

**THE GREATER MEKONG SUBREGION ECONOMIC COOPERATION  
PROGRAM STRATEGIC FRAMEWORK 2012-22:  
BACKGROUND PAPER**

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## INTRODUCTION

In 1992, six countries – Cambodia, Lao People's Democratic Republic (Lao PDR), Myanmar, Thailand, Vietnam, and Yunnan Province of the People's Republic of China (PRC) established the the Greater Mekong Subregion (GMS) Program as an activity-based subregional economic cooperation program; and asked the Asian Development Bank (ADB) to be the secretariat to the Program. Guangxi Zhuang Autonomous Region of the PRC joined the Program in 2004.

In 2012, the GMS Program will start its third decade. Since its inception, the Program has achieved noteworthy successes in fostering regional cooperation in a region that, at the inception of the program, was just emerging from a period of prolonged regional conflict. The Program, as of December 2009, had implemented 44 investment projects with a total project cost of about \$11 billion, involving subregional roads, airport and railway improvements, hydropower projects for cross-border power supply, tourism infrastructure development, and communicable disease control. The GMS Program has built a reputation as a flexible yet results-oriented, project-delivering vehicle for promoting regional cooperation contributing to growth and poverty reduction as well as addressing regional public goods.

The case for economic cooperation among countries with shared borders has long been recognized as contributing to create larger markets for national producers and consumers and to allow for scale economies by reducing barriers to trade, capital and labor. Regional cooperation is particularly relevant for land-locked countries, enabling them to integrate with external markets. Crossborder cooperation facilitates the development of regional infrastructure networks and management of spillover of costs and benefits across borders. The globalization process of past decades as well as issues such as climate change, communicable diseases and even the global financial crisis have further underlined the relevance of regional cooperation.

Increased recognition of regional cooperation is manifest in evolution of regionalism both within Asia and more broadly. New institutions have emerged (e.g. the G-20), while others have become more vigorous. ASEAN in particular has unveiled a blueprint for ASEAN Economic Community, which is in the process of implementation by member countries. Within this context of evolving regionalism, the GMS Program remains highly relevant today, both as an established platform for the member countries to cooperate on a range of issues, and as a proven vehicle for delivering projects and results. At the same time, the Program can explore complementarities and synergies within expanding Asian regionalism, including ASEAN + 3, East Asia Summit and beyond.

Notwithstanding its continued relevance to efforts of member countries to pursue growth and poverty reduction, the start of a new decade is an opportune time for the GMS Program to assess its longer-term strategy going forward. The current GMS Strategic Framework ends in 2012 and work on the preparation of the new framework has now started.

This paper provides information on the elements of the strategic framework emerging out of work undertaken to date, including comprehensive consultations with member countries. It is important to clarify that this paper is by itself not a draft of the new Strategic Framework, but comprises the views of the member countries on the new Framework. This paper will be presented to the 16<sup>th</sup> GMS Ministerial Conference, and serve as the background paper for the Ministerial Retreat at the Conference, which will focus on the new Framework. Guidance from the GMS Ministers following their retreat will be used to develop a first draft of the Framework

towards the end of 2010, which will be discussed again amongst the member countries in both national and regional consultations.

## THE GMS PROGRAM AFTER TWENTY YEARS

*(This section draws primarily on the mid-term review of the GMS-SF, the retrospective on that review, and the first round of country consultations on the new GMS-SF; specific comments and suggestions are now requested prior to the section being finalized.)*

### Vision, Goals and Approach

The GMS countries envisioned that the Program should help link their countries through improvements in infrastructure, and thereby promote trade and investment and stimulate economic growth. The countries also agreed that there were other sectoral issues, including in human resource development and environmental management, that needed to be addressed jointly at the subregional level to complement national efforts. And to help realize this vision and address these issues, priority programs and projects were identified and implemented in a range of sectors.

In 2002, the GMS countries pulled together the various sectoral approaches with their associated programs and projects into a comprehensive strategic framework for subregional development, the GMS Strategic Framework (GMS-SF), with a focus on five strategic thrusts:

- Strengthen infrastructure linkages through a multisectoral approach;
- Facilitate cross-border trade and investment;
- Enhance private sector participation and improve competitiveness;
- Develop human resources and skill competencies; and
- Protect the environment and promote sustainable use of natural resources.

To further focus the Program, and as part of the SF, the GMS countries also agreed on eleven “flagship” programs:

- The north-south economic corridor;
- The east-west economic corridor;
- The southern economic corridor;
- The telecommunications backbone;
- Regional power interconnection and trading arrangements;
- Facilitating cross-border trade and investment;
- Enhancing private sector participation and competitiveness;
- Developing human resources and skills competencies;
- A strategic environment framework;
- Flood control and water resource management; and
- GMS tourism development.

Over the past ten years, the GMS countries have met frequently and at various levels, including at the level of heads of state, to review the Program and to fine-tune it in the light of progress on implementation. In the first GMS Summit held in Phnom Penh, Cambodia in 2002, the heads of governments of the GMS countries endorsed the GMS-SF as the “key means through which closer economic cooperation and prosperity will be achieved” in pursuit of the primary goals of GMS cooperation of fulfilling the region’s vast potential, lifting people from poverty and promoting sustainable development for all. At the second Summit held in Kunming, Yunnan Province, the PRC in 2005, GM heads of government reaffirmed the goals and objectives of the Program, with “connectivity, competitiveness and community” being laid down as the building blocks for achieving the GMS vision. And at the third GMS Summit held in

Vientiane, Lao PDR in 2008, GMS leaders reinforced the focus on connectivity and specifically stated that “enhancing competitiveness and accelerating our economic and social development process through greater use of improved and expanded connectivity will be the focus of our cooperation in the coming years”.

As the GMS Program approaches twenty years in operation, the GMS countries support the conclusions of various Program reviews and evaluations and confirm the validity of the vision and goals of the Program. They also confirm that the pragmatic, action-oriented and results focused approach of the Program has enabled GMS countries to expedite implementation of high-priority subregional projects and initiatives. It has also mobilized an increasing amount of financial assistance from development partners and other important stakeholders. And in so doing, the Program has delivered concrete results and contributed both to economic growth and poverty reduction in the subregion as well as to broader realization of a prosperous, integrated and harmonious GMS.

In this context, and going forward, GMS countries wish to maintain the overall direction of the GMS Program, while further “fine-tuning” it and taking it to the next level in terms of results. The countries believe that the Program must remain well-positioned with respect to emerging global and regional developments and should focus more on “second generation” or software activities in cases where the hardware is already in place. The Program also needs to strengthen its overall monitoring and evaluation systems.

## **Strategic Thrusts**

The GMS countries have set up sectoral forums and working groups to design and help ensure effective implementation of each of the strategic thrusts of the GMS-SF. Progress has been most notable on the first strategic thrust (infrastructure linkages) and on the hardware as opposed to the software aspects of the Program. But in all five areas, important progress has been and continues to be made.

### ***Strengthening Infrastructure Linkages***

The first strategic thrust of the current GMS-SF involves subregional cooperation in transport, energy and telecommunications as well as cooperation in the agricultural sector to help ensure the full development benefits of the infrastructure investments.

In all three of the infrastructure sectors, substantial progress has been made on the hardware aspects of cooperation. In transport a major achievement has been the greatly improved physical connectivity in the subregion, exemplified by the near full completion of the transport component of the three main GMS corridors, the East-West Economic Corridor, the North-South Economic Corridor, and the Southern Economic Corridor. In energy, GMS power interconnection projects have helped lay the basis for grid interconnection in the GMS; and a number of major hydropower projects have been developed with private sector participation. In telecommunications, the optical fiber interconnection of the telecommunications systems of the GMS countries is now in place and the information super-highway network is being developed to provide a broadband platform among GMS countries for voice, data, and internet services.

Some but less progress has also been made on the software aspects of cooperation in infrastructure. In transport, for example, some progress has been made in the implementation of the Cross Border Transport Agreements (CBTA), which is important in helping transform transport corridors into economic corridors, but some GMS countries have still to ratify the

CBTA. Some progress has also been made in establishing the policy and regulatory framework for power trade in the GMS, but there is still a long way to go. And in telecommunications, the Program has contributed to the gradual separation of the policy, regulatory and service operations functions which is helping create a better enabling environment for private sector provision of basic services.

In agriculture, which is a more recent addition to the GMS Program, the initial scope of the program was too ambitious and over-stretched available resources. But the new Program is focusing more directly on issues involving cross-border trade in food and agricultural products and climate change adaptation.

In both infrastructure and agriculture, strategy and project development and implementation have been supported by sectoral forums and working groups, including the Transport Forum, the Regional Power Trade Coordinating Committee (RPTCC), the Energy Forum, the Telecommunications Forum and the Working Group on Agriculture (WGA). More recently an Economic Corridors Forum (ECF) has been established to promote multisector coordination to help drive the transformation of the transport corridors into economic corridors.

### ***Facilitating Cross-Border Trade, Investment and Tourism***

The second strategic thrust of the current GMS-SF involves promoting and facilitating intra and extra-GMS trade, investment and tourism.

To energize GMS cooperation on trade and investment, a Strategic Framework for Action on Trade Facilitation and Investment (SFA-TFI) was formulated in 2004 and priority programs for implementation were identified. But implementation progress has been slow. There is also overlap between the trade facilitation component of the SFA-TFI and the CBTA and more broadly between the work of the Trade Facilitation Working Group (TFWG) and Subregional Investment Working Group (SIWG) and also between the work of the Transport Forum and the ECF. Resolution of these institutional issues should help sharpen the focus of each entity.

In tourism, subregional cooperation has helped put the GMS firmly on the world's tourism map, with the job of "positioning the GMS in the eyes of the international industry" having been completed through a series of promotional campaigns and other initiatives. The Tourism Working Group has also been one of the most active of the sector working groups with its own secretariat funded by GMS governments and with close collaboration with the private sector.

### ***Enhancing Private Sector Participation and Competitiveness***

The third strategic thrust of the GMS-SF recognizes the critical role of the private sector as an engine of GMS development.

The most noteworthy initiative under this strategic thrust has been the establishment of the GMS Business Forum (GMS-BF). The GMS-BF, a joint initiative of the chambers of commerce of the GMS countries, has been an active participant in GMS meetings on the policy and regulatory reforms necessary to promote trade and investment in the GMS. It has also been an active participant in the ECF – where it has highlighted many of the issues faced by the private sector in doing business along the GMS corridors.

### ***Developing Human Resources***

The fourth strategic thrust of the GMS-SF endeavors to contribute to the realization of the human resource development (HRD) goals of the GMS countries through subregional programs that address issues in capacity building, education and skills development, labor, and health.

One major accomplishment under this strategic thrust has been the development and implementation of the Phnom Penh Plan (PPP) for development management to build capacity among GMS government officials, particularly to strengthen their management capacities in support of regional economic integration and the transition toward more open economies. A second major accomplishment has been the implementation of a range of projects focused on the prevention of communicable diseases. Building on these accomplishments, a Human Resource Development Strategic Framework and Action Plan was prepared and approved in 2009 and the HRD Working Group has been restructured to facilitate implementation of the framework and action plan.

### ***Protecting the Environment and Promoting Sustainable Use of Shared Natural Resources***

The fifth and final thrust of the current GMS-SF is directed toward ensuring that environmental concerns are adequately addressed in cross-border initiatives and properly integrated into the subregions's economic development efforts.

Substantial progress has been achieved in this area of cooperation in terms of laying the foundation for implementing a more effective and comprehensive agenda for sustainable development in the GMS. Awareness has been raised and a systematic subregional approach has been initiated. Alliances and partnerships have been developed with a broad range of regional and international environmental organizations. An Environment Operations Center (EOC) has been established to serve as the secretariat of the Working Group on Environment (WGE). Strategic environmental assessments (SEAs) have been conducted for the power and tourism sectors and have helped mainstream environmental issues into national planning processes for these sectors. Environmental performance assessments (EPA) have also been prepared and the EOC has been serving as the GMS referral center for SEAs, EPAs and climate change risk assessment.

## **Resource Mobilization and Institutional Development**

### ***Resource Mobilization and Donor Coordination***

All the GMS countries see the close link of the GMS Program to resource mobilization as critical to the Program's success because it has enabled the Program to move from general discussion of strategies and programs to implementation of specific projects with real results.

In all its years in operation the Program has been successful in raising resources, and even more so in recent years with US\$4 billion raised between 2007-9 (equivalent to \$1.3 billion per year) compared with US\$4.3 billion raised over 2000-06 (equivalent to \$570 million per year). The main contributor to the recent increase has been loan financed projects. ADB's share of total financing has also increased suggesting that greater efforts are necessary to generate more cofinancing from other official sources as well as the private sector.



### ***Recognizing Different Levels of Development***

The GMS countries have clearly recognized the importance of giving special attention to the less developed member countries to enable them to benefit from and contribute fully to subregional cooperation and integration. They have also recognized that this would require the GMS Program to pay particular attention to capacity building for the low income GMS countries. Without clear capacity building targets, it is difficult to assess how much progress has been made on this aspect of the GMS Program. But a review of GMS operations (both loans and technical assistance projects) shows clearly that these are focused on the lower per capita income GMS countries.

### ***Links to Other Regional Organizations and Initiatives***

The GMS Program has paid particular attention to the importance of building strategic alliances and partnerships, particularly with the Association of Southeast Asian Nations (ASEAN) and the Mekong River Commission (MRC). The Program has clearly worked hard to avoid duplication and ensure close coordination with both of these initiatives and important progress has been made. But more work is still required to ensure that the GMS Program is better coordinated with the broader ASEAN cooperation framework, including ASEAN+3. It is also important to continue enhancing the GMS Program's interactions with other subregional initiatives such as BIMSTEC, and MRC.

### ***Broadening Participation and Support***

The GMS countries believe that it is critical that knowledge and understanding of the GMS Program is built up not just at the top levels of national governments but also further down the bureaucracy and in local governments as well. It is also critical, as the current GMS-SF notes, that "genuine participation by all stakeholders – not just government but civil society, NGOs, the private sector, academia, and the donor community as well – is needed in the management and coordination of the Program". Anecdotal information indicates that there has been some improvement in these respects over the last few years with more inter-agency coordination with respect to the GMS Program, an increase in the flow of communications within and among countries, and wider dissemination of information about the Program. These efforts now need further reinforcement.

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

The GMS Program has stressed the importance of good monitoring and evaluation, while recognizing the complexity of evaluating regional cooperation projects. Though the Vientiane Plan of Action (2008-12) is regularly updated and there are post-implementation evaluations by ADB for some projects, this critical issue has not received the attention it deserves. The definition of what constitutes a regional project still remains to be effectively operationalized. Baseline indicators need to be established for all programs and projects, and progress better monitored and evaluated.

### ***Organizational Effectiveness***

The GMS Program has been pursued through an institutional arrangement consisting of: (i) a GMS leaders summit at the political level; (ii) a ministerial level conference supported by senior officials meetings (SOM) at the policy level; and (iii) sectoral forums and working groups at the project and operational levels. A national inter-ministerial committee assisted by a

designated focal point or national secretariat coordinates GMS activities in each country. A unit at ADB headquarters provides overall secretariat support to the GMS Program, in coordination with national secretariats in GMS countries.

Overall, these arrangements have provided an adequate administrative framework for implementing the GMS-SF. They are flexible, simple and generally effective in supporting the pragmatic, activity-driven and results-oriented approach of the GMS Program. The capacity of the GMS national secretariats is being improved and most of the GMS forums and working groups have taken steps to sharpen the focus of their work and make their activities more effective, including further prioritization of planned projects and preparation of strategies and work plans to guide their activities.

### ***Ownership of Program and Role of ADB***

The GMS countries have strong ownership of the Program. But they also appreciate the important secretariat role that ADB has played; they would like it to continue playing a secretariat role and, indeed, enhancing its role by using the respect and trust it has gained from member countries to help forge agreements across countries on some of the more challenging aspects of the Program.

## **THE CHANGING GLOBAL AND REGIONAL CONTEXT**

*(This section draws on a background note commissioned by ADB; it would be useful to receive feedback on the draft and on what further analysis of global and regional issues would be useful in the context of preparing the new GMS-SF.)*

The GMS countries believe that it is critical that the GMS Program takes cognizance of the changing global and regional context and remains flexible and adaptable in response to changing circumstances.

### **Economic Trends**

#### ***Growth, Connectivity and Competitiveness***

The Great Recession has accentuated the shift in economic activity toward Asia which proved to be more resilient than the rest of the world, despite the sharp contraction in trade. Developing Asian economies suffered a smaller dip and are benefiting from a quicker rebound than advanced economies or other developing economies. And this pattern holds for the GMS countries as well who have benefited from the GMS strategy of connectivity and have become linked to the most vibrant, resilient economies in the world.

Prospects for growth are good but the strength of the GMS and other Asian economies depends on maintaining their competitiveness. In Asia competitiveness has been driven by the creation of regional supply chains with many different countries adding value to specific parts of the supply chain. That strategy requires excellent logistics, as well as good information technologies, modern business and inventory management, attention to standards and quality, and speedy and dependable supply. Understanding the requirements of business is critical for governments to prioritize the reforms that will facilitate firms in their countries being able to participate in supply chains. At the same time, integration of the regional economies through improved logistics will also benefit consumers in these economies, contributing to an additional driver of growth.

The Great Recession and the associated volatility in commodity markets and prices has re-opened old debates as to whether an export orientation is a superior path for development compared with a focus on domestic demand. There is some evidence that more open economies suffered sharper growth slow-downs in 2009. But they also rebounded faster than others and have had superior long-term growth performance. The lessons to be drawn are that an ability to manage risk through sound macro-economic management and healthy financial institutions, along with a diversification of markets and products are keys to taking full advantage of the opportunities provided by globalization.

#### ***Spatial Development***

Because of an export orientation, most of Asia's growth has been concentrated along its coast lines. In the larger GMS countries, interior regions/provinces have lagged behind national growth, prompting governments to articulate sub-national development plans to bring prosperity to these lagging regions. And while the poorer CMLV members of the GMS have achieved rapid growth and are converging with the rest of ASEAN, the speed of this convergence is still slow.

The trend toward spatial concentration is likely to continue along with a trend toward to urban development. Both can lead to growing inequality within economies and across countries. The GMS focus on agriculture, infrastructure and human resources can help change the trajectory of these market forces, producing more equitable growth within and between GMS countries. Linking GMS strategies with sub-national growth plans would also promote coherence in area development, for example for North-East Thailand and for Yunnan.

But the development experience with lagging regions is that infrastructure and other productive investments can only help offset market forces toward divergence to a certain degree. Migration tends to be the most powerful force in equalizing living standards. This puts a premium on human capital development (migrants tend to be better educated), as well as on mechanisms to connect migrants with their homes – transport and financial links that support remittances.

### ***Climate Change***

Climate change has now become a major global and regional issue. With respect to the GMS, two aspects of the issue need to be highlighted: the push to take action on climate change mitigation through reducing carbon emissions and rewarding carbon sinks; and the increasingly likely need to adapt to climate change. The former will raise the value of the GMS countries still ample stock of forest resources, while the latter will raise the value of commodities that are intensive in the use of scarce factors like water. GMS countries need to understand how to unlock the potential future value added of these natural resources through appropriate agriculture, human resource and infrastructural development. The relative inability of effective global approaches to climate change issues also implies the need for greater efforts at regional and subregional level.

### ***Finance for Development***

Finance for development has held up reasonably despite the Great Recession. After a decade of rapid expansion, nominal aid from DAC countries fell in current US dollar terms but the fall was small – from \$122.3 billion in 2008 to \$119.6 million in 2009.

The future may be less promising. As rich countries wrestle with growing budget deficits, and fiscal stances shift from expansion to consolidation, aid budgets are under attack. They may also become more targeted. The rich world is committed to providing more resources for climate change mitigation, for example, but, despite the rhetoric to the contrary, it is likely that at least part of this will be a substitute for traditional development assistance. However some traditional donors are increasing their assistance, and emerging economies (including China and Thailand) have begun to put in place significant development support programs with a strong focus on regional economies.

The somewhat uncertain situation with respect to development assistance does suggest, however, that GMS countries should also look elsewhere to mobilize resources for development projects. The private sector is the largest pool of capital in the world, but limited creditworthiness in most GMS countries in the past limited the potential to mobilize private finance. That situation has now changed and private FDI flows are becoming important for all GMS countries. With appropriate risk mitigation and credit enhancement features, it is realistic to expect that private capital can play a more significant role in GMS countries in the future.

## **Institutional Developments**

### ***Global Developments***

At the global level, the G-20 has emerged as the premier forum for international economic cooperation; and development issues are likely to be integral to the framework for strong, sustained and balanced growth that the G-20 has articulated. The decision by the G-20 to address development issues signals the belief of its members that global growth will in future be driven by emerging economies.

G-20 discussions will have a close bearing on GMS activities. For example, the GMS is committed to the creation of a favorable environment for small and medium enterprises. The G-20 has formed a Financial Inclusion Experts Group with a sub-group on SME Finance to take stock of the role, needs and barriers of SMEs. The G-20 has also launched a new Global Agriculture and Food Security Program, an example of a vertical fund through which aid resources are increasingly being channeled. Moreover, countries applying to the Program have had their programs vetted by regional organizations. This can enhance the prospects for success.

This last example shows how regional and subregional institutions are being used as a crucial link between global programs and individual countries. Regional and subregional organizations are also playing a significant role in the negotiation of free trade and other partnership agreements and are increasingly acting as financial intermediaries for regional projects to help streamline overall financing arrangements.

### ***Developments in Asia***

The trend toward a greater role for regional and subregional institutions is present in Asia as well; and indeed the GMS Program is firmly rooted in a broad evolving structure of Asian regionalism that already includes 54 regional institutions. These institutions fall into four broad categories: (i) overarching, with the purpose of convening summits that provide normative and declaratory frameworks that legitimize and support regional cooperation and integration; (ii) functional, with a specialized technical agenda on a focused topic; (iii) facilitating, through the provision of advisory, administrative, technical and financial support to a given area; and (iv) security. The GMS Program is the principal facilitating institution for the subregion and, in the context of the increasing role of regional organizations of all kinds, needs to coordinate effectively not only with ASEAN (and ASEAN+3 but also with some of the functional entities operating in the same countries, such as the Ayeyawady-Chao Phrya-Mekong Economic Cooperation Strategy (ACMECS), the MRC and the South East Asian Ministers of Education Organization (SEAMEO).

## **A STRATEGIC FRAMEWORK FOR THE NEXT TEN YEARS**

*(This section endeavors to reflect some of the initial feedback from the country consultations and is still at a very preliminary stage; it would be very helpful to get comments and suggestions as well as guidance on what further analytic and other work should be done prior to finalizing the new GMS-SF.)*

### **Vision and Goals**

Based on the country consultations conducted to date, and bearing in mind the progress the Program has made and likely global and regional trends, it appears that GMS member countries are not looking for any major change in the overall vision and goals of the Program. In other words they are still focusing on improvements to infrastructure as a driver of growth and on the vision of a prosperous, integrated and harmonious GMS and they still believe the primary goals of GMS cooperation should be about fulfilling the region's vast potential, lifting people from poverty, and promoting sustainable development for all.

In the context of a similar vision and goals for the GMS Program, member countries are, however, emphasizing the need for further “fine-tuning” the Program, speeding up the implementation of programs, policies and projects, and taking the Program to the next level in terms of results. Member countries also have very similar ideas on how such improvements could be accomplished.

First, there is a clear recognition that there needs to be a more effective focus on the software aspects of the Program – as a complement to a continued focus on the hardware. But this is easier said than done; and more thinking is needed on how the Program can engage more effectively on the software.

Second, while member countries do not appear to want to reduce the broad coverage of the Program, there is a desire for more selectivity and more prioritization of focus areas within sectors – implying less focus on information sharing and more focus on decision making on issues that are clearly regional in nature. This should lead to more tangible results and impact from the Program.

Third, and within the set of issues that are clearly regional in nature, there is a desire to have more clarity on what regional issues should be covered by the GMS Program and what regional issues are better left to other regional organizations.

Fourth, in many of the country consultations the importance of looking at the linkages across different sectors was emphasized, for example between energy, agriculture and food security, water, and the environment.

Finally, and without changing the broad sectoral focus of the Program, there may be scope for some rebalancing in terms of attention and resources and bearing in mind organizational capacities and the potential for achieving real results.

### **Sectoral Priorities**

For some time, GMS countries have recognized the need to “fine-tune” the GMS Program and take it to the next level in terms of results; and concerned sectoral forums and working groups have been endeavoring to make appropriate changes and improvements.

Overall, there is a clear sense that infrastructure linkages should remain at the core of the SF and the GMS Program – with a focus on both the hardware and the software; and this perspective is reinforced by expected global and regional developments. The other sectors should remain part of the Program, but probably with some adjustments to the strategic thrust highlighted in the current SF. Some countries would like there to be an increased focus on climate change – a sentiment supported by the analysis of global and regional developments and already reflected in the proposed Phase II of the Core Agricultural Support Program (CASP) as well as in the preliminary thinking on the next stages of the Environment and Biodiversity Corridors Program. There is a desire to expand the coverage of the transport program to include railways (and again work on this is already underway) and possibly air transport. The perspective on global and regional developments also reinforces the importance of migration issues in the context of the overall HRD Program.

### ***Transport, Trade and Investment***

The transport sector has been at the forefront of the GMS Program and is currently guided by the GMS Transport Strategy, 2006-15 which focuses very much on the development of priority road transport corridors, on the reduction of non-physical barriers to transport and trade, and on the eventual transformation of the road transport corridors into economic corridors. The strategy also recommends broadening the scope of the transport program in the GMS to include not only roads but also railways and other modes of transport (water and air).

In the case of road transport and trade, strategies and action plans have been prepared for each of the economic corridors under the auspices of the ECF. These strategies differ significantly from earlier strategies in recognizing the important inter-linkages across sectors while being very focused on a relatively few high-profile initiatives. For each of the corridors, the need for further infrastructure development (including in border towns) has been clearly identified along with improvements in the software of transport and trade facilitation (TTF) and better investment promotion for the special economic zones that have been established along the borders.

With respect to the urgent need to improve TTF, a comprehensive approach is now being finalized that will cover:

- (i) Transport facilitation – including expanding and streamlining exchange of traffic rights arrangements, improving the customs transit system, pursuing the proposed establishment of a GMS freight transporters association, and strengthening the road transport industry;
- (i) Trade facilitation – including enhancing coordinated border management (CBM) and aligning CBM efforts with regional trade facilitation measures, enhancing the SPS regime for GMS trade, strengthening national and subregional institutions for trade facilitation, and developing an effective regional trade logistics strategy; and
- (i) Capacity building and improving the legal and regulatory framework for TTF.

The importance of focusing on both the hardware and the software has also been clearly recognized in the case of the railways sector where the proposed strategic framework for connecting the GMS railways highlights the following priority actions:

- (i) Ensuring that all GMS countries are connected to a GMS rail network by 2020
- (i) Promoting the development of a seamless rail network in the GMS by: agreeing on common technical standards of interoperability; streamlining and harmonizing procedures for cross-border movement of people and goods; agreeing on regional operating rules and safety standards; fostering cooperation between GMS railways; and ensuring connection to other modes of transport
- (i) Ensuring that railway infrastructure and equipment in the GMS are modern and sufficient to meet the demand for services, and operated and regulated according to best practices in the operation and regulation of railways
- (i) Developing GMS railway organizations to support the network by establishing a GMS rail coordination office
- (i) Involving the private sector in the planning and development of the GMS railway network.

Overall, the transport and trade program and the concerned working groups are clearly focused on software as well as hardware and endeavoring to prioritize investment projects and other initiatives in the context of constrained resources. The program will need to increasingly interact with other regional organizations in the context of ensuring the system is well linked to other regions such as South Asia. It may also be useful for the program to look in more depth at broader issues of inter-modal transport and logistics. The need for more private sector financing of transport infrastructure and for more public private partnerships is also clear.

### ***Energy and Power Market Integration***

Given the widespread energy poverty of the GMS, coupled with recent global developments – such as financial turmoil, fluctuating energy prices, pressures on the environment, geopolitical uncertainties of energy supply, interconnectedness of global energy markets – GMS countries today have never felt a stronger need for an integrated approach to deliver sustainable, secure and competitive energy. In this context GMS energy cooperation has recently been expanded and now focuses on the following four major strategic objectives:

- (i) Enhance access to energy of all sectors and communities, particularly the poor in the GMS through promotion of best energy practices in the subregion;
- (i) Develop and utilize more efficiently indigenous, low carbon and renewable resources, while reducing the subregion's dependence on imported fossil fuels;
- (i) Improve energy supply security through cross-border trade while optimizing use of subregional energy resources; and
- (i) Promote public-private partnership and private sector participation, particularly through small and medium sized enterprises for subregional energy development.

Priority regional initiatives for both hardware and software improvements include:

- (i) In general, promoting environmentally sustainable regional power trade planning, coordination and development in the GMS; improving energy efficiency (EE) through



demand side management (DSM) and energy conservation (EC) in the GMS; and promoting the development of renewable energy resources such as biogas, solar, wind, hydro, geothermal etc and clean fuels such as compressed natural gas;

- (i) In the power subsector, continuing the development of a regional power market through a two pronged approach: providing the policy and institutional framework for power trading, and developing the grid interconnection infrastructure to connect the various GMS power systems;
- (i) In the oil and gas subsector, supporting realization of GMS segments of the Trans-ASEAN Gas Pipeline and promoting the development of environmentally friendly oil and natural gas logistics and network;
- (i) In the coal subsector, promoting clean technologies while remaining cognizant of the importance of coal in meeting countries energy demand.

The proposed program and initiatives in the energy sector are very much in keeping with many of the suggestions for fine-tuning of the GMS Program as a whole. But it is a very comprehensive and ambitious program and further prioritization may be necessary. The program's links to other sectors will probably need strengthening, particularly on environmental and social issues, and further work will be needed to ensure high levels of private financing for major energy projects. It will also be important to try to strengthen the RPTCC and develop more momentum around the move to an integrated power market which will have enormous efficiency benefits for all the GMS countries.

### ***Telecommunications***

The long term goal of subregional cooperation in the telecommunications sector is to improve telecommunications linkages among the GMS countries, thereby facilitating communications and access to information, lowering transactions costs, and enhancing competitiveness of the subregion as a whole. Significant progress has been made over the years on both the hardware and the software aspects of the GMS Telecommunications Development Program. Further progress, which should be based on an updated sector strategy, needs to include efforts to: strengthen the institutional structure for sector cooperation, identify and prioritize further information superhighway network (ISN) infrastructure needs, build capacity for the use of advanced technology, and promote ICT applications, especially in the rural areas where pilot ICT projects could be pursued. Given the demonstrated success globally of private sector to efficiently deliver ICT services, there is also a need to clearly assess the relative roles of private and public sector in developing ICT. It is also necessary to identify and prioritize which issues need addressing at regional level through GMS cooperation.

### ***Tourism***

GMS cooperation in tourism is guided by the GMS Tourism Sector Strategy, adopted in 2005, which aims to “develop and promote the Mekong as a single destination, offering a diversity of quality and high-yielding subregional products that help to distribute the benefits of tourism more widely; add to the tourism development efforts of each GMS country; and contribute to poverty reduction, gender equality and empowerment of women, and sustainable development, while minimizing any adverse impacts”. The strategy identified seven strategic programs: marketing, human resource development, heritage and social impact assessment, pro-poor tourism development, private sector participation, facilitation of movement of tourists to

and within the subregion, and development of tourism-related infrastructure. And to implement these strategic programs there are currently 13 spatial projects that deal with the planning and development of priority tourism zones and 16 thematic projects dealing with specific GMS-wide interventions. Going forward there is an urgent need for further prioritization of projects in the tourism sector. It also appears that the “one GMS” visa initiative is no longer feasible and the efforts of the Tourism Working Group would be better focused on other priority initiatives, as well as on ensuring that the program is well linked with other programs in transport, biodiversity and other sectors.

### ***Agriculture***

In agriculture, CASP Phase II proposes new strategic directions to address emerging regional challenges to agricultural development. It recognizes the drivers of change in the region, including the on-going process of trade liberalization, changing market demands, the deterioration of natural resources, the contribution of agriculture to climate change and the impact of climate change on the sector, and global concerns on food security. It also recognizes the need for prioritization of focus areas in the context of limited resources and focuses specifically on issues linked to expanded cross-border trade in agri-food products and climate change adaptation. The proposed Program has three pillars:

Pillar 1: Building global competitiveness in food safety and modernizing agricultural trade – to be pursued through two building blocks: promoting agricultural trade and agribusiness investment through the GMS corridors; and strengthening science-based regional safety standards for agricultural competitiveness;

Pillar 2: Promotion of climate-friendly agriculture and natural resource management – to be pursued through two building blocks: agricultural resiliency for food security; and climate change mitigation and adaptation; and

Pillar 3: Promoting agriculture as a leader in rural renewable energy (RRE) technology and eco-friendly cross-border supply chains – to be pursued through a building block focused on regional sustainable biofuel and biomass policy developed to promote RRE in the agriculture sector.

The new program in agriculture is clearly responsive to many of the overall ideas for strengthening the effectiveness of the GMS Program, including the need for greater prioritization and the focus on climate change issues and on software issues more broadly. Implementation of the program will need to be well coordinated with other sectoral programs. In view of the current ample stock of forest resources in the GMS and the importance of the forestry sector from many perspectives, including climate change, both the agriculture program and the environment program may wish to consider whether there is sufficient focus on the protection of this very valuable natural resource.

### ***Environment and Bio-diversity***

In considering the further development of the core environment program and biodiversity conservation corridors initiative (CEP-BCI), the GMS countries have identified the following priority thematic areas:

Biodiversity Conservation and Poverty Alleviation - with infrastructure and other development being major drivers of ecosystem fragmentation and destruction and as poverty

alleviation remains at the core of the GMS countries developmental efforts, it will be important to expand the pro-poor activities of CEP-BI, especially among the socio-ecologically vulnerable upland communities and as a means of ensuring biodiversity conservation;

Climate Change Adaptation and Mitigation – it is clear that the major destruction of biomass in recent years from the subregion's forests has increased GMS per capita contribution to GHG emissions, especially CO<sub>2</sub>; GMS countries are also concerned about the potential negative impacts of climate change on food and energy security; increasing weather variability is also likely to increase the vulnerability of ecosystem services and amplify impacts on dependent poor communities;

Capacity development – this will include increased activities under CEP-BCI projects and programs involving the participation of young GMS national researchers through the environmental education network, thereby enhancing environmental awareness in the younger generation and increasing environmental management performance and nature conservation in the subregion; GMS universities and civil society will also be supporting such targeted capacity development.

The proposed directions for the next phase of the CEP-BI are also very consistent with the overall changes under consideration for the GMS Program as a whole. The program will need to work closely with other subregional working groups and programs, particularly those in agriculture and energy. The evolution of the EOC as subregional referral center for environmental issues, data and mapping, and environmental monitoring will also require further analysis and discussion.

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

Capacity development amongst the poorer members of GMS is central to addressing the development gaps in the subregion. In HRD, the recently approved Strategic Framework and Action Plan for Human Resource Development in the GMS aims to: support HRD initiatives that directly facilitate the process of subregional cooperation and integration, such as managing labor migration and harmonizing HRD standards; and address cross-border issues directly linked to GMS integration, such as cross-border transmission of communicable diseases, and human trafficking.

The framework highlights the need to focus on activities that are really regional in nature by exploiting one or more of the following types of opportunities:

- facilitating subregional integration by harmonizing HRD regulations, standards, policies and procedures;
- addressing cross-border HRD issues resulting from subregional integration;
- obtaining additional value added by conducting selected activities at the subregional level;
- exchanging relevant information and experience within the subregion ; and
- complementing subregional investments in other sectors.
- But the action plan itself still covers a very broad set of areas including:
- promoting regional cooperation on education and skills development;
- facilitating safe labor migration within the subregion;
- supporting communicable disease control in the subregion;
- enhancing regional cooperation for social development; and
- strengthening regional institutional links and mechanisms for regional cooperation.

Going forward, it will be important to further prioritize initiatives in each of these areas. Labor migration may be an area deserving of greater attention, in the light of expected regional developments. The future directions of the Phnom Penh Plan for development management and of the GMS Program's overall capacity building programs will also need careful review.

## **IMPLEMENTING THE STRATEGIC FRAMEWORK**

*(This section is also at a very preliminary stage and endeavors to reflect feedback from the initial round of country consultations; and again it would be very useful to get specific comments and suggestions as well as guidance on what further analytic and other work would be useful before the new GMS-SF is finalized.)*

The first round of country consultations suggests that GMS countries are not anticipating any fundamental changes in the organization of and implementation arrangements for the GMS Program. They would like to see continued improvements in such areas as capacity building (particularly for the CMLV countries), coordination with other regional organizations, participation of all concerned stakeholders, and monitoring and evaluation. But they are assuming these improvements can be made while maintaining the current structure and with a similar and possibly enhanced role for ADB.

However, the preliminary review of global and regional developments suggests that it may be opportune to undertake a more in-depth review of the structure of the GMS Program, including the evolution of the sector forums and working groups. First, because in the context of an increasing global and regional focus on the importance of stronger regional institutions, it is important to ensure that the GMS is well positioned organizationally to continue to make a real contribution to all member countries in each of the sectoral priorities. And second, in the context of changing modalities for mobilizing and allocating resources, the possible role of the GMS Program as a financial intermediary of some kind may be worth exploring.

### **Resource Mobilization**

The close link of the GMS Program to resource mobilization has been key to its success. During the next ten years, investments in road infrastructure may diminish with the completion of the major transport corridors. But some investments in roads will still be important. In addition there will be a continued need for major investments in the energy sector and possibly telecommunications. There is also the possibility of major new investments in the railways subsector as well as in the hardware dimensions of other sector programs. So the financial resource needs of the Program will remain very large.

To meet these needs the Program will need to step up its efforts with respect to resource mobilization. In addition to continued support from ADB, the Program should be looking for more financial support from other official sources, including the World Bank which is steadily increasing its engagement with regional projects world-wide, and other Development Partners. The importance of accessing some of the newer and specialized global funds, including those concerned with climate change, should be recognized. The Program also needs to tap in more effectively to private sources of financing and in this context to review various possible mechanisms, including guarantees. Public-private partnership modality is already being developed in one of the member countries, and may be viable during the next decade in other countries; PPP financing of Cambodia rail is an early example. Finally with respect to both official and private sources of financing, the Program may wish to review the merits of institutional innovation that would enable the Program itself to be directly involved in the mobilization and allocation of finance.

## **Knowledge Platform**

In the coming years, the GMS Program will be moving increasingly into more complex software and second generation issues where high quality analytic work and effective discussion and consensus building processes around the results of that analytic work will be critical. The kinds of issues to be addressed could include identifying the relative costs and benefits for member countries from integration through transport and trade facilitation; or addressing the complex inter-linkage between energy, agriculture and food security, water, and the environment; or the role of improved labor market flexibility, including migration, in the future integration of the GMS. The establishment of a knowledge platform that can address such issues as an integral part of the GMS Program will need careful review. And it, too, will require resources – though not of course on the scale of the resources required for major infrastructure projects.

In the process of finalizing the new SF it will be useful to further analyze this issue, estimate the likely costs of such a knowledge platform and identify possible financing sources. As part of their development support programs, the PRC and Thailand may be willing to consider committing resources for a stronger knowledge platform for software cooperation. It is also likely that other Development Partners will be willing to commit resources from their development programs for such an initiative.

## **Strategic Alliances and Partnerships**

The GMS countries have been clear as to the importance of the Program developing better complementarities with other regional initiatives. The relationship of the Program to ASEAN and to ASEAN+3 is of particular importance – including the potential for the GMS Program to help drive some of the broader objectives related to ASEAN integration and the formation of an ASEAN economic community. But there are many other subregional organizations and initiatives, including the MRC (on water related issues), CAREC (overlapping TTF agenda), BIMSTEC and IMT-GT (on connectivity issues more broadly), SEAMEO (on higher education) and ACMECS which have responsibilities which may overlap with those of the current GMS Program. In these cases, as well as with respect to ASEAN and ASEAN+3, it would be very useful to review the possibilities for greater coordination and clarification of respective mandates and responsibilities prior to the finalization of the new GMS-SF.

## **Capacity Building**

Capacity building, particularly for the lower income member countries, is an important feature of the GMS Program. In addition to the Phnom Penh Plan for Development (PPP), which is a major capacity building effort, most sectoral initiatives have capacity building as a major component. The country consultations have confirmed that capacity building should remain an integral part of the Program in the future and, in this context, it may be useful to review the effectiveness of existing programs and areas for improvement prior to finalizing the new SF.

## **Engagement with the Private Sector and Other Stakeholders**

The GMS Program has always recognized the critical role of the private sector as an engine of GMS development and that its perspectives and concerns need to be well integrated into all of the Program's sectoral initiatives. As indicated above, it will be critical going forward that the Program is more effective in raising resources from the private sector for major infrastructure and other development projects and in developing public-private partnerships for

infrastructure development. In addition, it would be useful to review the role of the GMS-BF and how this forum can be more effectively used to ensure that the private sector's perspectives are well reflected in the deliberations of all the GMS sectoral forums and working groups – and that government officials are able to obtain a deeper and better understanding of the evolving requirements of the business sector.

The Program also needs to do a better job of reaching out to other concerned stakeholders. Information on the Program needs to be disseminated more widely, including the use of local languages. The Program also needs to continue to pursue consultative mechanisms in the design, implementation and monitoring of GMS projects.

## **Monitoring and Evaluation**

The importance of good monitoring and evaluation has never been in dispute as the GMS Program has evolved – but it has also not been pursued with the seriousness and intensity of effort required. ADB monitors and evaluates the GMS investment and technical assistance projects it supports and its Operations Evaluation Department has also carried out some more general evaluations of work in specific sectors and the effectiveness of the Program as a whole. And these are very valuable inputs into a strong GMS monitoring and evaluation system. But they are not a substitute. Indeed it is already apparent that the absence of good information and the effective use of that information in monitoring and evaluating GMS initiatives in constraining the effectiveness of those initiatives. And this will become even more of a constraint in the future as the Program moves into more complex second generation and software issues.

As part of the finalization of the new GMS-SF, it is therefore urgent that a careful review be undertaken of the kind of information collection, monitoring and evaluation system that needs to be put in place for the GMS Program and how this would be done – including likely costs and institutional responsibilities. Consideration should also be given to developing a results framework for the new SF.

## **Evolution of Sectoral Forums and Working Groups**

The country consultations have suggested that “fine-tuning” rather than a major overhaul of GMS institutional arrangements is the “way to go”. Depending on decisions on the role of the Program in resource mobilization and allocation (see above) this overall perspective may need to be re-considered. But under any scenario, further enhancement of the effectiveness of the sectoral forums and working groups, which are at the core of the Program's organization, will be important.

Recently, most of the GMS forums and working groups have taken steps to sharpen the focus of their work and make their activities more effective, including further prioritization of planned projects and preparation of strategies and work plans to guide their activities. Some have been restructured in line with the new strategies (for example the working group on Human Resource Development) and some restructuring of others may be desirable, once new strategies and work plans have been finalized. It would also be useful to consider the merits of establishing separate secretariats for each of the forums and working groups – this is now in place for the Tourism Working Group and the Working Group on Environment but not for any other forum or working group.

In the medium and longer term, it is also clear that more major institutional change will be necessary – at least for some of the forums and working groups. In the case of the power sector, for example, the RPTCC will clearly need major restructuring and enhancement of responsibilities and capacity in order to take on the functions of an organization able to effectively manage an integrated power market. At some point, therefore, more in-depth work on the longer term evolution of the sectoral forums and working groups and the GMS organization as a whole will be needed. It would also be useful to consider other institutional mechanisms to ensure that the GMS Program is responsive to changing global and regional developments and continuously improving its performance – for example, the formation of a high level board of advisors that would periodically review the Program and provide advice to member countries on areas for improvement.

### **Role of External Partners**

In the country consultations, GMS countries have been clear that they would like to see ADB retain its secretariat role in the context of the new GMS-SF and indeed enhance its role with respect to analytic work and supporting member countries in developing a consensus on some of the more complex and challenging issues that the Program is likely to be engaged on in the coming years. Member countries may also wish to consider how other external partners can be more effectively involved in the Program - as financiers, as knowledge partners and in other ways to be agreed. Further discussion on this issue between member countries and other stakeholders will be needed in the coming months to firm up an understanding on this matter.