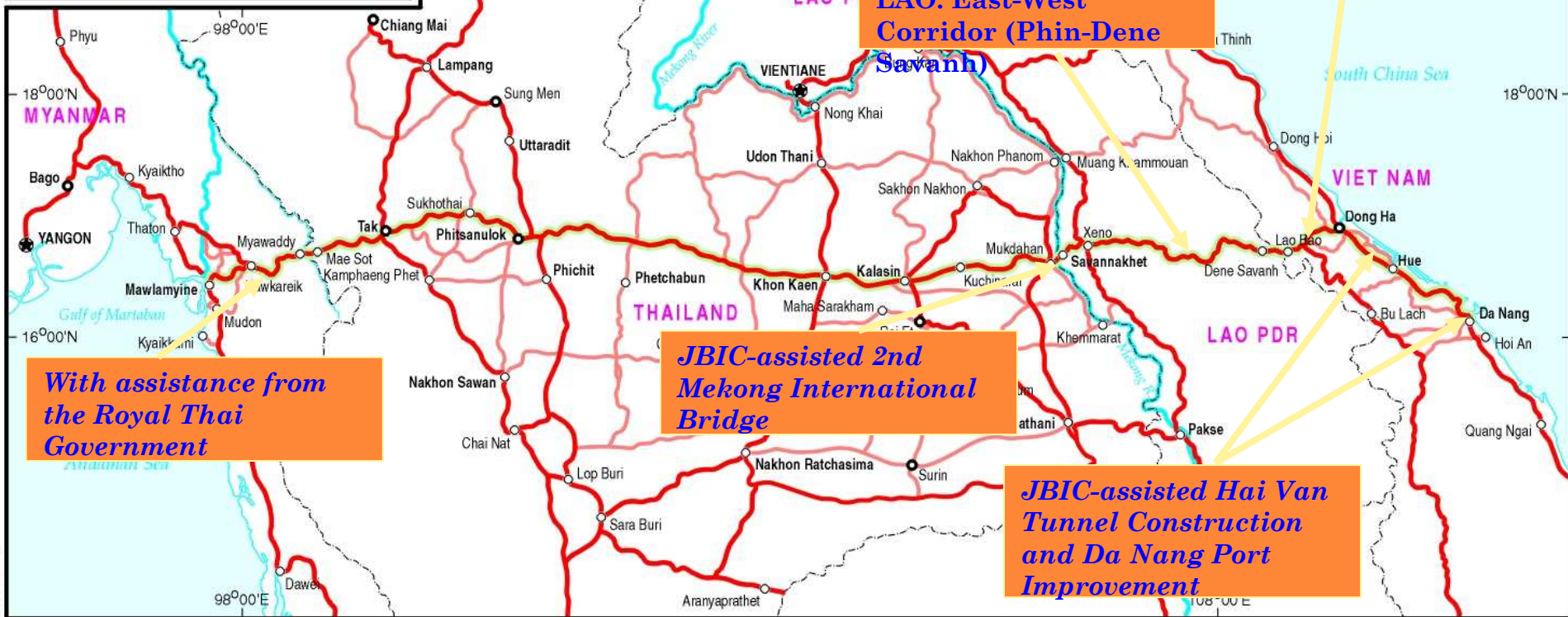
GREATER MEKONG SUBREGION EAST-WEST ECONOMIC CORRIDOR

- National Capital
 - City/Town
 - National Road
 - Provincial Road
 - East-West Economic Corridor
 - River
 - International Boundary
- Boundaries are not necessarily authoritative.



**VIE: East-West
Corridor (Lao Bao-
Dong Ha)**

**LAO: East-West
Corridor (Phin-Dene
Savanh)**



*With assistance from
the Royal Thai
Government*

*JBIC-assisted 2nd
Mekong International
Bridge*

*JBIC-assisted Hai Van
Tunnel Construction
and Da Nang Port
Improvement*

GMS Southern Economic Corridor

Roads

Mostly 4-lane highways; not a constraint to cross-border traffic.

Upgrading to be completed by 2009 with ADB and Japan assistance.

Upgrading of a section in Cambodia (70 km) to be completed by 2010 with assistance from Viet Nam; Financing requested for remaining sections.

Upgrading completed in 2007 with PRC assistance.

Mostly 4-lane highways; not a constraint to cross-border traffic

In good condition

Upgrading completed in 2007 with Thailand, Korea, World Bank and ADB assistance.

Upgrading to be completed by 2008 with ADB and Japan assistance.

Upgrading to be completed by 2010 with ADB, Korean, and Australian assistance.

Bridge over Mekong to be financed by Japan



GMS CORRIDORS: BENEFITS

- Many qualitative studies but few quantitative
- Fujimura and Edmonds (2008) (gravity model and panel data) show lower transport cost along GMS corridors benefits trade directly and reduces poverty. But impact on FDI not conclusive (reduced transport costs could encourage firms to fragment production and integrate production across countries). Research ongoing on how to encourage decentralization of FDI and production networks to better connected poorer regions.

GMS CORRIDORS: BENEFITS

- Menon and Warr (2006) (CGE model) analyze relationship between road improvement and poverty reduction in Laos.
- Found strong correlation with reduced poverty incidence but important differences depending on type of roads and initial access conditions.
- Study shows importance of improving rural access to main GMS corridors to maximize inclusive impact.
- Several ADB studies estimate transit costs reduction along EWC and the NSEC to range from 30-50%.

GMS CORRIDORS: POVERTY IMPACT ESTIMATES

- Study on GMS socioeconomic impacts by Stone, Strutt and Hertel (ADB WP 234, 2010).
- Multi-regional computable general equilibrium model based on GTAP 7 augmented by household survey data to analyze impact on poverty
- Baseline assumption of reduction in land transport costs for all intra-GMS trade by 45%.
- Further assumption that implementation of the GMS Cross border transport Agreement (improved border crossing, harmonized procedures (customs, transit, single stop inspection, full trade facilitation) equivalent to international standards reduces effective import prices by 25% (foreign market prices are reduced within whole GMS). For China, price reduction only 5%.

GMS CORRIDORS: POVERTY IMPACT ESTIMATES

- GDP gains between 1.1% and 8.3% (0.7-7.7% excluding PRC), highest in least well connected countries (Cambodia, Laos, Myanmar, VN, Thailand).
- Very significant improvement in welfare mainly originating in improved terms of trade and trade facilitation followed by allocative efficiency and transport.
- Improved trade facilitation has particularly large impact: Shows how important TF is, but progress generally slow. Needs much more attention than other trade issues (OECD study also in 2003)
- Large increases in intra-GMS exports particularly with Thailand.

GMS CORRIDORS: POVERTY IMPACT ESTIMATES

- Factor earnings rise relative to cost of living at poverty line.
- Largest gains are for non-agricultural factors, mainly skilled labor (manufactured industries). Land real earnings increase less.
- Applying poverty elasticities to real earnings changes, poverty impact can be measured.
- Decreases in poverty headcount by stratum and country for group on 1\$ and 2\$ PD are quite significant, largest for urban and rural labor and non agriculture, ranging most of around 5-6% for 1\$ PD group and 3-5% for 2\$PD. Large impact on wage labor in Viet Nam (16-44%).

GMS CORRIDOR: POVERTY IMPACT ESTIMATES

- For CLMTV, 400,000 people move out of extreme poverty.
- 1.75 million move out of 2\$ PD poverty group.
- Half of people moving out of extreme poverty based in Cambodia.
- In 2\$ PD group, most poor moving out of this group are in Viet Nam.
- Most improvement is in rural households.

CONNECTIVITY AND INCLUSIVE GROWTH

- GMS case shows that improved regional connectivity is an important element in reducing poverty and making growth more inclusive thru expansion of intra-country trade but more importantly intra-regional trade.
- Important observation is that while transport improvements bring large benefits, improved trade facilitation has an even larger impact. This is where policy priorities are for developing countries.



Thank You

Second Mekong International Bridge

(Mukdahan-Savannakhet)

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