

GMS Program and Its Economic Corridors

How Can Cambodia Benefit from this Sub-regional Cooperation?

The development of the GMS Southern Economic Corridor can provide opportunities for the development of the tourism, industry and agro-industry sectors in Cambodia. Nevertheless, there are several development challenges that need to be addressed ranging from physical infrastructure to social and institutional issues.

Although the economic corridor of the Greater Mekong Sub-region (GMS) was launched in 2001 as part of the GMS flagship programs, its development in Cambodia is still in its infancy and it remains relatively unknown to the wider public.

Compiled from a regional study on the GMS economic corridor conducted by the Mekong Institute, this article, attempts to provide an insight of the GMS economic corridor implication on Cambodia, by focusing on the concept for development and raising some development challenges.

province and Guangxi Zhuang Autonomous region participate in the GMS program.

The GMS program's main goal is to promote economic cooperation and integration among the six GMS countries in expectation of promoting the well-being of people throughout the sub-region, and helping them move out of the poverty trap.

The total area of GMS is about 2.6 million square kilometers, home to about 300 million people, most of who

depend on agriculture for a living. With its 8 percent average annual economic growth since 2000, the GMS region is known as a fast-growing and dynamic sub-region in the world.

A Well Diversified Region

The combined nominal Gross Domestic Product (GDP) of the GMS in 2005 amounted to around US\$343 billion with an average GDP per capita in the sub-region of US\$1,110.

Overview of GMS

The endowment of the Mekong region with abundant natural resources, a diversified culture, and human resources prompted the countries sharing the Mekong River to join a sub-regional cooperation program – the Greater Mekong Sub-region. Established in 1992 with the assistance of the Asian Development Bank (ADB), the GMS program includes six countries located along the Mekong River: Cambodia, China, Lao PDR, Myanmar, Thailand, and Vietnam. For the People's Republic of China (PRC), only Yunnan

Box 1: What is Economic Corridor?

The Economic Corridor is a geographically defined area that facilitates the transnational movement of goods, services, capital, people, and information.

It is a well-defined area centered on a transport corridor where infrastructure improvements are linked with production, trade, investment, and other development opportunities in order to promote economic development and cooperation among contiguous regions or countries.

Source: Asian Development Bank

Figure 1: GMS and Economic Corridors



In 2004, the total export out of the sub-region reached US\$135 billion, while the import value was US\$133 billion, and the intra-regional trade among GMS countries including PRC accounted for US\$54.6 billion. Given this large trade value in the sub-

region, GMS can be an enticing place for investment – both for local and foreign direct investment.

It is estimated that the sub-region hosted Foreign Direct Investment of around US\$3.8 billion in 2004, with further potential growth in the

years to come.

In spite of this positive growth and development, about 17 percent of the GMS population, equivalent to 52 million people, is still living under the poverty line. Moreover, disparities in economic development and living stan-

Box 2: GMS Vision and Flagship Programs

Following a decade of experience in economic cooperation within the GMS program, the GMS countries recognized the need for stronger cooperation to fuel the sub-region's growth. In this sense, the GMS countries together envision the Mekong sub-region as an integrated, prosperous, and harmonious sub-region, which is free of poverty and is environmentally friendly.

With this vision, the GMS countries seek to achieve better connectivity, more competitiveness, and a greater sense of community (3Cs).

Better connectivity means that the transport systems, power systems, and telecommunication systems of all GMS countries need to be improved and interlinked across the sub-region. Then, the sub-region's competitiveness can be promoted provided that improvement of physical connectivity and complementary software such as cross-border trade and facilitation ensure greater access to markets.

Yet, strengthening connectivity imposes some potential negative impacts such as communicable diseases, environmental degradation, and illegal human and wildlife trafficking. In this regard, the GMS program seeks to ensure that improved connectivity is beneficial to all by minimizing adverse impacts. From this initiative, the benefits such as increasing income and better living standards can be shared widely and equitably, which contributes to a greater sense of community within the sub-region.

To realize the above vision, five strategic development thrusts are identified for the GMS program which are:

- (i) strengthening infrastructure linkages through a multi-sectoral approach;
- (ii) facilitating cross-border trade and investment;
- (iii) enhancing private sector participation in development and improve its competitiveness;
- (iv) developing human resources and skill competencies;
- (v) protecting the environment and promote sustainable use of the sub-region's shared natural resources.

In pursuit of these strategic thrusts, the six GMS countries established a set of prioritized and holistic programs to be priority for implementation. The so-called "flagship" programs focusing on eleven key areas were set up covering both hardware and software aspects of sub-regional development. These programs help to link closely all six GMS countries and create a conducive enabling environment for trade and investment in the sub-region. The components of

the GMS flagship programs are:

- North-South Economic Corridor;
- East-West Economic Corridor;
- Southern Economic Corridor;
- Telecommunications Backbone and ICT;
- Regional Power Interconnection and Trading Arrangements;
- Facilitating Cross-Border Trade and Investment;
- Enhancing Private Sector Participation and Competitiveness;
- Developing Human Resources and Skills Competencies;
- Strategic Environmental Framework;
- Flood Control and Water Resource Management;
- GMS Tourism Development.

Although these strategic initiatives were endorsed by all GMS countries, successful implementation of flagship programs requires a concerted effort by GMS governments. It is important that each GMS government gives priority to the flagship programs in their public investment program. Moreover, national development planning should be well integrated with the regional plan to create a synergic factor to boost sub-regional cooperation.

Given the fact that various projects have been highlighted for the sub-region, a comprehensive development matrix which gives detailed information of the projects under the GMS program or which valuably contributes to the program is established.

Covering all the priority sectors of GMS cooperation, this matrix aims to coordinate the implementation of sub-region's projects. In this regard, information such as the status, cost, and financing situation of the projects is useful for the GMS government to make appropriate planning and decision making concerning national projects and regional projects.

Currently, 508 projects worth US\$39 billion are identified in the development matrix, where more than 60 percent and 30 percent of the total project costs is shared by transport and energy sector projects, respectively. The large share in these two sectors reflects the urgent need of transport and energy infrastructure improvement in the GMS given their crucial role in the sub-region's economic growth.

It is anticipated that by 2012, the six countries in the GMS will be strongly interconnected by a sub-regional transport network, sub-regional power system, and digital linkage. This improved physical interconnection along with complementary software amelioration will make the GMS a single social and economic community leading to an improved welfare of the sub-region.

Source: Asian Development Bank

dards also prevail across the sub-region. By 2005, GDP per capita in GMS varied largely throughout the sub-region, ranging from US\$210 in Myanmar to US\$2,760 in Thailand. This unbalanced development poses a great challenge for the GMS program.

Box 3: GMS and ASEAN

Similar to ASEAN, GMS has the same objective in promoting economic growth and economic cooperation among member's countries. Yet, ASEAN is more formal and highly institutionally structured than GMS. Moreover, the geographical focus is completely different. ASEAN focuses on the whole South-East Asia, whereas GMS focuses solely on the region surrounding the Mekong River. Nonetheless, five of the six GMS countries are also the members of ASEAN which makes these two organizations highly complementary.

Despite the fact that the establishment of ASEAN was long before the creation of GMS program, the inception of GMS took place before the complete membership of ASEAN in 1999. Except Thailand, the other four countries namely Vietnam, Lao PDR, Myanmar, and Cambodia (VLMC) are the new members of ASEAN who joined the association successively only after 1994. However, VLMC agreed to join hand in economic cooperation and integration since 1992 under the framework of GMS program. In this context, GMS program had played a vital role in promoting economic cooperation among VLMC prior to full participation of ASEAN.

In addition, while large development gap exists between the original members and new members of ASEAN, GMS program can play critical role in narrowing this gap. In this regard, GMS program initiatives provide platform for closer economic cooperation among the new members of ASEAN, namely VLMC, contributing to faster economic growth.

What is more, the economic ties between the two provinces of PRC and ASEAN members can support the move towards the establishment of the PRC-ASEAN Free Trade Area.

Source: Author Based on Various Sources

Since 1992, all the GMS countries have strengthened their economic cooperation by focusing on nine priority sectors: agriculture, energy, environment, human resource development, investment, telecommunications, tourism, trade, and transport.

The cooperation in those sectors is supported by six sub-regional working groups and three forums whose tasks are to foster and facilitate the implementation of the projects in each sector as well as to report to the relevant GMS ministerial conference and respective government.

GMS Economic Corridors

After ten years of launching the GMS program, the GMS countries took an informal approach to intensify sub-regional cooperation by means of economic corridors throughout the sub-region in order to strengthen economic cooperation and foster economic growth in a sustainable manner.

With economic corridors, the investment in priority infrastructure sectors can focus on the same geographic space to maximize development impacts while minimizing development costs. The GMS Economic Corridor (GMSEC) was proposed to closely intertwine all the GMS countries physically and economically.

The idea of GMSEC directly supports the vision of the GMS in achieving enhanced connectivity, increased competitiveness, and a greater sense of community. With this vision,

the objective of GMSEC is to develop a highly efficient transport system which will allow goods and people to move around the sub-region without significant impediment or excessive cost/delay.

GMSEC consists of three economic corridors: North-South Economic Corridor (NSEC), East-West Economic Corridor (EWEC), and Southern Economic Corridor (SEC). Among these corridors, only SEC concerns Cambodia.

Southern Economic Corridor

Concentrated on major national roads, SEC encompasses a total length of about 3,510 km connecting Vietnam, Cambodia, Thailand, and to a limited extent, southern Lao PDR. This economic corridor is expected to promote regional cooperation, to foster economic integration, to support increased trade and investment, and to facilitate exchange and development among the concerned countries through the provision of efficient infrastructure and institutional enhancement.

The Three Sub-corridors

SEC is divided into three main sub-corridors – northern, central, and coastal sub-corridors – and an inter-corridor link. It is important to note that about 62 percent of SEC's length being equivalent to 2,172 km is in Cambodian territory, which makes the country shoulder the largest share of SEC. This largest share poses both opportunities

Table 1: Cambodia's SEC Road Status and Funding Partners (km)

	Completed	On-going	Planned	Unknown	Total
ADB	684	154	13	-	851
World Bank	64	11	-	-	75
Bilateral	344	231	288	-	863
Unknown	-	-	-	383	383
Total	1,092	396	301	383	2,172
% of Total	50%	18%	14%	18%	100%

Source: Compiled from the Report on the Study of Road Network Development in Cambodia, 2006

and challenges for development as the country will bear huge development costs while the benefits of the corridor are still far beyond the country's reach.

Potential Impacts on Cambodia

Geographically, SEC passes through major international border gates and important economic poles in Cambodia as it links various agricultural regions with industrial regions and tourism areas. In this sense, not only does SEC help to foster economic integration with neighboring countries, but SEC also plays a central role in extensively linking domestic markets within the country.

Tourism Sector

While Cambodia is divided into four main tourist zones, which are the eco-tourism zone in the east and north-east region, cultural and historical zone around Angkor Archeological complex, coastal zone in the south-west, and Phnom Penh area, SEC can potentially bring an opportunity for tourism development in the country.

On the one hand, SEC will facilitate the inflow of tourists to Cambodia through improved connection between international borders and various tourist zones, and on the other hand, SEC will help diversify tourist spots in the country through better linkage among main tourist sites.

It is notable that the northern sub-corridor will ease the tourist inflow from Thailand and central Vietnam to the northern part of Cambodia, which is endowed with cultural and historical heritage and eco-tourism sites. In addition, the coastal sub-corridor lying along the coastal region of Cambodia from Thai to Vietnamese border has the potential for coastal tourism promotion in the sense that more tourists can conveniently come to visit Cambodia's beach through the sub-corridor.

Besides SEC's role in facilitating tourist inflow, SEC will also help to provide more destination choices to visitors. The connection between the coastal area,

Phnom Penh area, and eco-tourism area by inter-corridor link; eco-tourism area and Angkor area by the northern sub-corridor; and Angkor area and Phnom Penh area by the central sub-corridor will reduce concentration of tourists in only one area of the country.

In this respect, the income from the tourism sector can be better distributed to local people, which could potentially benefit the poor.

Industry and Agro-industry

Given the fact that the industry and agro-industry sector in Cambodia has still marginally developed, SEC running across various industrial and agricultural regions in the country can bring opportunities for the development of this sector.

The northern sub-corridor, which lies on the northern part of Cambodia, is likely to boost agro-industrial development in the north-eastern region of the country. With the abundance of permanent crops such as rubber and cashew in the region, SEC can potentially attract investment to the region in terms of processing industry and agro-industry. More importantly, the high potential in hydropower resources in the north-eastern region is also a determinant factor ensuring the long-term industrial development in the region once those energy resources

are exploited.

The central sub-corridor, extending from the north-west to the south-east border, lies on agricultural zones near the Tonle Sap Lake and on several potential industrial complexes. In addition, the areas along this sub-corridor are densely populated being rich in human resources. In this sense, the central sub-corridor has the opportunity for the development of agriculture-related or other light industries.

A number of potential industrial zones and special economic zones based in Koh Kong and Sihanouk Ville are located in the proximity of the coastal sub-corridor where industrial linkage can be established domestically and internationally. It should be noted that the coastal sub-corridor has an important feature as it is connected to Thailand's industrial complex – Eastern Seaboard of Thailand – and some industrial zones in Vietnam. The cross-border facilitation in this sub-corridor can provide an opportunity for the inflow of industry from neighboring countries, for instance the supporting industry for the Eastern Seaboard of Thailand.

Apart from the three main sub-corridors, the inter-corridor link of SEC is also important as it connects all the sub-corridors together facilitating the interaction and exchange of economic activity across sub-corridors. Moreover,



the improved connection between the northern part of Cambodia and the sea will provide an impetus for growth in the impoverished northern region through better access to seaports.

To sum up, the development of SEC will vitalize the country's economy through the promotion of the tourism sector, and the industrial and agro-industrial sectors. In this regard, SEC will provide an enabling playground for domestic and foreign direct investment in Cambodia.

Development Challenges

Despite the tremendous benefits of SEC, Cambodia is still facing various challenging issues for the development of the corridors. Without appropriate measures, those challenges are likely to impose burdens for the country to fully exploit potential opportunities from SEC.

Social and Environmental Implications

According to a survey conducted by the Economic Institute of Cambodia (EIC), people along the economic corridor have similar concerns in terms of the social and environmental impacts in their areas and the whole country. Nevertheless, those concerns do not necessarily reflect the actual issues that could arise, as their awareness of the economic corridor is still very limited.

The major concern for most households along the sub-corridors is traffic accidents which could possibly increase with the road improvement and the mounting volume of transportation in the corridor. In addition, about 42 percent of respondents also voice their concern over the increase in human and drug trafficking in their locality and across Cambodia due to the cross-border facilitation in SEC.

Environmental degradation and harm to natural resources was also considered as one of the main concerns. It is noted that the possibility of other investments along the economic

corridor might be taken into account, such as the establishment of factories and exploitation of natural resources. This can result in air and water pollution, which will inevitably affect the health of the local population and harm resources if they are ruthlessly exploited.

Moreover, 26 percent agreed that the spread of HIV/AIDS should be given attention as the social and business activities along the corridor could bring about an increase in newcomers and travelers; and possible prostitution, which may lead to the spread of HIV/AIDS in the community.

Weak Infrastructure

In Cambodia, the main infrastructure in SEC and other physical infrastructure such as rural roads and electricity are yet to be comparable to neighboring countries. All existing roads of the sub-corridors in Cambodia are still two-lane narrow roads, while 97 percent of roads in Thailand and 50 percent in Vietnam are upgraded or being upgraded to four-lane highways.

Besides main road networks, rural roads and electricity in most SEC areas are still far below acceptable standards. While nearly all rural roads are unpaved and hardly accessible during the rainy season, access to electricity by rural households is less than 9 percent

due to a lack of power grids and high tariff rates.

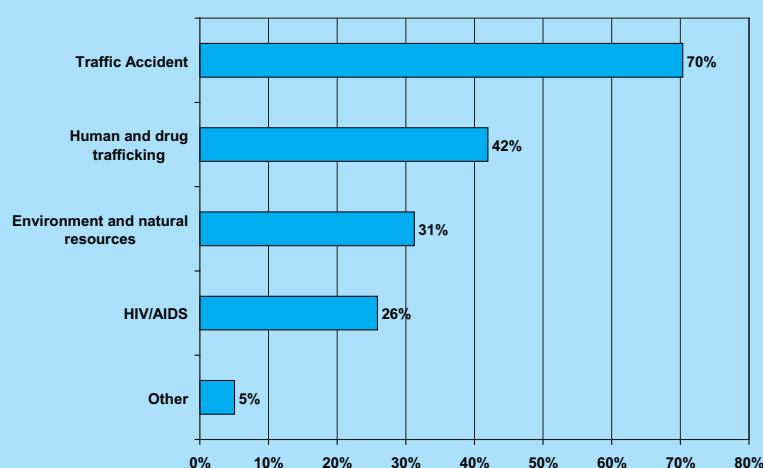
In this regard, while deplorable rural roads disrupt opportunities for local communities to take advantage of SEC, the lack of electricity slows down the development in the SEC area, as a private sector is unlikely to grow under these conditions.

Low Population and Low-skilled Labor

Another challenge for the development of SEC in Cambodia is that some parts of SEC, particularly the northern and coastal sub-corridors, run through isolated and low-populated rural regions of Cambodia. The population density in the areas along these sub-corridors had less than 50 persons/km² compared to the national average of 76 persons/km². While this low population density imposes high development costs, it also brings about difficulties in involving the private sector in the area's development.

Besides low population density, the area along SEC is characterized by low-skilled labor and high rates of illiteracy. According to the Commune Database, the illiteracy rate of the over-15-population in the communes along most sections of the northern and coastal sub-corridors is very high ranging from 20 percent to

Figure 3: People's Concerns about the Development of the Corridor



Source: EIC Survey, October 2006

more than 50 percent. Moreover, most people in those areas make their living mainly on subsistence agriculture, not requiring highly skilled workers or modern technology. In this sense, non-diversified economic activities have made illiteracy a determinant factor causing the labor force from these areas to remain unskilled.

The lack of skills and basic knowledge of the population could be possible barriers to benefit from value-added activity, particularly from the industrial and tourism sectors that have the potential to develop along the corridor. In addition, the high illiteracy rate coupled with the low skilled labor force has made the region along the economic corridor less developed and unattractive for investment.

Poverty

In addition to the above development challenges, a high poverty rate and poor economic development in many SEC areas, especially in Cambodia's northern region, is another issue. According to the Poverty Profile of Cambodia 2004, the poverty rate in provinces in the northern sub-corridor amounts to more than 40 or 50 percent, higher than the national average, which is 36 percent.

This pervasive poverty rate is a major underlying impediment to the development of the northern sub-corridor, as no one area can serve as the dominant economic engine for the sub-corridor. So, effectively reducing poverty and pushing economic development in the provinces that have high potential growth, for instance Siem Reap, is a priority step to make the province an economic engine of SEC, especially for the northern sub-corridor.

Lack of Awareness

Low public awareness of the corridor is another development challenge facing SEC in Cambodia. An EIC field visit in September 2006 along the central sub-corridor revealed that many local residents do not know

that they are living in an economic corridor. This low level of awareness limits people's participation and involvement in the development of SEC in the sense that their initiative and preparedness for the upcoming challenges in the economic corridor is very limited. In such a case, the potential beneficiaries of SEC are unable to gain from this economic corridor.

In addition to the lack of awareness of the local population, it has also been noted that both local and provincial governments located along SEC have little knowledge of what the economic corridor is. At this point, the concerned governments do not yet have clear development initiatives vis-à-vis SEC, which definitely undermines the corridor's development process.

Weak Public Coordination

Since public awareness on SEC is very low, the coordination mechanism at the meso-level is also weak or inexistent. Currently, there is no clear cooperation among public institutions in the provinces along the sub-corridors for SEC development, in the sense that each institution performs its routine work separately without focusing on the corridor. So, a harmonized policy cannot realistically be drawn to fully benefit from the potential economic windfall of SEC.

Concluding Remarks

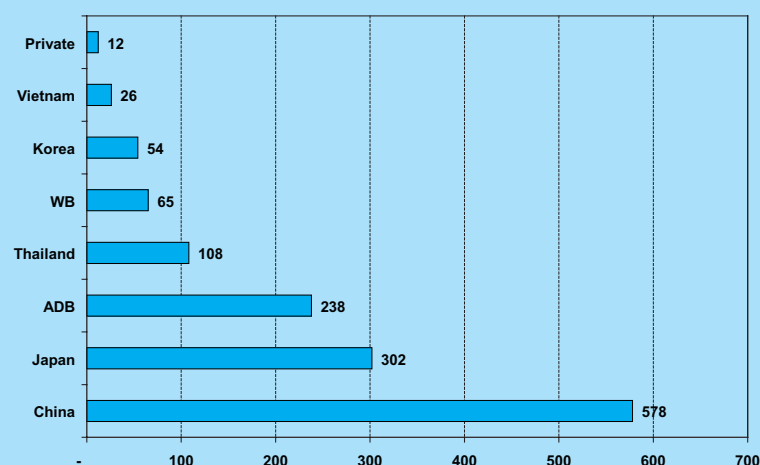
The GMS development program is playing a critical role in the development of Cambodia. This program covers not only road development, but also telecommunication, human development, tourism and environment.

Concerning road development, although SEC may bring benefits to Cambodia, transforming the corridor into full-fledged economic corridor is hampered by both hardware and software issues. To cope with these issues, the public sector should take a lead in the development of the corridor.

Firstly, investment of local infrastructure in SEC influenced areas should be promoted through public-private partnership. Secondly, proper education and capacity building of local residents should be provided. Thirdly, provinces in the corridor that have the highest development potential need to be given priority for development to transform it into an economic engine. Lastly, increasing awareness among the public and setting up a coordination mechanism among the provincial institutions along SEC should also come to the fore.

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Figure 4: External Funding of Cambodia Road Infrastructure During 1993-2006 (Million US\$)



Sources: Compiled from ADB, WB, JICA and Cambodian Government Data