CHAPTER TWO

EAST-WEST ECONOMIC CORRIDOR STRUCTURES AND FUNCTIONS

The Mekong River is the twelfth largest river in the world and the largest waterway in Southeast Asia. It originates in Tibet and flows through the Chinese province of Yunnan before continuing southwards, touching the territories of China, Myanmar, Laos, Thailand, Cambodia and Vietnam and ending in the South China Sea (Dosch and Hensengerth 2005: 264). In 1992, The Greater Mekong Sub-region (GMS) co-operation was formed with the aim to promote regional development through closer linkages. The GMS Programme, which is being supported by the Asian Development Bank (ADB) and other donors, covers both the “hard” (infrastructure development) and “soft” (multi-country agreements and reforms) aspects of co-operation (Thailand, Ministry of Foreign Affairs).

Though the GMS’s main and most visible objective is to jointly develop natural resources and infrastructure, the related security goal is political stabilisation through economic co-operation, which covers an area of about 2.3 million square kilometers (Dosch and Hensengerth 2005: 264 & 267). In 1997 Asia countries faced economic crisis which begin in Thailand and then spilled over to other regions. Former Thailand Deputy Prime Minister and Minister of Commerce (1997-2001), Supachai Panitchpakdi, stated that, “the Asian crisis was caused by a combination of hasty financial liberalisation with inadequate preparation and poor governance in the capital markets” (Panitchpakdi 2001: 97).

The GMS countries having felt the impact of the economic crisis of the 1990s began the plan of developing intra-regional transport system for speedy developments of the region through mutual economic co-operation. As a result, East-West Economic Corridor (EWEC) as a concept emerged from the 8th Ministerial conference held in Manila in October 1998 (ADB 1998a). Subsequently, in the 10th GMS Ministerial Conference held in Yangon (Myanmar) in the month of November 2001, the strategic initiative wherein the idea and concept to “facilitate cross-border trade and investment” was adopted as one of the five strategic development thrusts to fulfill “a well-integrated and prosperous Mekong sub-region-free of poverty and committed to protecting the environment so vital to the sub-region’s future wellbeing” (ADB 2005a).
The first GMS Summit held in Phnom Penh (Cambodia) in November 2002 further boosted the EWEC, as in the said summit the development of corridors in Mekong River Sub-region was agreed upon and EWEC was considered as one of the priority development projects of the sub-region (ADB 2002b). The flagship initiative for the EWEC “directly supports three of the five strategic thrusts of the Greater Mekong Sub-region Strategic Framework: (i) strengthening infrastructure linkages through a multi-sectoral approach, (ii) facilitating cross-border trade and investment, and (iii) enhancing private sector participation in development and improving its competitiveness” (ADB 2005b). The EWEC land route, which was one of the GMS flagship programme, stretches about 1,000 miles across Myanmar (Yangon-Dawei); Thailand (Nong Khai-Bangkok); Route 13, in Laos; and Highway 1A, in Vietnam. Together with improved national highways, such as Highway 1, which stretch across the length of Vietnam, this network will facilitate trade in the sub-region and broaden its outreach to other ASEAN members and South Asia (ADB 2005b).

The proposed first East-West sea-land-sea route will run through “Da Nang Port in Vietnam, through Thailand, transiting Lao PDR via new Second Friendship Bridge at Savannakhet and proceeding west to Thailand and Myanmar” (GMS Business Forum & Directory 2005). Another major initiative within this framework of EWEC is to reduce poverty in the corridor by supporting the development of rural and border areas. It aim is to increase the income generation capacity of low-income groups by providing employment opportunities through promotion of tourism, which is one of the fast growing employment generating sectors in the region.

In the light of this background, this chapter will discuss the structures and functions of EWEC. Further, it will also analyse how EWEC will promote better relations amongst CLMV and other neighbouring countries of South East Asia countries, especially China and India.

The Greater Mekong Sub-region Ministerial Conferences

Since the establishment of the GMS various ministerial and high official level conferences and meetings were held in different places from time to time. Consequently, its Ministerial Conferences became the main forum for outlining the agenda, discussing key issues, and deciding on general areas of cooperation. The first GMS Ministerial Conference on Sub-regional Economic Co-operation was held at ADB Headquarters, located at Manila, Philippines in October 1992. The second GMS
Ministerial Conference on Economic Co-operation was held at ADB Headquarters, Manila, Philippines on 30th & 31st August 1993, discussing on important regional issues like transport, energy, environment, human resource development, trade and investment, and tourism (ADB 1993).

The Third Ministerial Conference on Economic Co-operation in the Greater Mekong Sub-region was held in Hanoi, Vietnam from 20-23 April 1994. Though GMS was officially established in 1992, it began to materialise only after the Third Ministerial Conference (1994). Thus, the Third Ministerial Conference “represents the transition from merely consultation and background studies to feasibility assessments and implementation” (UNESCAP 2002). The conference deliberated on the profile of potential projects for possible financing by multilateral institutions, bilateral agencies, and the private sector. Each profile outlines the rationale and objectives of the project, its scope, expected impact and benefits, estimated cost, financing arrangements, implementation arrangements, status, and critical success factors (ADB 1994b).

The Fourth Conference on Sub-regional Economic Co-operation, held in Chiang Mai, Thailand (15th and 16th September 1994). This conference deliberated on the agreements reached on transportation, energy, and institutional mechanisms (ADB 1994a). The Fifth Conference on Economic Co-operation in the Greater Mekong Sub-region, was held at ADB Headquarters, Manila, Philippines, on 9-10 November 1995. This conference viewed the exciting prospects of sub-regional co-operation effort in which the ADB is involved, and included the proceedings of the fifth inter-governmental conference on the subject. Also presented were the final reports on the Environmental and Natural Resource Management Study, the Trade and Investment Sector Study, and the Tourism Sector Study, as well as a summary report on the meeting on telecommunications (ADB 1996).

The Sixth Conference was held in Kunming, People’s Republic of China from 28-30 August 1996 under the theme of ‘Sustaining Momentum: Economic Co-operation in the Greater Mekong Sub-region.’ Its proceedings captured the substance and processes of important deliberations of the six participating countries as the Economic Co-operation Programme entered its third phase. This conference was divided into four parts: (i) summary and conclusions; (ii) presentations made at the Ministerial Meeting; (iii) presentations made at the Senior Officials’ Meeting; and (iv) report of the Senior Officials’ Meeting on the various sectors presented to the Ministers. In the process of assessing the direction of the Economic Co-operation
Programme, new challenges were identified that called for innovative approaches (ADB 1994b).

The Seventh Conference on Sub-regional Economic Co-operation was held at ADB Headquarters, Manila, Philippines from April 7-11, 1997. The Conference reviewed developments in the Greater Mekong Sub-region (GMS) Programme since the Sixth Ministerial Conference, considered the agreements and recommendations of the GMS Forums and Working Groups, and discussed key issues relating to the effective implementation of the Programme and agreed on measures to address them. These issues include resource mobilisation for sub-regional projects (with particular focus on private financing), building private-public partnerships, and developing effective co-ordination mechanisms to promote sub-regional co-operation. The meeting also discussed the progress of the long-term framework study on the GMS, which is called GMS 2020 (ADB 1998b).

The Eighth Conference was held from September 30 to October 2, 1998, at ADB Headquarters, Manila, Philippines. The GMS countries adopted an important strategic change at the Eighth Ministerial Conference with the endorsement of the “economic corridor” approach. The expectation is that these corridors will stimulate nodes of economic activity, such as special production and trade zones, from the existing opportunities and endowments along the routes (ADB 1998a).

The Ninth GMS Ministerial Conference, held in Manila in January 2000, represents a watershed in the development of the GMS. The theme of the conference, “opening borders,” encapsulates the renewed emphasis on software issues designed to increase the flow of people, goods, and investment across the GMS. The first manifestation of this commitment to opening borders was the promulgation of the “Agreement on Commercial Navigation on the Lancang-Mekong River,” which was signed in April 2000 by the Governments of China, the Lao People’s Democratic Republic, Myanmar, and Thailand. The agreement, which came into effect in June 2001, promotes trade and tourism, strengthen cooperation in commercial navigation, and help attract greater investment along the upper portion of the river (ADB 2000).

The Tenth Ministerial Conference on Sub-regional Economic Co-operation was held in Yangon, Myanmar; from 27-29 November 2001. Under Strategic Framework for the Next Ten Years of the GMS Programme, the six countries envisage that the Greater Mekong Sub-region will become more integrated, prosperous and equitable. The framework endorsed at this conference provides for five "strategic
thrusts" focusing on infrastructure, trade and investment, the private sector, human resource development and the environment. The framework also identified an initial ten “flagship programmes” for the second decade of the programme, including 19 projects worth almost one billion dollars between 2002 and 2004. A further 31 million dollars in technical assistance has been earmarked for the same three-year period. At the annual conference in Phnom Penh tourism was endorsed as the 11th flagship programme and encouraged new initiatives including tourism development project and visa facilitation (AKP 2002).

The Eleventh Ministerial Conference on Sub-regional Economic Co-operation held in Phnom Penh, Cambodia on 25 September 2002 aimed to provide the opportunity for the GMS Ministers to review the progress of the GMS programme and the 10-Year Strategic Framework, encourage the participation of the development partners in the flagship programs, and prepare for the GMS Summit (ADB 2002c).

The Twelfth Ministerial Conference on Sub-regional Economic Co-operation was held in Dali City, Yunnan Province, People's Republic of China (PRC) from 17-19 September 2003. The objectives of the Conference were as follows:

1) Provide policy guidance and direction regarding the implementation of proposals made by the GMS Leaders at the First GMS Summit held in November 2002,

2) Review the progress of work in priority sectors of cooperation, including future priorities and new initiatives,

3) Review the updates on 11 flagship programmes,

4) Strengthen partnerships with development organisations and the private sector (ADB 2003).

The 13th GMS Ministerial Conference was held in Vientiane, Lao PDR on 14-16 December 2004, with the main objectives to: “1) review the progress of cooperation in the GMS Programme; 2) determine the future directions of the Programme and prepare a Plan of Action that will guide its activities and initiatives in the next several years; 3) dialogue with the development partners, including the private sector, to determine ways of increasing their participation in the Program; and 4) prepare for the Second GMS Leaders’ Summit” (ADB 2004).

Further, the inclusion of Guangxi Zhuang Autonomous Region (Guangxi) of the People's Republic of China (PCR) was included in the Greater Mekong Sub-region programme is another milestone in the history of the regional organisation.
Asian Development Bank study reports that, “the inclusion of the Guangxi (in the Greater Mekong Sub-region programme) will foster even closer economic relations between the PRC and other GMS countries, and support the establishment of the PRC-ASEAN Free Trade Area. Guangxi’s closer integration would enhance the overall attractiveness of the GMS as a large and growing market, as an appealing investment and tourist destination” (Butiong 2006: 27).

Economic Corridor

The Mekong Institute 2007 CUTS International states, “Economic Corridor refers to major hubs or centres of economic activities and exchanges in well-defined geographical areas, usually centred around transport routes or transport corridors where infrastructure development and economic activities are integrated.” (Alice Pham 2007). Economic corridors, according to ADB (2001: xvii) Report, “are geographically defined areas that facilitate the national or transnational movement of goods, services, capital, people, and information. They have been developed around the world as a mechanism to promote cross-border trade, investment, and export-oriented production.” Presently, the GMS is co-ordinating four economic corridors. First, the East-West Corridor, the pilot project for the approach, will link Mawlamyine (Myanmar) with Da Nang (Vietnam) via north-central and north-east Thailand and Savannakhet (Lao People’s Democratic Republic). The second connection is the North-South Corridor linking Kunming (Yunnan, China) and Chiang Rai (Thailand) through north-western Lao People’s Democratic Republic. The third corridor will extend from Bangkok to Phnom Penh (Cambodia) to Ho Chi Minh City and Vung Tau (Vietnam). The last planned corridor will run from Kunming to Hanoi to Haiphong (Vietnam). (UNESCAP 2002: 10). To facilitate regional and sub-regional co-operation various formal and informal approaches are being used. “Formal approaches include the free trade area (FTA), customs union, and common market frameworks. Informal mechanisms include growth triangles, economic corridors, and transnational free zones” (ADB 2001: 2).
## Table-1

**Comparison of Mechanisms for Regional Economic Cooperation**

<table>
<thead>
<tr>
<th>Mechanism</th>
<th>Common Market</th>
<th>Customs Union</th>
<th>Free Trade Area</th>
<th>Growth Triangle</th>
<th>Economic Corridor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intraregional Tariff Elimination</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Indirectly</td>
<td>Indirectly</td>
</tr>
<tr>
<td>Nontariff Barrier Reduction</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Indirectly</td>
<td>Indirectly</td>
</tr>
<tr>
<td>Common External Tariff</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Free Labor Mobility</td>
<td>Yes</td>
<td></td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Free Trade in Services</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Free Capital Mobility</td>
<td>Yes</td>
<td></td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Internal Policy Harmonization</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Extraregionally Oriented</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Decentralization of Decision Making</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Geographic Coverage</td>
<td>Countries</td>
<td>Countries</td>
<td>Countries</td>
<td>Subregions within countries</td>
<td>Defined geographic area</td>
</tr>
</tbody>
</table>


Table 1 illustrates major significant differences between formal and informal approaches to regional economic co-operation. Formal approaches create trade blocs, in which participating countries adopt common rules to accelerate intra-regional trade and investment. Members of an FTA eliminate tariff and nontariff barriers (NTBs) internally, but maintain their individual tariff structures with the rest of the world. However, FTAs do not include free trade in services or free capital mobility, but include administrative interventions (such as compensatory funds) to ensure that the distribution of benefits from the FTA is equalised among member countries. Like FTAs, customs unions aim to eliminate internal tariffs and NTBs, but additionally apply a common external tariff on non-member country imports. Common markets not only incorporate the free trade aspects of FTAs and embrace the common external tariff of customs unions, but also allow for the free movement of services, capital, and...
labour, and are the most complete form of regional economic integration (ADB 2001: 2-3).

On the other hand, informal mechanisms for regional co-operation such as growth triangles have been developed in response to the slow pace and extreme complexity of establishing formal trading blocs. The basic proposition underlying these mechanisms is that regional economic co-operation can be speeded up by including only smaller areas of countries, and adopting a pragmatic, "bottom-up," market-oriented approach. In contrast, formal trade bloc mechanisms are based on the adoption of common rules, using a "top-down," bureaucratically imposed framework (ADB 2001: 3).

The Geo-political Features of the East-West Economic Corridor Countries

The EWEC is made up of a series of links that connect major population and commercial nodes located at interchanges with north-south routes or at border crossing points. Commercial activity along the Corridor is concentrated in six cities—Mawlamyine, Phitsanulok, Khon Kaen, Savannakhet, Hue, and Da Nang—and a few smaller cities such as Mae Sot, Tak, Sukhothai, and Mukdahan. An underlying characteristic of the EWEC is its east-west alignment in a multi-modal transport and infrastructure network that is mostly north-south oriented with Bangkok as the largest commercial center followed by Ho Chi Minh City (ADB 2001: 7).

A unique socio-economic feature of the region has been that the region as a whole is relatively poor, under-developed, thinly populated and remote. The citizens of all the four countries of the EWEC largely depend on agriculture as the main sources of income, given the limited levels of industrial development. The economies of Lao PDR, Myanmar, Thailand, and Vietnam differ significantly from one another in terms of their overall level of economic development and economic structures. For example, in 1999, Vietnam, Lao PDR, and Myanmar had a gross domestic product (GDP) per capita on a purchasing power parity basis of $1,850, $1,300, and $1,200 respectively, while Thailand's GDP per capita was $6,400 (ADB 2001: 7-8). Besides, the disparities in the economic and social development between the countries of the EWEC, there are also several intra-regional economic differences between the individual provinces and states within each area. This point is clearly illustrated in the Table given below.
### General Economic Structure of the EWEC*

<table>
<thead>
<tr>
<th>Location</th>
<th>Area (sq km)</th>
<th>GPP/ capita ($)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Myanmar</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Kayain</td>
<td>30,382</td>
<td></td>
</tr>
<tr>
<td>- Mon</td>
<td>12,297</td>
<td></td>
</tr>
<tr>
<td>Thailand</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Kalasin</td>
<td>6,947</td>
<td>875.5</td>
</tr>
<tr>
<td>- Khon Kaen</td>
<td>10,886</td>
<td>1,565.6</td>
</tr>
<tr>
<td>- Mukdahan</td>
<td>4,340</td>
<td>1,110.9</td>
</tr>
<tr>
<td>- Phitsanulok</td>
<td>10,816</td>
<td>1,576.4</td>
</tr>
<tr>
<td>- Sukhothai</td>
<td>6,569</td>
<td>1,235.5</td>
</tr>
<tr>
<td>- Tak</td>
<td>16,407</td>
<td>1,567.4</td>
</tr>
<tr>
<td>- Yasothon</td>
<td></td>
<td>799.6</td>
</tr>
<tr>
<td>Lao PDR</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Savannakhet</td>
<td>21,774</td>
<td></td>
</tr>
<tr>
<td>Vietnam</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Da Nang</td>
<td>1,248</td>
<td>400</td>
</tr>
<tr>
<td>- Quang Tri</td>
<td>4,500</td>
<td>185</td>
</tr>
<tr>
<td>- Thua Thien Hue</td>
<td>5,009</td>
<td>220</td>
</tr>
</tbody>
</table>


The Thai provinces are the wealthiest part of the EWEC. Despite the differences in income levels, the basic economic structures of the four EWEC areas are broadly similar. Agriculture and agro-processing account for the majority of economic output, while, industry (including manufacturing) makes only a limited contribution. The geopolitical and economic features of the four EWEC riparian countries are briefly discussed below:

**a) Lao People's Democratic Republic**

Laos which formed part of French Indo-China till 1954 is a small land-locked agricultural country, occupying an area of 91,430 squares miles (236,800 sq. km). Laos shares its border with China on the north, Vietnam on the northeast, Cambodia on the south, Thailand on the west and Myanmar on the north-west. Laos is administratively divided into 17 provinces and one special zone. It is a mountainous country largely covered by tropical rain forest. About half of the vast forest areas of
Laos has been estimated to be of (high) commercial value (Caldwell 1983: 317-19). The country has large untapped natural mineral resources like hydropower, tin, gypsum, copper and iron ore. Besides, deposits of gemstones such as sapphire, zircon, amethyst and gold are also found. The Mekong River provides the main transport artery between the north and south, as well as irrigating the fertile flood plain (UNESCAP 2002: 57).

Since, Lao People’s Democratic Republic (LPDR) is an exclusively agricultural country, its government introduced socialist economic policies soon after coming into power, but the government could not fully fulfill its objectives. Therefore, in order to cope with the changing social, economic and political environment of the region, the country’s policy makers remodeled its centrally planned economy to a market-oriented economy in the mid-1980s. However, these reforms retreated in the late 1990s, due to the impact of the regional economic crisis on its economy and so the country struggled with some macroeconomic problems till the beginning of 2000. Subsequently, the Government went through several consultative processes to issue the National Growth and Poverty Eradication Strategy, which articulates the country’s development framework for poverty reduction (ESCAP 2005: 3).

The Lao PDR has been participating in regional and sub-regional trade cooperation like ASEAN (since 1997) and the Bangkok Agreement (change to Asia-Pacific Trade Agreement). It was one of the five founding members of the Bangkok Agreement, which was established in 1976. The Bangkok Agreement was initiated by ESCAP in order to achieve trade liberalization among the least developed countries of the region (ESCAP 2005: 7-8). Further, to cope with the changing political and economic environment taking place in the region and in order to enroll itself as a member of the ASEAN Free Trade Area, the Government has been lowering import tariffs. In April 1997, the Lao People’s Democratic Republic signed a trade and cooperation agreement with the European Union.

The Lao economy had been growing at an average annual growth rate of about 7 per cent prior to the Asian economic crisis. However, the impact of the Asian economic crisis reduced its economic growth to 4 per cent. Ever since, the GDP growth rate of Laos remains about 5.8 per cent per year. The country is in the process of changing from an agricultural economy to an economy with a small industrial sector focusing on manufacturing activities and tourism (ESCAP 2005: 5-6). Since the
world politics has shifted from military alliance to economic co-operation, Lao PDR too has opened the doors to foreign investment recently. China, Japan, Thailand and Vietnam are its main trading partners in Asia, while exports to the EU are growing. Foreign investment projects are mainly concentrated in activities such as hydropower, mineral exploitation, tourist hotels and restaurants, as well as manufacturing industries (ESCAP 2005: 8).

After 1989 the government of the Lao PDR began its process of integration with the region and the world economy. Thus in July 1997, Lao PDR became the member of Association of Southeast Asian Nations (ASEAN) and jointed the ASEAN Free Trade Area (AFTA). Considering that Lao PDR is strategically located and share its border with five Southeast Asian countries, it has the potential "to become the land transportation hub of Southeast Asia. The East-West Economic Corridor passing through land-locked Lao PDR makes its distances to the harbours much closer (Ishida 2005: 4). But, communication system are still undeveloped and there are currently about 22,000 kilometres of (recorded) roadways in the country, out of which less than half are paved, and even the remaining roads are in poor condition.

b) Myanmar

Myanmar, formerly called Burma, occupies the northwestern third of mainland Southeast Asia covering an area of (about) 261,228 square miles (676,577 sq. km) (Forchheimer 1987: 749). Myanmar is nestled between China, the Lao People's Democratic Republic, Bangladesh, India, and Thailand. The Bay of Bengal and the Andaman Sea form the 2,832 kilometre southern boundary from the Kra Isthmus (with Thailand) to the border with Bangladesh. The country is generally divided into seven main regions: the Northern Hills, the Western Hills, the Rakhine Coast in the southwest, the Shan Plateau in the east, the Central Belt, the Lower Ayeyarwady Delta, and the Tanintharyi Coast in the south (UNESCAP 2002: 89).

Myanmar became an independent nation on January 4, 1948, and functioned on the British lines of "Parliamentary Democracy" in the initial decades of its independence (Tinker 1983: 8) However, parliamentary system of democracy did not last long. In 1988 a new military regime called the State Law and Order Restoration Council (SLORC) took over the Government and subsequently SLORC was renamed as the State Peace and Development Council (SDPC) in 1997.
Since SLORC came into existence in response to the severe economic crisis and domestic unrest in the country, on coming to power the leaders of the SLORC "reversed many of the socialist era policies and implemented several economic reforms, including new laws, regulations, operating methods, and reorganisation of government agencies in an effort to utilize market principles to jumpstart the sluggish economy" (UNESCAP 2002: 90). The new economic policies adopted by the Myanmar government had a major impact on most sectors of the economy. The new economic environment enabled entrepreneurs to set up their own business instead of working for state-owned enterprises or cooperatives. However, the structure of Myanmar’s economy did not witness any significant change from that of the pre-independence years, because agriculture sector still constitute the base of the economy around which other sectors are expected to develop (UNESCAP 2002: 90-91).

Table-3

Real growth of GDP and agriculture, 1994/95-1998/99*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>7.5</td>
<td>6.9</td>
<td>6.4</td>
<td>5.7</td>
<td>5.8</td>
</tr>
<tr>
<td>Agriculture</td>
<td>6.7</td>
<td>5.5</td>
<td>3.8</td>
<td>3.0</td>
<td>3.5</td>
</tr>
</tbody>
</table>

*Source: Ministry of National Planning and Economic Development

Myanmar’s economy recorded high growth rates all through the 1990s, with an average GDP growth rate of about 6 per cent growth annually. Yet, the country’s economy still heavily relies on agriculture, which accounted for 34.4 per cent of GDP in 1999-2000. No other sector comes close to match agriculture’s contributions to the national economy. Agriculture is followed by manufacturing and livestock/fisheries, accounting for about only 9.1 per cent and 7.5 per cent of GDP in 1998-1999 respectively (ibid: 92-93). Thus, the principal industrial activities relate to agriculture, such as food processing and tobacco products, besides other important industries like beverages, clothing, jewelry, metal, pharmaceutical and household goods, paper and chemical, cement, animal feed, and iron and steel products.

The Department of Border Trade established in 1996 supervises border trade activities under the guidance of the Ministry of Commerce. Currently there are 13 border trade offices (Than 2005: 41):
1) *Myanmar-PRC border*: Muse, Lwejel, Laiza, Kanpeiktee and Chinshwehaw
2) *Myanmar-Thai border*: Tachileik, Kawthaung, Myawaddy, Myeik
3) *Myanmar-India border*: Tamu, Rhil
4) *Myanmar-Bangladesh border*: Maungtaw, Sittway

Myanmar has bilateral trade agreements with several countries, including Bangladesh, China, India, Lao People’s Democratic Republic, Pakistan, Thailand, Vietnam, and seven countries in Eastern Europe. It also intends to develop more border trade with Bangladesh, China, India, Lao People’s Democratic Republic and Thailand. Trade with regional neighbours is facilitated through Myanmar’s memberships in various regional groupings such as the ASEAN and the Bangladesh, India, Myanmar, Sri Lanka, Thailand Economic Co-operation (BIMST-EC). Myanmar’s ASEAN membership provides numerous trade benefits with the AFTA, which is making rapid progress in lowering and eventually removing tariffs for intra-ASEAN trade. The less well-known BIMST-EC, formed in 1997, has plans for a preferential trade area and eventually a free trade area.

c) Thailand

Siam, renamed as “Thailand or Prathet Thai (Land of the free)” after May 11, 1949 is a Buddhist dominated country with a constitutional monarchy. Thailand occupies “a central position in continental Southeast Asia” (Devis 1983: 230). It is bordered to the west and north by Myanmar, to the north-east by Laos and to the southeast by Cambodia. Peninsular Thailand extends southward, along the Isthmus of Kra, to the Malay Peninsula, where it borders Malaysia. It “has a coastline of about 1,500 miles (2,400 Km) and an area of 198,500 square miles (514, 000 sq km)” (Devis 1983: 230).

Being strategically located in the heart of Southeast Asian region, Thailand is easily accessible by land, sea and air to all the other Southeast Asian countries and has always interacted with all countries in the region all through the years (Buakaew 2003: 15). Thailand’s economy in the 1970s and 1980s like any other country of the region was basically agricultural. About three quarters of the country’s labour force were engaged in farming, forestry, hunting, and fishing; and agricultural products contribute about 26 percent of the nation’s gross domestic product (GDP) and half of its export earnings. However, with the introduction of modern industries in the
country, the place of agriculture in the economy is gradually declining. The table below illustrates that share of manufactured products is gradually increasing, while share of agricultural products is on the decline in its country’s exports.

Table-4

Shows the breakdown of exports by sector, 1990-1998*

<table>
<thead>
<tr>
<th>Year</th>
<th>Manufactured products</th>
<th>Agricultural products</th>
<th>Fishery products</th>
<th>Others</th>
<th>Total exports (billion of baht)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>74.7</td>
<td>16.9</td>
<td>5.5</td>
<td>2.9</td>
<td>590</td>
</tr>
<tr>
<td>1992</td>
<td>77.0</td>
<td>15.0</td>
<td>5.9</td>
<td>2.1</td>
<td>825</td>
</tr>
<tr>
<td>1994</td>
<td>81.1</td>
<td>11.4</td>
<td>6.0</td>
<td>1.5</td>
<td>1,138</td>
</tr>
<tr>
<td>1995</td>
<td>81.9</td>
<td>11.4</td>
<td>5.1</td>
<td>1.7</td>
<td>1,406</td>
</tr>
<tr>
<td>1996</td>
<td>81.5</td>
<td>11.8</td>
<td>4.5</td>
<td>2.1</td>
<td>1,412</td>
</tr>
<tr>
<td>1997</td>
<td>82.4</td>
<td>10.2</td>
<td>4.0</td>
<td>3.4</td>
<td>1,807</td>
</tr>
<tr>
<td>1998</td>
<td>82.3</td>
<td>9.4</td>
<td>4.0</td>
<td>4.3</td>
<td>2,248</td>
</tr>
<tr>
<td>1999 (Jan-Oct)</td>
<td>84.5</td>
<td>8.3</td>
<td>3.6</td>
<td>3.8</td>
<td>1,795</td>
</tr>
</tbody>
</table>

*Source: Bank of Thailand

Since, agricultural products primarily constitute the main items of Thai exports, Thailand was unable “to cope with the steadily rising world prices of fuels and manufactured items” (Devis 1983: 234). Thus, its economy was always at the receiving end. But, the economic crisis that erupted in 1997 was the most severe in Thailand’s modern history, because the impact of the Asian economic crisis affected a wide range of socio-economic groups of people, ranging from high-level industrialists to factory workers (Likitkijsomboon 2000: 296). The “macro-economic instability in Thailand and the sharp depreciation of the Thai currency (not only affected Thai’s economy but has also) triggered a loss of confidence” in other countries currency of the region (Bourdet 2000: 150).

Thailand recovered from its economic crisis soon and by 2002, the standard of living had returned to the level prevailing before the financial crisis. During 2001-04 the economy grew at a moderate rate, but the rate of growth was not as fast as in the 1980s and the first half of the 1990s. A long-term shift from agriculture to manufacturing and services continues, but about 49 percent of the workforce is still...
employed in agriculture, forestry, and fishing, although this sector accounts for only 10 percent of gross domestic product (GDP). The economy is heavily dependent on exports, such as textiles and computer components, which account for 60 percent of GDP. According to World Bank the number of poor in absolute terms declined by about 2 million between 2002 and mid-2004, which in percentage terms, the poverty rate declined from 15.6 percent to 12 percent over the same period. In 2003 Thailand’s GDP was US$ 143 billion reflecting a growth rate of 6.9 percent over 2002.

d) Vietnam

Vietnam is located on the eastern side of the Indo-Chinese Peninsula in South-East Asia. It has over 3,000 kilometres of coastline on the Gulf of Tonkin and South China Sea. It is bounded on the north by China, on the west by Laos and Cambodia (Kampuchea), on the east by the China Sea, and on the southwest by the Gulf of Thailand (Parker 1987: 129). Like the rest of Southeast Asian countries, Vietnam’s economy is also largely based on agriculture. But, since 1986, Vietnamese economy has shifted from a centralised planning system to a market-oriented one. The “renovations” policy of the Government has brought about fundamental changes in the country economic development. As a result, despite the adverse impact of the recent regional economic crisis, Vietnam’s GDP has doubled during the 1990-2000 period. The share of GDP by economic sectors is also manifesting a positive change. Inflation has dropped from three digits in the 1980s to less than 10% since mid-1990s. The exchange rate with the US dollar has remained relatively stable. State revenue rose from 15.2% of GDP in 1990 to 27.2% in 2000. Domestic saving and investment also increased from 14.4% and 13.2% in 1991 to 27% and 22.1% of GDP respectively in 2000 (Vietrade 2003: 6-7).

Table-5

Vietnam’s Gross Domestic Production, 1995-2002*

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP (VND billion)</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>222,840</td>
<td>9.54</td>
</tr>
<tr>
<td>1996</td>
<td>258,609</td>
<td>9.34</td>
</tr>
<tr>
<td>1997</td>
<td>295,696</td>
<td>8.20</td>
</tr>
</tbody>
</table>
In the mid-1990s Vietnam adopted a new course in foreign policy affairs, particularly because of the major changes that occurred earlier in Eastern Europe and the former Soviet Union. The re-alignment in international affairs and the economic reform programme attracted numerous European and Asian companies, which perceived Vietnam as the last great frontier in South-East Asia. The Vietnamese economy is not fully liberalised as a true market economy. However, the structural economic reforms are progressing, albeit slowly, creating a mix of the heavy state-owned sector and the newer private sector. Relaxation of the Enterprise Law stimulated thousands of new small and medium sized enterprises, but the public sector still dominates the economy.

Reform of the state-owned enterprises (SOEs) continues with equitisation, diversification of ownership, and the liquidation of non-viable enterprises. The government formulated a three-year plan to equitise one-third of all the SOEs, but as of August 2000 only 451 had been transformed. Vietnamese economy witnessed rapid growth in the mid-1990s, but unfortunately the Asian economic crisis and other intrusive factors had slowed the Vietnamese economy’s growth rates in 1998 and 1999 to 4.4 per cent and 4.8 per cent, respectively.

East-West Economic Corridor Structure and Functions

The EWEC has diverse topography and climate ranging from coastal plains of Myanmar to low areas and mountains in southern Thailand; wet delta, forest and plants in Savannakhet; and mountains and midland areas in central Vietnam. Most of the areas are reported to be geographically remote and under-developed. Given the fact that the development of cross-border infrastructure is the key to economic development and prosperity of the region in general and the participating country in particular, in an effort to improve intra-regional transport and to derive maximum

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
<th>Exchange Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>361,468</td>
<td>5.8</td>
</tr>
<tr>
<td>1999</td>
<td>399,942</td>
<td>4.8</td>
</tr>
<tr>
<td>2000</td>
<td>444,139</td>
<td>6.70</td>
</tr>
<tr>
<td>2001</td>
<td>484,492</td>
<td>6.80</td>
</tr>
<tr>
<td>2002</td>
<td>536,000</td>
<td>7.04</td>
</tr>
</tbody>
</table>

* Source: General Statistical Office  
Note: Vietnamese currency is Dong (VND)  
US$ = VND 15,500 00.
benefits, the GMS countries have begun to adopt a holistic approach to development, in the form of economic corridors. In order to fulfill this objective, the heads of the GMS countries have reiterated their commitment to fully connect all the GMS countries at the Kunming Declaration in July 2005 (ADB 2005: 18). The East-West Corridor is the priority corridor project, and ADB approved the project in December 1999 for about US$ 740 million. The 1,500 kms East-West Economic Corridor, links Da Nang in central Vietnam; Savannakhet in central Lao PDR; Mukdahan, Khon Kaen, and Phitsanulok in northern Thailand; and Mawlamyine in Myanmar (Butiong & Thang 2006: 24).

The East-West Corridor is expected to improve access to raw materials, stimulate trade and exports, bring together many of the inherent factors of production found throughout the region, and create higher growth rates for many of the secondary cities and towns along the route. It focuses on five areas critical for the development of the Corridor: agro-industry, industry and industrial zones, infrastructure, tourism, and trade and investment. ADB’s Report on Pre-investment Study for the Greater Mekong Sub-region East-West Economic Corridor (ADB 2001: 5) stated that development of the Corridor could offer a number of benefits to the participant countries like;

- Providing better access to raw materials, both onshore and offshore. Mining, fishery, and energy resources can serve as the basis for manufacturing and processing activities;

- Facilitating regional development, particularly in the interior areas of three of the countries, and facilitate balanced growth and development of secondary towns;

- Facilitating cross-border trade based on comparative and competitive advantages of each national area of the Corridor;

- Attracting more investment from local, regional, and global sources, facilitating the globalisation of production processes, and providing a catalyst to the ongoing process of regional adjustment and restructuring;

- Developing new economic activities, through the efficient use of economic space and the creation of a transnational economic zone;

- Opening up a window for products from Lao PDR, Thailand, and Yunnan Province, People’s Republic of China (PRC) to the emerging markets of South Asia and Europe, as well as to East Asian markets and North America; and

- Serving as a testing ground for new economic policies, particularly in the former socialist economies of Lao PDR, Myanmar, and Vietnam.
East-West Economic Corridor Objectives

The East-West Economic Corridor (EWEC) has been initiated with the aim to directly link the Indian Ocean (Andaman Sea) and the South China Sea by connecting Da Nang in Vietnam on the eastern-end, with Mawlamyine in Myanmar on the western end, cutting across Lao PDR and north and northeastern Thailand. The EWEC, therefore, will therefore be the only link that will traverse mainland Southeast Asia on an east-west axis. The goal is to develop a highly efficient, fast and better transportation of goods and movement of people in the region without significant impediments or excessive costs or delays, by creation of single-stop/single-window inspection at border check-points, simplified visa formalities, exemptions from border inspections for goods in transit, and the exchange of traffic rights, which will allow vehicles registered in one country to operate in the neighbouring country (Butiong & Thang 2006: 24).

The EWEC initiative includes linking and development of road, rail, water transport, and air transport through internal and external aid and assistance. For example, a bridge crossing the Mekong River from Mukdahan in Thailand to Savannakhet in Lao PDR is being constructed through loan financing from the Japan Bank for International Co-operation (JBIC). Sections of the East-West Economic Corridor in Lao PDR are being upgraded with financial assistance from the Japan International Co-operation Agency (JICA) and ADB. The section of the EWEC in Vietnam—from Lao Bao to Dong Ha, and further to Da Nang along Highway 1 is being improved by the Government of Vietnam with the assistance of ADB and JBIC.

A spur line of the Singapore-Kunming Rail Link project covers part of the EWEC. The Mawlamyine-Thanbyuzayat-Three Pagoda Pass rail link, which would connect Myanmar and Thailand, has been included in the EWEC flagship programme. The Mawlamyine-Thanbyuzayat section is being upgraded by the Government of Myanmar. Financing is being sought for the feasibility study and construction of the Thanbyuzayat-Three Pagoda Pass segment of this rail link. Lao PDR has proposed the inclusion of a project to improve Savannakhet airport in the EWEC flagship programme. This project will make Savannakhet airport a subregional airport, and allow it to accommodate medium-size aircraft.

Equally important in developing the EWEC are the ‘soft’ aspects i.e., policies and regulations that play a vital role in determining the form, level, and use of infrastructure investments. In this regard, a separate flagship initiative on Facilitating
Cross-border Trade and Investment is included in the GMS Strategic Framework. As with other GMS economic corridors, implementing the cross-border land transport facilitation agreement is integral to EWEC development. This agreement is expected to simplify customs procedures, facilitate cross-border travel, minimise the need for trans-shipment, among many other advantages. A human resource development program for the transport sector is also included. Single-stop customs procedures, which would further reduce transportation time and costs, are being pilot tested along the Corridor at the Thai-Lao border at Mukdahan-Savannakhet, and at the Lao-Vietnamese border at Dansavanh-Lao Bao.

Advantages of East-West Economic Corridor

The economic and political analysis of the region brings to light that Cross-border trades, investment, transport, and labor movement patterns along the EWEC reveal underlying complementarities. ADB reports stated that “these overall complementarities give rise to several opportunities for regional co-operation within the context of the Corridor. The following discussion profiles the most important complementary within each of the sectors analysed. The emphasis is on the identification of private sector’s opportunities that arise from relative comparative advantages. The realisation of these potentials will form the “engine” behind the EWEC’s development” (ADB 2001: 37).

a) Agriculture and Agro-Industry

The economic survey of the region indicated that agriculture constitutes the main source of income of the people of the region and majority of the population depends for their livelihood on it. Thus, there are immense scopes for development in this sector like the combined multi-country production and processing linkages that can relieve raw material supply constraints and improve capacity utilization, and enable the realisation of production economies of scale by taking advantage of EWEC-wide market. Further, EWEC-wide region can present itself as a single, stable, and attractive investment location in agro-industry. Other benefits can also be realised through the sharing of knowledge and information about production, processing technologies, and establishing linkage between producers, processors and markets across the entire Corridor region (ibid: 37-38). It should be noted that increased co-
operation in agriculture will certainly lead to greater employment opportunities and rural household incomes in all EWEC countries.

b) Manufacturing Industries

Manufacturing industries based on the complementarities, and existing flows of intra-industry-or two-way-trade, provide ample opportunities for industrial development, particularly in terms of light manufacturing. As in case of agro-processing, the current analysis focuses on the potential for cross-border production between the Thai area of the EWEC, on the one hand, and the other three EWEC areas, on the other, given the greater differences in factor endowments. The following points highlight some of the industries with potential for cross-border investments within the EWEC in light manufacturing industries. These can be classified as those with high potential and those with medium to low potential. Industries with high potential are of three types:

1) those industries already in the EWEC areas that are not yet fully developed due to existing constraints;
2) those that involve value-added processing of raw materials already found in the EWEC areas, which are currently being exported either formally or informally across borders; and
3) footloose industries that are already established to some extent in Mae Sot and Khon Kaen, Savannakhet, and Da Nang. These are the labour-intensive global manufacturers of garments and apparel, toys, and other consumer products. Where labor costs account for a significant portion of total product costs, and raw materials and inputs are normally imported or sourced from a network of specialised suppliers. In addition, they are wholly export oriented and sold in global markets.

Industries with medium to low potential could develop in the later stages of EWEC development. These would primarily depend on the dismantling of tariff and non-tariff barriers as well as policy and procedural constraints. Their potential also depends on the pace and level of development of human resources and technological capability in the EWEC areas and the extent to which new markets in South Asia and East Asia open up.
c) Cross-Border Trade and Investment

During the Cold War period border trade among the GMS countries were almost nil due to unending armed conflicts, doctrinaire socialist ideologies and an appalling lack of infrastructure. However, this trend began to change with the end of the Cold War and thus the command/control economies in the region have gradually transformed into market-oriented systems and cross-border trade has been formalised (Than 2005: 38). This was done keeping in view of the fact that cross-border transport is seen as one way to improve cooperation and cut transport cost.

i) Trade Complementarities

The thriving formal and informal trade among the EWEC areas suggests significant underlying complementarities. In the short run, the main opportunity lies in regularising informal cross-border trade flows, by removing constraints and simplifying procedures. Short-run production opportunities will probably be limited to regional SMEs that take advantage of complementarities arising from factor price and technology differentials along the Corridor. This will be facilitated through the establishment of special economic zones at selected border locations.

Over the long run, however, the harmonisation and simplification of trade and investment policies and regulations will result in the creation of a large, cross-border economic zone. This will allow firms located in the Corridor to reduce production costs by exploiting sub-regional economies of scale and by expanding extra-regional trade. The spatial distribution of these production processes will create opportunities for intra-industry and intra-firm trade, and attract larger domestic and foreign direct investment.

Unfortunately, detailed cross-border trade statistics are unavailable at the sub-regional level, so the comparison of exports is based on national statistics. The following discussion is based on the results of a trade-derived analysis of comparative advantages among the EWEC countries, and summarises the comparative advantages of export product divisions of each EWEC country in three factor-intensity categories: natural resource-intensive products; unskilled labor-intensive products; and human capital-intensive and technology-intensive products.

In natural resource-intensive products, Thailand and Vietnam have comparative advantages in livestock, animal products and vegetable products. Vietnam's comparative advantage in the latter is particularly greater, compared to
Thailand. Vietnam also has comparative advantages in the production and export of mineral products. Thailand has comparative advantages in prepared foodstuffs, beverages, and tobacco. Despite the lack of appropriate trade data to estimate comparative advantages for the Lao PDR and Myanmar, based on its factor endowments, Myanmar also has the capacity to produce natural resource-intensive agricultural, fishery, and mineral products.

Among unskilled labour-intensive products, a similar pattern emerges. Thailand and Vietnam both have comparative advantages in travel goods and handbags, footwear, and clothing. Thailand also has comparative advantages in textiles, leather and leather manufactures, and furniture. Once again, though appropriate trade data are unavailable for the Lao PDR and Myanmar, their existing factor endowments indicate that they both have an advantage over Thailand in unskilled labour-intensive products. For example, Myanmar has a comparative advantage in the textile industry and ready-made garments. In skilled labour-intensive products, only Thailand displays a comparative advantage in any product categories, namely in non-electrical and electrical machinery. None of the EWEC countries displays a comparative advantage in other human capital-intensive and technology-intensive product divisions.

Existing production patterns indicate that the EWEC areas are likely to share their respective nationwide comparative advantages. These are the products for which the EWEC countries have already demonstrated comparative advantages in world markets and, therefore, are the most promising categories for the further development of EWEC exports to world markets. Existing evidence on cross-border trade along the Corridor indicates that there is also potential to expand intra-EWEC trade in many of the same product areas, particularly in agricultural and other resource based products, as well as in unskilled labour-intensive products.

**ii) Investment Complementarities**

An increasing volume of international trade is occurring between countries that are exchanging the same types of goods. This intra-industry trade is associated with economies of scale, whereby, costs decline as output increases, and the fact that economics of scale promote the production of differentiated goods. The similarity of export performances across product divisions for the EWEC countries suggests that, by developing cross-border production facilities and benefiting from economies of
scale, businesses in the Corridor could improve their export performance outside of the sub-region. Overall, the EWEC countries have a strong comparative advantage in two of the three factor-intensity categories, namely in natural resource-intensive products and unskilled labour-intensive products.

d) Tourism Development

The EWEC is rich in natural, cultural, and historical resources that provide enormous potential for tourism development. Tourism resources are particularly rich in the gateway areas of the Corridor, which have been continuously settled for centuries. The main opportunity is to attract tourists from already established major tourism destinations in Southeast Asia and to develop tourism products that combine and link more than one country. For the Corridor, a major potential lies in developing overland tours that link the tourist sites in the various EWEC provinces. With the opening of new international border crossings between EWEC countries and improved relations among them, as well as the opening of secondary airports and establishment of new air linkages among major cities, tour operators have begun offering new multi-country tour packages. Multi-country tour packages not only provide an attractive tourism product for tourists, but their development can also offer excellent prospects for collaborative action among the various countries.

Cross-border tours take advantage of the improved transport linkages and facilitation arrangements, and provide a clear economic rationale for EWEC-level tourism development. The increased marketability of the EWEC as a tourist destination brought about by the expansion of cross-border tours is expected to spur economic activity within the Corridor-influenced area, including the development of tour-related industries, hotels, and other allied industries, such as handicrafts, translation services, and restaurants. The increased tourism will in turn create more jobs and help in the drive to reduce poverty in the country. The project will also seek to reduce poverty through rural connectivity and accessibility (ADB 2002a).

Various cross-border tours have been proposed. The development of cross-border tourist routes has been on the agenda of a tripartite technical co-operation arrangement among three EWEC countries' national tourism organisations (NTOs), namely, the National Tourism Authority of the Lao PDR, the Tourism Authority of Thailand, and the Vietnam Administration of Tourism. The three NTOs have agreed to undertake joint tourism marketing and promotional activities, including 1)
production of a travel manual and promotional video; 2) organisation of automobile caravans and a cross-country bicycle marathon; and 3) organisation of familiarisation trips for, and presentations to, tour operators and members of the international travel media.

Many cross-border itineraries could be developed by private tour operators involving tourist attractions within the EWEC and its periphery. By developing the road infrastructure along the EWEC, the potential for tourism development could extend far beyond the Corridor-influenced area. According to a senior representative of the Association of Thai Travel Agents, the results of a survey performed by a group of about 80 representatives of inbound tour operators on eastern sections of the EWEC (routes 8 and 9) indicate strong potential for further development, despite the current poor state of infrastructure in certain areas in the Lao PDR and Vietnam. Over time, mini-tourism corridors are also likely to emerge, especially at the two ends of the Corridor. These include the Hue-Da Nang mini-corridor, which is already developing, and the possibility of an integrated tourism corridor in the Mawlamyine area.

**Economic Barriers**

With the formation of the GMS programme many development projects such as transportation and infrastructural development, human resource development, the co-operation of trade and investment, environmental and natural resource management were initiated by the member countries. However, despite all these developmental work undertaken in the region, excluding the Thai provinces, still most of the areas of the EWEC are characterized by high levels of rural poverty, limited domestic markets, limited access to financial capital, negligible foreign investment, and subsistence-oriented production patterns. The major obstacle to economic co-operation in the GMS lies in the fact that most of the developments in this sub-region have been at the level of novice. Besides, there is a lot of developmental gap among the GMS countries (Chareonwongsak & Chareonwongsak 2005: 3). Some of the major social issues are briefly illustrated below.

a) **Poverty**

Masami Ishida (2005) reported that “the population in the provinces and states along the EWEC is only 15,336 thousands persons, 6.3% of the population of the
GMS, and the income levels are the lowest both in Thailand and Vietnam. Income level in Vietnam is less than half of the Southern economic corridor; and in Thailand it is less than one-seventh. Thus, the EWEC can be said to be a “Poverty Corridor,” since most of the inhabitants of the EWEC region have relatively low levels of literacy and are poor. The GMS countries have set the target to “eradicate extreme poverty and hunger” as their first Millennium Development Goals (ADB 2006: 21). This objective was once again reiterated at the Second Greater Mekong Sub-region Summit held at Kunming, (“Kunming Declaration”) Yunnan, People’s Republic of China on July 4-5, 2005” (ibid: 18). Subsequently, President of Asian Development Bank, Kuroda in his address at the ADB’s 40th Anniversary exhorted the leaders of the GMS countries that despite different programmes has been taken up by the governments, NGOs, regional and international organisation to eradicate social problems, “a very large number of its people are still poor, with little access to education, healthcare, sanitation, or drinking water” (Kuroda 2007: 2). This statement clearly indicates that poverty is a major underlying impediment to the development of the EWEC, and as such no one area can serve as the dominant “economic engine” for the Corridor (ADB 2001:49).

b) Human Resources

Having felt feeling the need for large scale human development in the region Kriengsak and Akrathood (2005: 33) emphatically stated that, “the government of the GMS should endeavour to co-operate in developing higher educational management, especially at secondary and tertiary levels, and even more so in technical and scientific areas, including developments in informal and non-formal education.” They go on to remark that low industrial development was due to the availability of only small pool of skilled workers, technicians and professionals in the region. It was also reported that “with the exception of the Thai EWEC area, these skills are virtually non-existent due to the lack of existing industrial development. Labour productivity is relatively low and the industrial habits of the rural workforce are inappropriate for modern production environments” (ADB 2001: 50).

c) Natural Resources

Larry Strange (2005: 39) stated, “the Mekong River and its environs is a precious and unique geographical, ecological, economic, human and cultural resources rich in history and diversity, and possessing great potential for development
and growth." But, ADB report stated that "increased economic activity along the Corridor is limited by certain natural resource constraints." The main impeding factor is that the EWEC areas have broadly similar factor and resource endowments-similar fruits, vegetables, and other tree crops-somewhat limiting the range of complementarities based on differences in resources (ADB 2001: 50).

Besides the above said factors, there are also concerns about potential over-exploitation of forest resources in some part of the EWEC region especially in Lao PDR and Vietnam. To prevent further over-exploitation and denudation of forest reserves in the country, Lao PDR has banned all exports of round logs through a decree in 1999. Subsequently, the Lao PDR Government has made efforts to encourage the planting of fast-growing tree species to produce fuel wood, charcoal, and biomass (for pulp and paper mills). Nevertheless, the environmental implications of the over-expansion of mono-cultural areas need to be fully considered, because, in some areas, such as the Myanmar area, existing plantations are aging and becoming less productive. Little progress has been made with afforestation.

d) Transport Infrastructure

Infrastructural under-development like roads and railways are the main obstacle to the development of GMS countries. The region is urgently in need of massive transport infrastructure development, because lack of transportation not only constrains efficient movement of goods and people along the Corridor areas and Corridors, but also hinders the development of the region as a whole. Therefore, the success of the EWEC over the long term will depend upon the rapid development of transport infrastructure. Manabu (2006: 48) citing economic geography literature stated that, "reduction in transport costs contributes to increased regional trade, investment, and economic development, particularly for geographically disadvantaged members of the region." Therefore, development of transportation infrastructures in these three economic corridors is one of the major components of the GMS programme. The transport infrastructure is what connects production points to the market. If two production points are connected, then in accordance with the gravity model, if the population of each one increases, or their income level rises, or the distance between the two points becomes closer in both space and time, then the transportation infrastructure will become more effective (Ishida 2005: 2).
Policies and Procedures

According to ADB Report (2001: 53), unlocking the economic potential of the Corridor is impeded by a large number of policies, procedural, and institutional factors, which are designed without regional co-operation in mind. They are also a reflection of the relatively closed transitional economies of Lao PDR, Myanmar, and Vietnam as well as the significant economic differences between them and Thailand. Other contributing factors are the limited institutional capabilities of public and private sector organisations in the relatively remote Corridor areas (ibid).

a) Investment Policies and Procedures

The investment policies, incentives, and procedures of the EWEC countries affect the prospects for industrial development in the Corridor. Not only do they affect the overall investment climate of a given country, they also determine the competitiveness of the Corridor relative to other locations in the four countries and the region as a whole. Prevailing investment policies and procedures in the EWEC countries pose a strong disincentive to investment, particularly foreign investment, in the Corridor. All four EWEC countries place some restrictions or limitations on foreign ownership and most impose local content requirements on certain industries. Other specific impediments prevalent in each of the EWEC countries are discussed as follows.

In Myanmar, investment policies are among the most restrictive in the EWEC and are a strong deterrent to cross-border investment in the Myanmar area. The State-Owned Economic Enterprises Law specifies a long list of economic activities reserved for the Government. In specific projects, the Government can determine the level of participation by the private sector. In addition, state enterprises have access to highly subsidised imports, which are not available to the private sector. The result is crowding out of private sector activity in many sectors. Another deterring factor is the complexity of investment approval and licensing procedures, and overlapping institutional responsibilities. Which result in significant delays and investment frustration.

In Thailand, the major issue is the competitiveness of the EWEC provinces relative to better developed parts of the country, especially the eastern seaboard that accounts for some 75 percent of inward investment. The modification of Board of
Industry incentives (announced on 1 August 2000) represents a significant liberalization of general Thai investment policies (ibid: 53-54).

From the perspective of the EWEC, these policies imply one major impediment: the Thai EWEC provinces are treated unequally in terms of access to incentives. Yasothon and Kalasin receive the most generous package, but the remaining provinces (Khon Kaen, Mukdahan, Phitsanulok, Sukhothai, Tak) are ineligible for these. This may lead to unintended distortions and reduce the integrity of the Corridor concept, at least among the Thai provinces.

In the Lao PDR, foreign investment faces major impediments that cloud the investment climate and make investments outside of Vientiane even riskier. Major discrepancies are apparent between the Foreign Investment Law and other legislation. Many sectors are closed to foreign investment such as tourism and trading. The investment approval procedure is complex and lengthy (averaging six months), involves many agencies, and, finally, most applications under the Foreign Investment Law are rejected (in 1996, an estimated 80 percent). No standards apply for the renewal of foreign investment licenses. In addition, foreign companies face major problems in terms of gaining access to land and the transferability of land-use rights. Furthermore, in response to fundamental economic imbalances brought on by the Asian financial crisis, the Government has tightened economic controls. The measures include requirements for private firms to turn over part ownership to the state and increased restrictions on trade. In short, investment policies and procedures have become increasingly unpredictable, complex, and difficult to comply with.

In Vietnam, similar problems are associated with investment, particularly with respect to foreign investment. The same incentives and policies are applied nationally, which puts the remote, and therefore less attractive, provinces of Quang Tri, Thuan Thien Hue, and Da Nang at a district disadvantage. Several specific factors, most of which have been mentioned by foreign investors to Vietnamese authorities, can deter investment in the Vietnam EWEC area (PSFS 1999). Foreign and local investors do not receive equal treatment; this is seen in prohibitions on foreign investment in various sectors without a local joint-venture partner, including trading, tourism, and insurance, as well as strong de facto pressure on foreign investors to enter into joint ventures with local partners for investment in non-restricted sectors. High personal income tax rates, especially for domestic workers, significantly raise effective tax rates. In addition, most foreign investors are required to balance their foreign
exchange outlays and earnings, effectively preventing them from selling their products domestically if raw materials are imported (ADB 2001: 54).

b) Foreign Trade Policies

The ability of EWEC countries to exploit existing complementarities in the region depends heavily on a favourable policy and regulatory environment for cross-border trade. The existing trade policy environment presents major constraints to regional co-operation. In general, national trade policies of most EWEC countries are biased against the agriculture-and natural resource-based activities that are particularly important to economic development along the Corridor. Major issues in this regard include the following:

1) High tariff levels: The Common Effective Preferential Tariff (CEPT) rates of countries like Thailand are among the highest for any ASEAN country, especially for agricultural products, fats and oils, foodstuffs, and livestock. The Lao PDR also imposes export duties on timber and unprocessed natural products-two categories in which cross-border trade and investment appears promising.

2) Extensive CEPT exclusion lists: The number of products excluded from CEPT coverage ranges from a low of seven for Thailand to 88 for the Lao PDR. Some of these items are important for the EWEC, such as live animals and meat (Lao PDR and Vietnam); fruits and vegetables (Lao PDR and Vietnam); hybrid corn and freshwater fish (Lao PDR). Vietnam's general exclusion list includes items important to EWEC transit trade, such as broadcasting and receiving equipment, vehicles with less than 16 seats, scrap (war debris that is recycled), and used consumer goods. Most of these products are subject to high tariff and/or restrictive licensing and quota requirements.

3) Other NTBs: Cross-border trade in agricultural products is subject to numerous formal and informal quota restrictions, monopolies, marketing controls, and other NTBs, particularly in Lao PDR, Myanmar, and Vietnam. This reinforces the high costs of formal cross-border trade, and promotes informal trade flows.

4) Trade procedures: Cross-border trade procedures are complex, lengthy, and difficult for firms to comply with. None of the EWEC countries follows international practices based on the ATA Carnet System on duty-free temporary importation. Import and export licenses are required for some products. While most issuing of permits has been decentralised, certain transactions require special
permits only available in home capitals. In Vietnam in particular, further complexity is due to the fact that numerous ministries and provincial and national agencies administer permits.

5) Exchange rate differentials: Real bilateral exchange rate differentials among the EWEC countries—resulting from currency devaluation in the Lao PDR and Thailand during and after the Asian Financial crisis—has impact on cross-border agro-industrial production and light manufacturing activities. However, these relative price movements have a more moderate impact on trade of primary commodities. Prices of homogeneous agricultural, mineral and forest products are largely established in international markets. Moreover, most EWEC cross-border trade is on a barter basis, and is therefore less affected by exchange rate variations.

6) Limited access to formal trade financing: One of the constraints to the increasing sophistication of trade relationships is limited access to the formal trade financing system. Cross-border trade uses cash payments of local currencies, barter and dollar-denominated bank drafts and letters of credit. Thai exporters sometimes give credit with terms to Lao PDR importers ranging from a few days to up to a month. The use of more sophisticated instruments is limited, particularly in Lao PDR, Myanmar, and Vietnam (ibid: 55).

c) Transport Policies and Procedures

The efficient cross-border movement of goods is essential if the EWEC is to function as a true corridor. Without the ability to move trucks and containers across borders with minimum delay and without transfers or inspections, shippers will prefer to ship international cargoes through domestic ports. International commerce places increasing emphasis on effective logistics and timely delivery of cargoes. Impediments to such logistics put exports at a competitive disadvantage and make imports more costly for consumers. Without efficient road transport and access to efficient ports, Lao PDR, Myanmar, and Vietnam will find themselves at a competitive disadvantage relative to other low-wage countries. Similarly, Thailand, which suffered from severe traffic congestion prior to the financial crisis, will find it difficult to compete in traditional export markets.

At present, substantial policy and procedural barriers hinder the movement of goods across borders within the EWEC, causing increased delays and transport costs. For example, while most trucks move freely across the Lao PDR-Thailand border,
movements any further inside the country are restricted. Because of the absence of ICDs in Mukdahan or Khon Kaen (due to Thai Government restrictions), Lao PDR goods are brought across the border as loose cargo, transferred to Thai trucks, and transported by them to the port, which are stuffed into containers. For Thai goods transiting through the Lao PDR to Vietnam, goods are taken across the border in Thai trucks and sold to Lao PDR traders who then load them onto their own trucks.

An ASEAN-wide protocol, the Framework Agreement on the Facilitation of Goods in Transit, was signed by all four EWEC countries in December 1998. A separate framework agreement under the GMS program was signed between Lao PDR, Thailand, and Vietnam in November 1999. These agreements seek to standardise procedures for transit traffic. The difficulties in implementing them have been widely observed. Until proper procedures are in place, border crossings will continue to delay and damage cargo, and render transport use inefficient. If the Corridor is to efficiently serve all east-west movements, then trucks from Lao PDR, Myanmar, Thailand and Vietnam must be able to move freely along its length.

Another impediment to developing an efficient transport system along the Corridor is the issue of recovery of road maintenance costs. All four countries apply fuel and vehicle taxes but none earmarks the funds collected for road maintenance. An increase in cross-border movements, especially for exports and imports via Da Nang, will lead to a higher volume of foreign trucks transiting the Lao PDR section of Route 9. There is no mechanism in place for the Lao PDR to recoup the cost of road deterioration resulting from this transit traffic. Given that most of the road budgets are used to develop and maintain the north-south routes, it is necessary to consider some form of tolling to raise funds for maintaining the road. The option of tolling is recognized in the protocol.

A more general constraint is the limited role of the private sector in the provision of infrastructure and related services; public sector monopolies still operate in the transport sector. Road transport provided by the private sector is relatively efficient, but enforcement of government regulations is inadequate to ensure safe operation and avoid excessive overloading of trucks. Private shipping services are efficient but performance in public ports is mixed. Private cargo cargo-handling operations in both Thailand and Vietnam are relatively efficient especially where they cover all terminal operations. Public port operations are much less so. The port of Bangkok has been infamous for its congestion and inefficiency. It continues under
government management, and efficiency is gradually improving, but it is well below the level of the other large container ports in the region including Laem Chabang, which is under private management.

Another hindrance to the success of the EWEC is the low level of containerisation in cross-border cargoes. Containerisation provides advantages by preventing damage and reducing delivery time and cost. Both physical and non-physical barriers limit the use of containers. The physical barriers are the design and quality of roads, the availability of tractor-trailers suitable for hauling the containers, and the location of ICDs used to stuff and strip the boxes and maintain inventories of empties.

Improvements in trade policies, particularly those relating to customs, are important complements of the efforts to improve the road network along the Corridor, as any improvements to the physical infrastructure would be largely wasted if the rapid movement of goods is hampered by uncertain and slow customs procedures at land borders. To facilitate trade along the Corridor, customs services in all countries have to be upgraded through simplification and standardisation of procedures, as well as through greater transparency, predictability, and consistency. A policy that is more likely to be adopted in the short term is the "single-stop" customs facility, under which the customs officials of two neighboring countries work together in one physical location. Whatever modality is adopted, a strong lead from central government will likely be required to ensure that local and provincial interests are subsumed to the national interest.

Strategy for East-West Economic Corridor

The long-term development vision for the EWEC is to stimulate the growth of the Corridor area and to raise the incomes of its residents. This will be achieved by helping to efficiently exploit underlying sub-regional complementarities, by developing a range of competitive advantages that will enhance the overall competitiveness of the EWEC for value-added processing for regional and global markets, and by making the EWEC a single, unified, geographic and economic unit. Once the transport and industrial infrastructure improvements are in place, the EWEC will offer enterprises efficient, direct access to these markets. When policies and procedures are standardised and simplified, firms will be able to realise economies of scale in production, and gain access to larger local markets and input sources. The
supply of raw materials and other inputs will be regularised and made more efficient. Enterprises will be better able to cooperate in terms of joint production, distributions, and marketing. Cross-border investments will accelerate to exploit these competitive advantages.

But it is important to recognise at the outset that the aggregate economic impact of the EWEC will be both modest and slow to materialize, given current levels of poverty and the reliance of the population on natural resource-based economic activities. Therefore, the extent of total value addition is unlikely to be as great as in other economic corridors that are based on large-scale manufacturing, consumer goods assembly, and processing for export. However, over time, such larger value-added processing industries can be expected to locate in the EWEC.

The goals and specific objectives are built upon the vision of development. First is the primary objective of enhancing the competitiveness of the EWEC. This will be achieved by reducing costs of cross-border trading, transactions, transport, investment, production, promotion, and distributions through a variety of measures. Cross-border investments will be facilitated to serve local, regional, and global markets, particularly in terms of value-added processing. The second objective is upgrading competitive advantages through promoting joint financial, technological, marketing, production, and other collaborative activities. By collaborating, the EWEC national areas can overcome their individual deficiencies by accessing inputs found in the larger EWEC sub-region and realizing economies of scale. The third objective is to empower the residents of the EWEC by raising their incomes, enhancing their skills and devolving greater powers of decision making regarding the development and functioning of the Corridor to the local and provincial levels. The fourth objective is to develop and operate the EWEC in a financially, economically, and environmentally sustainable manner.

**Analysis the Implementation of the East-West Economic Corridor Program**

A total of 74 initiatives have been proposed for implementation, either on their own or with other initiatives. Implementing the proposed strategy is not a simple undertaking, given the many constraints to cooperation. Successfully implementation will mean meeting a number of basic prerequisites:

1) **Common vision:** The four governments at the national, EWEC provincial and local levels need to agree on an overall ambitious, but practical development
vision for the EWEC. The vision should have an “open architecture” that can evolve over time, as needs change.

2) Genuine political will: The governments need to show high-level commitment to the strategies and to genuine regional economic co-operation. Rapid implementation is vital given the requirement to develop 90 percent of the infrastructure for the Corridor.

3) Focused initiatives: To kick-start implementation, actions need to focus on the most important of the proposed initiatives. In addition to an initial emphasis on border nodes, improvements at the Myanmar end of the Corridor are critical, including completion or upgrading of the Mae Sot-Mawlamyine road and the development of a deepwater port in the Mawlamyine area. On the policy side, simplification of cross-border procedures, including labor mobility, is extremely important for successful implementation. Development of the EWEC also needs to be carefully co-ordinated with north-south corridors and regional and national development initiatives, and must include adequate co-ordination among ministries at the central government level.

4) Appropriate institutional framework and public-private interface: An effective institutional framework needs to be developed to oversee implementation. The heart of this is an effective public-private interface. The role of the public sector is critical in the initial stages of development. All levels of government need to be integrated into this framework; and upgrading the capacities and roles of provincial governments is especially important.

5) Sustainable development: The sustainability of the strategy will be dependent on developing a framework to manage risks, share costs and benefits equitably, and monitor implementation and impacts. Socio-economic impacts in terms of poverty, environment, women in development, etc., are particularly important. Development of skills and upgrading of human resources in the EWEC is crucial for long-term sustainability.

6) Appropriate funding sources: Identifying appropriate mechanisms to finance implementation is also vital. The initial role of government funding is pivotal to kick-start projects (ADB 2001: 85).
The Impact of the East-West Economic Corridor

The successful implementation of the EWEC programme will have an immense impact not only to the socio-economic development of the people of the riparian countries but the region as a whole. However, due to complex socio-economic nature of the region, the governments of the region have to make more efforts to fully reap the benefit of the programme.

i) Socio-economic Costs and Benefits

The implementation of the proposed strategy for the EWEC will clearly require the commitment of substantial economic and fiscal resources from the four countries. The potential socio-economic benefits are expected to be substantial. Many of the specific initiatives will be implemented in all four EWEC areas, which will bear the costs as well as receive benefits. Other initiatives, particularly some of the physical projects, are targeted at a single EWEC area, which may bear all the development costs, though the benefits may be more widely distributed. One of the key elements of the EWEC is to ensure that the strategy's costs and benefits are equitably distributed among the four Corridor areas. At the moment, it is too early to accurately determine the socio-economic impacts of EWEC on the four countries.

ii) Spatial Distribution of Costs

While virtually all the initiatives will impose development costs on the EWEC participants, at both the national and local levels, the proposed physical projects will account for the vast bulk of EWEC development costs. Programme-related costs also make up a significant proportion of such costs. Policy and institutional development, on the other hand, accounts for relatively small proportion of these costs.

The infrastructure-related projects (roads, power, tele-communications, and industrial estates and free zones) in particular, are big-ticket items whose implementation will require considerable economic resources from the EWEC national governments and from the donor community. Most of these projects are targeted at specific national EWEC areas and the costs, therefore, will be largely borne by the respective governments, often with donor support. The Lao PDR and Myanmar will be likely to incur the most costs due to the heavy investment required just to provide the basic infrastructure for economic development in their EWEC areas. In addition to economic costs, other projects (including investments in productive facilities) may impose additional indirect costs on the four EWEC areas.
due to, for example, negative environmental impacts. This factor has been evaluated, to the extent possible, and many of the project proposals are developed specifically to limit such adverse impacts.

Programme-related costs are expected to be more evenly distributed among the four EWEC areas. Virtually all the programmes will be jointly developed in all four of them, and all four governments will contribute to the costs of development. The goal is for the four areas to bear the costs in an equitable manner, rather than equally. In other words, each would contribute in proportion to the expected benefits that would accrue to each respective EWEC area (or country). Such an apportionment of costs (and benefits) requires a significant degree of evaluation, which is, however, beyond the scope of the current study.

Financial Resources

Full development of the EWEC will require substantial financial resources. Although much more detailed work is required to determine many of the funding requirements and refine these very preliminary estimates, the major implication is that government funding, and donor support, must be a major source of project funding.

Potential sources of investment for the EWEC need to be categorised according to productive facilities i.e. private sector investment opportunities and supporting programmes. Private investors, both within the EWEC countries and internationally, will invest in productive facilities provided that a conducive environment and appropriate facilities are put in place. Installing these "building blocks" for the EWEC is the main goal of the other proposals. Public investment or donor funding in productive activity is clearly neither warranted nor required, although in the Lao PDR (and perhaps in Vietnam). SOEs may continue to have some bearing on investment opportunities and may of necessity become joint venture partners. On the other hand, government and/or donor funding will be essential for many aspects of policy modification and program development. Also, innovative forms of government/donor involvement may be necessary to facilitate private investment in physical projects. Several major potential sources of funding exist for the various proposals: 1) government; 2) multilateral development agencies and international lending agencies; 3) foreign and local direct private investment; 4) international private equity funds; and 5) international and domestic capital markets.
While summarising it can be observed that since the formation of the EWEC, the government of the participating countries has been trying to fulfill the desired objectives. Major infrastructure components of EWEC have been completed, or are nearing completion. This includes the 1450 km long road corridor, eastern terminus sea port in Da Nang, the establishment of the Mawlamyine port. However, it is important to recognise at the very outset that the aggregate economic impact of the EWEC will be modest and slow to materialise, given the present level of underdevelopment throughout much of the Corridor area and reliance on low-value-added activities. In the medium to long run, however, as the Corridor develops and becomes a more attractive location for value-added manufacturing, the economic impact will increase.

The foregoing analysis indicates that the development of the East-West Economic Corridor shows considerable potential. The major issues are relative poverty, remoteness, and under-development of the four EWEC national areas. As such, no one EWEC area (or part thereof) can serve as the economic engine for the Corridor, as has happened in other countries. This suggests the need for close political and economic co-operation and a medium to long-term development strategy. The public sector must play a catalytic role to facilitate private economic activity and sub-regional co-operation, and to alleviate poverty levels. Despite the broad similarities of the four areas, the analysis suggests significant underlying complementarities, especially in terms of trade and processing of agricultural and other primary products. With the right set of policies and programmes in place, regional and international firms can exploit differences in terms of resource endowments, factor costs, and other attributes to serve regional and global markets. Reduction of trade barriers will lead to the gradual formalisation and acceleration of cross-border trade, and eventually, intra-industry and intra-firm trade. The EWEC has scope for light manufacturing and other non-agriculture industrial activities, as well as considerable potential for tourism and recreational activities.
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