

INSTITUTIONAL QUALITY AND COMPETITIVENESS IN THE GREATER MEKONG SUBREGION

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Introduction

The Greater Mekong Subregion (GMS) consists of Cambodia, Lao People's Democratic Republic, Myanmar, Thailand, Viet Nam and the Yunnan Province of China. In 1992, the GMS countries, with the assistance of the Asian Development Bank (ADB), formed the GMS Economic Cooperation Programme—an initiative to enhance economic relations within the subregion. One of the Programme's aims is to facilitate subregional trade and investment, with the ultimate goal of increasing the living standards in the region.

The Economic and Social Commission for Asia and the Pacific (ESCAP) has contributed to the GMS Programme in various ways, for example with the establishment of the GMS Business Forum in 2000. The forum is an ESCAP-ADB joint initiative intended to (a) promote networking among business associations and enterprises in the subregion, and (b) enhance public-private partnerships by establishing a direct and regular channel for communication between the private sector and the GMS Governments.

Economic reforms over the past two decades have led to an improved business climate and strong economic growth in the countries of the subregion. Despite high growth rates and increased trade volumes, three out of the six GMS countries are considered least developed countries and much of the population remains poor. To sustain economic growth and raise the standard of living, further reforms are needed. Globalization and vertical diversification along the production chain offer new opportunities that can be tapped if the right conditions are met.

The improvement of national competitiveness is often cited as a measure that can increase the attractiveness of a country. In fact, competitiveness seems to have become a general economic buzzword, comprising any policy that allows a country to earn more foreign exchange, and raise productivity and living standards. This paper will discuss the various definitions and understandings of competitiveness and how competitiveness can be measured. An institutional approach is used to analyse the competitiveness of the GMS countries, drawing from a large amount of data and several indicators, and analysing other aspects related to a competitiveness-conducive institutional environment. Lastly, a number of suggestions are provided on how to improve certain aspects of the countries' competitiveness, and policy recommendations are given.

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A. Defining and measuring competitiveness

1. Defining competitiveness in a national and regional context

Although “competitiveness” is a term used often in both economic literature as well as political debate, there is no consensus on what competitiveness in a national or regional context really means. While different types of “competitiveness” indices are issued by various institutions and politicians pledge reforms intended to increase a country or a region’s competitiveness, some exponents dispute the mere existence of the concept of national competitiveness.¹ Two basic approaches can be identified: one microeconomic, and the other institutional.

The microeconomic approach explains competitiveness as a predominantly firm-level phenomenon.² This approach is less contentious, as it is based on the well-defined microeconomic theory of the firm. A firm can sell more products than a rival if its products are either of lower cost (price or cost competitiveness) or of superior quality (quality competitiveness). Being under constant competitive pressure to defend or increase their market share, firms have to continually strive to improve their processes and products, invent new products and adapt flexibly to a changing environment. Innovation, the application of new technologies and ideas, and product differentiation play a crucial role in a firm’s ability to compete and use its resources successfully.

Globalization and the new information and communication technologies (ICTs) add to this phenomenon. Foreign direct investment drives the diffusion of knowledge and technology. Transnational companies endow affiliates with not only capital or intermediary goods but also with technology, know-how and skills, among other things, which directly and indirectly lead to an overall increase of productivity in the firm and in other entities involved. To summarize the essence of the firm-level-based view: a firm’s competitiveness depends on how efficiently it uses its resources. In economic terms, this idea is expressed in the labour and capital productivity.

An extension of the firm-level explanation to one of regional or national competitiveness is often made by defining a nation’s competitiveness as the competitiveness of its private sector; in other words, the sum of the productivities of individual firms. This aggregate view is mirrored in the total factor productivity of a country, an empirical estimate that reflects income growth that is not explainable by either capital or labour force.³

The second approach can be termed institutional. Although also based on a microeconomic foundation, it takes a much broader view and explains competitiveness as an institution-formed phenomenon. Unlike the aggregate-economy view, it refrains from mere growth accounting. This approach considers not only economic growth but also

¹ See, for example, Krugman (1994), who has called national competitiveness a “dangerous obsession”.

² This is an often-used approach; see, for example, Porter (2004a); Yap (2004); and ADB (2003).

³ For further explanations of the total factor productivity, see, for example, Thompson (1998).

the overall economic environment and development, and often focuses on sustainability issues and standard of living.

The institutional approach treats competitiveness as a dynamic and complex concept. It analyses the institutional determinants of competitiveness, including, among others, economic policy, legislative environment, technological infrastructure and transparency in Government and administration. In this respect, it is a more policy-oriented approach and allows for specific recommendations on how to improve competitiveness. This characteristic makes it a very useful or “workable” approach, which is why many international organizations define competitiveness in this sense. The Organization for Economic Cooperation and Development (Hatzichronoglou, 1996), for example, uses a definition which understands competitiveness as the ability to generate relatively high factor income and factor employment levels on a sustainable basis, irrespective of whether competitiveness refers to companies, industries, regions, nations or supranational regions.

The institutional approach stresses the importance of a partnership among the main economic actors. The function of the Government is to create an environment conducive to economic activity and to be an enabler and facilitator of the private sector. A similar holistic approach is used by ADB (2003), which describes a competitive economy as a “well-functioning market economy”, and the Economic Commission for Africa (ECA), the approach of which will be discussed in the next section.

As mentioned above, competitiveness in a national context is a rather contentious concept. Difficulties seem to exist, particularly with the interpretation that countries compete for resources and markets just in the way businesses do. Competition in a certain industry or sector may exist, but it makes no sense to say that whole economies compete and that there is only one winner, although this is a popular interpretation, in particular with the press. For instance, *The Times of India*, in its issue of 9 December 2006, used “Trade war: China trounces India 4-1” as the title of an article that provided statistical information on the two countries’ trade relations.⁴ Assuming such a competition implies that international trade is a zero-sum game, and does not reflect that trade can in fact be beneficial for all parties involved. One can, however, argue that nations compete in offering a good business environment.⁵

Another argument is that businesses can close down, while countries cannot. Furthermore, the goals of businesses and countries are different, as noted by Hatzichronoglou (1996). Businesses aim at surviving (or expanding their share) in the market and generating revenues. The accomplishments of countries are measured in terms of the welfare of their people. Looking at market shares alone does not necessarily reveal information on productivity. From a macroeconomic point of view, the real exchange rate and unit labour costs reflect price competitiveness. There is no automatic link between these measurements and productivity, as they may fluctuate or they may not be justified by underlying fundamentals.

⁴ See http://timesofindia.indiatimes.com/Trade_war_China_trounces_India_4-1/articleshow/748420.cms.

⁵ This position is also taken by Porter (2004b).

This point is often voiced when referring to the trade surplus of China, which can partially be attributed to the low value of the yuan. In other words, devaluing a currency might be beneficial for exports but it does not make a country more productive per se.

If a country wants to achieve economic growth and increase the living standards and welfare of its people, then looking at the factors that facilitate growth is crucial. It is necessary to choose a concept that allows for specific policy recommendations.

With this in mind, the more pragmatic institutional approach is used in this paper, focusing on the Government's role in creating a conducive business environment. In order to respond to the criticism that this approach covers "everything under the sun" and therefore describes nothing other than a general growth strategy, the paper will focus specifically on the trade-related aspect of competitiveness. In particular, it will analyse the factors that enable the smooth succession of trade transactions. This aspect of competitiveness is sometimes called trade or export competitiveness. The United Nations Industrial Development Organization (2002) highlights the policy perspective by stating that export competitiveness requires close and frictionless contact with foreign sources and customers, as well as good governance, including conducive rules, regulations and bureaucracy.

2. Competitiveness indices

A large number of competitiveness indices or rankings are published by various institutions, both at the national and international levels. This section provides a short overview of four indices that focus on cross-country comparisons, and highlights the institutional and trade-related factors they take into consideration, as well as their commonalities.

(a) The Global Competitiveness Report of the World Economic Forum

Since 2001, the World Economic Forum has published an annual growth competitiveness index that is aimed at assessing and monitoring the competitiveness of a large number of countries. The methodology of the index has been adapted several times in order to cover a broader measure of competitiveness. It is now published as the Global Competitiveness Index. The World Economic Forum defines competitiveness as the set of institutions, policies, and factors that determine the level of productivity of a country. To measure this, the index draws data from executive opinion surveys and, to a smaller extent, from hard data, that is, from national accounts.

The definition used in the Index covers 12 drivers crucial for productivity, which are clustered according to the importance they have for countries in different stages of economic development. Those drivers are: institutions, infrastructure, macroeconomic stability, health and primary education, higher education and training, goods market efficiency, labour market efficiency, financial market sophistication, technological readiness, market size, business sophistication and innovation.

The overall Index is a weighted average of all 12 sub-indices. The sub-index for institutions includes criteria on public and private institutions. Public institutions are assessed in terms of five criteria: (a) respect for property rights; (b) ethics of Government behaviour and the prevalence of corruption; (c) independence of the judiciary and the extent to which the Government gives the private sector freedom to operate or engages in interventionist discretionary practices; (d) Government inefficiency, as reflected in the waste of public resources and a heavy regulatory burden; and (e) the ability to provide an environment for economic activity characterized by adequate levels of public safety. With regard to private institutions, two criteria are assessed, namely: (a) the ethical behaviour of firms; and (b) the accountability of firms, including the efficacy of corporate boards and the strength of auditing and accounting standards. The Global Competitive Index also includes some trade-related aspects, including measures for “burden of customs procedures”, and “prevalence of trade barriers”, as well as statistical data, such as the share of imports and exports as a percentage of the gross domestic product (GDP) or trade-weighted average tariffs.

(b) *IMD World Competitiveness Yearbook*

The Lausanne-based World Competitiveness Centre has been publishing the *IMD World Competitiveness Yearbook* for 20 years. The *Yearbook* is a “typical” representative of the institutional approach insofar as the underlying assumptions are that: (a) wealth is primarily created at the enterprise level, and (b) enterprises operate in a national environment which influences their ability to compete domestically or internationally. Accordingly, the *Yearbook* analyses and ranks the ability of countries to create a conducive environment for enterprise activities.

The methodology is similar to the one used in the Global Competitiveness Index. The *Yearbook* identifies four drivers of competitiveness: economic performance, Government efficiency, business efficiency, and infrastructure. These four factors are each divided into five sub-factors, analysing a total of 20 different aspects of the main drivers. The overall result is an average of all sub-factors and is compiled in yearly scoreboards.

(c) *Trade Competitiveness of ECA*

One index that specifically measures trade competitiveness is the Trade Competitiveness Index of ECA. In the *Economic Report on Africa 2004* (ECA, 2004), trade competitiveness is defined as the intrinsic ability to compete successfully in the global economy and sustain improvements in real output and wealth. In terms of methodology, the Trade Competitiveness Index has a similar structure as the Global Competitive Index and the *IMD World Competitiveness Yearbook*. It consists of three sub-indices that cover different aspects of trade competitiveness:

- (a) The Trade-enabling Environment Index, which reflects the trade conduciveness of the overall economic and political environment;
- (b) The Productive Resource Index, which measures the availability of direct inputs to production, such as land and labour;

- (c) The Infrastructure Index, which measures the availability of the indirect inputs that enable the movement of goods and services.

The three sub-indices are consolidated (with equal weight) from 31 indicators. Institutional factors are compiled in the Trade-enabling Environment Index, which measures both the macroeconomic environment and the institutional quality. Institutional quality is measured in five areas: (a) corruption; (b) rule of law, (c) Government stability; (d) bureaucratic quality; and (e) democratic accountability.

(d) *Trade Performance Index of the International Trade Centre*

The International Trade Centre (UNCTAD/WTO) has created the Trade Performance Index to measure export performance and competitiveness by sector and by country (ITC, 2002). It currently covers 184 countries and 14 different export sectors.

This Index uses a different methodology than the previously discussed indicators. It is a purely quantitative approach that does not analyse institutional factors of competitiveness. It measures the level of competitiveness and diversification of export sectors through comparisons with other countries, and highlights the comparative situation of a country's sectors. For each country and sector, three indicators are computed: generic profile, position, and export performance. The generic profile is compiled using descriptive indicators including, among others, value of exports, share in national exports and imports and revealed comparative advantage. The indicator on position includes data on, among other things: per capita exports, share in world market, product diversification and market diversification. The indicator on export performance relates to change and includes data on such things as percentage change in world market share, change in product diversification and change in market diversification. The Trade Competitiveness Index does not contain any information on institutional aspects. It could be argued that it measures the results of competitiveness rather than competitiveness per se.

3. Synthesis

The Global Competitiveness Index, the *World Competitiveness Yearbook* and the Trade Competitiveness Index are based on the institutional approach. All three analyse the legal framework of a country. The Global Competitiveness Index, for instance, includes data on property rights, judicial independence, the efficiency of legal framework and the effectiveness of antitrust policy. The Trade Competitive Index contains measures for the rule of law, and the *Yearbook* analyses business legislation. Furthermore, they all discuss the conduciveness of Government regulations to business activity, that is, the burden of Government regulation, or the number of procedures as well as the time required to import or export. Both the Global Competitiveness Index and the *Yearbook* try to estimate market efficiency; for example, the former includes a measure on the effectiveness of antitrust policy and the latter measures business regulations in terms of competition as well as the efficiency of labour and financial markets. All three indices include measures on the macroeconomic environment, including, among other things, exchange rates, interest rates and GDP.

Other factors that are included, such as infrastructure and education, are also conducive to creating an environment that enables economic activity; for example, good universities enable: (a) a high-quality workforce that can work in production at the higher end of the value chain, and (b) high-quality scientific research to support innovation. However, the present paper will focus mainly on the Government-defined rules and regulations that directly specify the playing field for economic activity and trade.

B. Competitiveness of the countries in the Greater Mekong Subregion

1. General economic overview: drivers of growth

The Mekong River is the twelfth longest river in the world, with an estimated length of almost 4,200 km. It unites a range of very diverse countries in Southeast Asia. Originating in Tibet, it runs through the Yunnan Province of China, Myanmar, Thailand, Lao People's Democratic Republic and Cambodia, until it reaches the South China Sea in Viet Nam.

Three of the countries of the Greater Mekong Subregion, namely, Cambodia, Lao People's Democratic Republic and Myanmar, are considered least developed countries. All but Thailand are economies in transition, being in the process of transforming from a socialist, planned economy type to a market economy.

The subregion has experienced significant economic progress (both in relation to Asia and to the world) since the beginning of the 1990s. Figure 1 shows the impressive annual GDP growth rates over the last decade. In most countries, annual output grew at more than 5 per cent year-on-year.

The underlying causes for this success include high foreign direct investment and growing exports. The countries of the Greater Mekong Subregion have become more open over the last decade, which is clearly reflected in the increase of foreign direct investment and value of exports since 1995, as given in table 1.

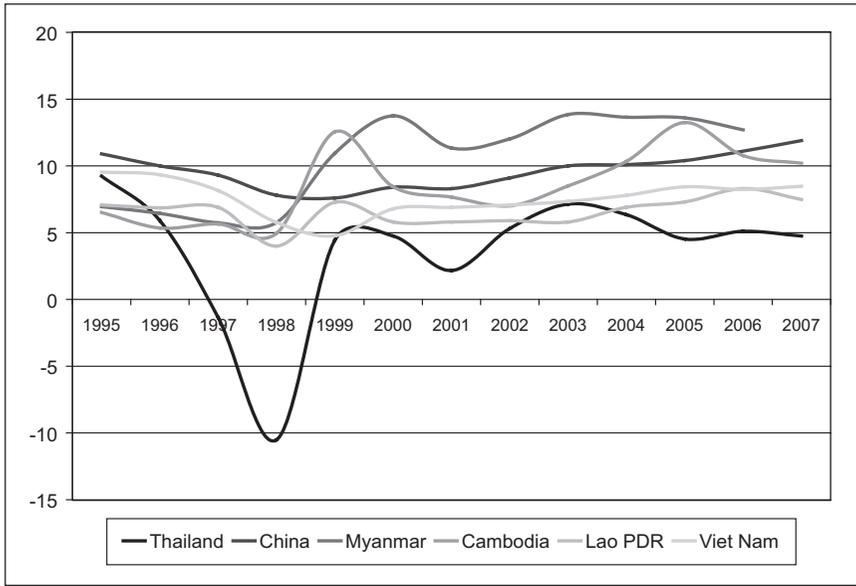
The region has also shown sectoral development, with the services and industry sectors gaining importance relative to the agricultural sector, as can be seen in figure 2.

The following subsections will provide a short economic overview for each country/province.

(a) Cambodia

Cambodia is one of the three least developed countries of the Greater Mekong Subregion. It has a total population of 14.4 million people, most of whom work in the agricultural sector. The 2006 GDP per capita was \$1,633 (purchasing power parity, or ppp) (ADB, 2008). The latest data, from 2004, indicate that 61.7 per cent of the total population lives on less than \$2 (ppp) per day. Cambodia was ranked 136th in the human

Figure 1. Economic growth in the Greater Mekong Subregion, 1995-2007
(Annual output growth, in percentage)



Source: Based on data from Asian Development Bank, "Key Indicators for Asia and the Pacific 2008", available at www.adb.org/Documents/Books/Key_Indicators/2008/Country.asp.

Table 1. Growing foreign direct investment and exports^a

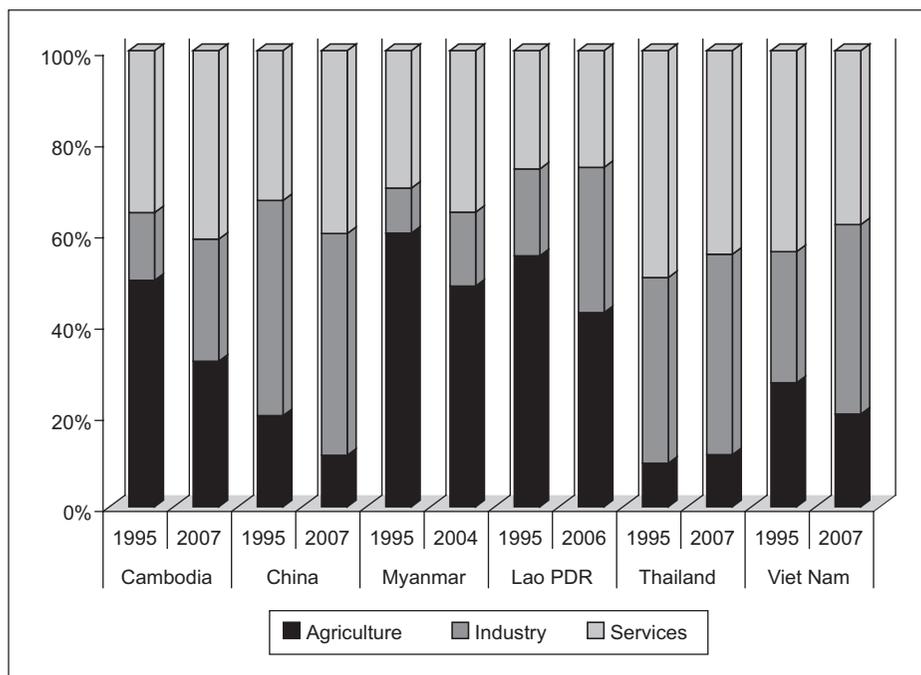
	Foreign direct investment stock			Total exports		
	1990	2000	2007	1990	2000	2007
Cambodia	37.7	1 579.9	3 821.5	85.8	1 397.1	4 089.2
China	20 690.6	193 348.0	327 087.0	62 091.0	249 203.0	1 218 015.0
Lao People's Democratic Republic	12.6	555.9	1 179.8	79.0	330.0	923.0
Myanmar	281.1	3 864.8	5 432.6	222.6	1 618.8	4 531.1 ^b
Thailand	8 242.3	29 915.0	85 749.4	589.8	2 773.8	5 255.0
Viet Nam	1 649.6	20 595.6	40 235.3	2 404.0	14 483.0	48 561.0

Sources: Based on data from Asian Development Bank, "Key Indicators for Asia and the Pacific 2008", available from www.adb.org/Documents/Books/Key_Indicators/2008/Country.asp and the United Nations Conference on Trade and Development, Foreign direct investment statistics, available at <http://stats.unctad.org/FDI/>.

^a All numbers in current millions of United States dollars, with the exception of export data for Myanmar, in million kyats.

^b Data for 2006.

Figure 2. Changing structure of output
(Percentage of gross domestic product)



Source: Based on data from Asian Development Bank, "Key Indicators for Asia and the Pacific 2008", available from www.adb.org/Documents/Books/Key_Indicators/2008/Country.asp.

development index, with an index value of 0.575 for 2006, the lowest of all GMS countries (UNDP, 2008). The country's economy has been growing with an average annualized rate of 9.5 per cent in real terms since recovering from the Asian financial crisis in 1997-1998; in 2007, the annual growth rate of GDP was 10.2 per cent. That same year, the agricultural sector accounted for 31.9 per cent of GDP; industry, 26.8 per cent; and services, 41.3 per cent. The highest sector-specific growth lies in the services sector, with a growth rate of 10.1 per cent in 2007 (ADB, 2008). Tourism is an important industry of the Cambodian economy. In 2004, roughly one million tourists arrived in the country and total tourism receipts were \$840 million.⁶

Cambodia joined the World Trade Organization (WTO) in October 2004. In 2007, the trade deficit amounted to about \$1.3 billion; trade (imports and exports) was equal to 27 per cent of GDP. The most important export destinations were, in descending order, the United States of America; Hong Kong, China; Germany; the United Kingdom of Great

⁶ All data on tourism (apart from the information for Yunnan Province of China) is from the World Tourism Organization, "Tourism indicators", available at www.unwto.org/facts/eng/indicators.htm.

Britain and Northern Ireland; and Canada, the principal export commodities being rubber and timber. Most of the imports to Cambodia come from Thailand; Hong Kong, China; China; Viet Nam and Singapore (ADB 2008).

Cambodia's national currency, the riel, has been relatively stable since 2000, showing only a slight appreciation against the United States dollar. Cambodia has also shown a substantive increase in net investment inflows (direct and portfolio investments), up from \$134.7 million in 2000 to \$853.8 million in 2007 (UNCTAD, 2008).

(b) *Yunnan Province of China*

Yunnan is one of the largest provinces in China, covering an area of 394,100 km². In 2006, it had a population of 44.83 million. Its nominal GDP per capita in 2008 was 12,587 yuan, equal to about \$1,842. The latest available data indicate that at 1994, about 7 million people lived below the poverty line.⁷

Yunnan is rich in energy and mineral resources and is also known as the country's kingdom of non-ferrous metals. Of the 168 kinds of ores that had been discovered in China by the end of 1994, 142 of were found in this province.⁸ The main industries include tobacco, machinery, metallurgy, agricultural products, chemicals and building materials.⁹ Tourism is also important for the economy of Yunnan. The number of visitors (domestic and foreign) rose from 28.7 million in 1998 to 52.4 million in 2002, earning an estimated \$419 million in foreign currency.¹⁰

Due to its rich endowment in natural resources, as well as its economic reforms, Yunnan has experienced high economic growth rates since the 1980s. Rapid industrialization led to an annual increase of 13.7 per cent of industrial output between 1991 and 1995 (ESCAP 2002a). In 2004, the GDP of Yunnan rose by 8.1 per cent. The share of GDP of the primary, secondary, and tertiary industries were 21.1 per cent, 42.8 per cent and 36.1 per cent respectively. In 2002, the total two-way trade of Yunnan reached \$2.23 billion and the province signed foreign direct investment contracts involving \$333 million, of which \$112 million were actually utilized during the year.¹¹

⁷ www.stats.yn.gov.cn/TJJMH_Model/default.aspx, as cited in <http://en.wikipedia.org/wiki/Yunnan>, accessed on 25 August 2009.

⁸ Yunnan Province of China, "Mineral resources", accessed from www.eng.yn.gov.cn/yunnanEnglish/145526961005920256/20050620/360647.html on 14 January 2009.

⁹ GMS Business Forum website, accessed from www.gmsbizforum.com/index.php?option=com_content&task=view&id=56&Itemid=38 on 14 January 2009.

¹⁰ Yunnan Province Department of Commerce website, accessed from http://eng.bofcom.gov.cn/bofcom_en/5190407366637518848/20061114/83923.html on 14 January 2009.

¹¹ www.stats.yn.gov.cn/TJJMH_Model/default.aspx, as cited in <http://en.wikipedia.org/wiki/Yunnan>, accessed on 25 August 2009.

Trade with Myanmar accounts for 80 per cent of the border trade of Yunnan Province of China. The Lao People's Democratic Republic and Viet Nam each account for 10 per cent. The United States; Germany; Hong Kong, China; the United Kingdom and Japan are other important trading partners.¹² Cross-border trade is less significant at the national level. The most important export partners of China are the United States; Hong Kong, China; and Japan. The bulk of imports come from Japan, the Republic of Korea, the United States and Germany. China joined WTO in 2001.

(c) *Lao People's Democratic Republic*

The Lao People's Democratic Republic is the only landlocked GMS country; it borders with China, Myanmar, Thailand and Viet Nam. Considered a least developed country, it has a population of 5.87 million; statistics from 2002 show that almost three quarters of the population live on less than \$2 per day (ppp). Based on data from 2006, the Lao People's Democratic Republic has a human development index value of 0.608, ranking at 133 worldwide (UNDP, 2008).

GDP per capita was \$2,032 (ppp) in 2006 (ADB, 2008). The main economic sector is agriculture, accounting for 42.6 per cent of GDP in 2006 and employing roughly two thirds of the labour force. Industry accounts for 31.8 per cent and services for 25.6 per cent. International tourism receipts in 2005 amounted to \$147 million, with an estimated 250,000 people visiting the country. In real terms, the economy has been growing by an average annualized rate of 6.7 per cent since 2000; in 2007 the rate was 10.2 per cent.

The Lao People's Democratic Republic is gradually becoming more open to foreign trade. In 1990, exports and imports were equal to 30.5 per cent of GDP; that share rose to almost 50 per cent in 2007 (ADB, 2008). The country applied for WTO membership in 1997 and is currently participating in accession negotiations. With the exception of 1991 and 2002, the country registered current account deficits between 1990 and 2005. It seems there may be the first signs of a turnaround; small current account surpluses were registered for 2006 and 2007.

The main export commodities of the Lao People's Democratic Republic are wood products, garments, electricity and coffee, the bulk of which go to Thailand (36.4 per cent), followed by Viet Nam (11.0 per cent), China (6.3 per cent) and Germany (3.6 per cent). Thailand is even more present with respect to the imports of the Lao People's Democratic Republic: 70.6 per cent of the country's imports originate in Thailand, 8.6 per cent in China and 5.5 per cent in Viet Nam.

¹² GMS Business Forum website, accessed from www.gmsbizforum.com/index.php?option=com_content&task=view&id=56&Itemid=38 on 14 January 2009.

(d) Myanmar

Myanmar is the largest country, by geographical area, in mainland Southeast Asia. It borders with Bangladesh, China, India and Thailand. It has a coastline of almost 2,000 km, and a population of 57.7 million. The most current data show that, at 1997, roughly two thirds of the labour force of Myanmar was employed in the agricultural sector. In 2007, agriculture accounted for 48.7 per cent of the economy; industry accounted for 16.2 per cent, and services 35.4 per cent. The GDP per capita of Myanmar was \$750 (ppp) in 2004. In real terms, the economy has been growing at an annualized average rate of 13.6 per cent during the last five years. Despite being a resource-rich and fertile country that boasts high economic growth rates, the bulk of the population remains poor. The human development index value of Myanmar (0.585) is the second-lowest of the subregion (UNDP, 2008).

Myanmar is a founding member of WTO. At the same time, it has been facing stiff economic sanctions from the United States and the European Union. As a result, Myanmar is relatively isolated; its main trading partners are located in Asia. The value of its exports and imports was equal to 0.3 per cent of GDP in 2004. The export commodities of Myanmar are teak and other hardwood, pulses and beans, rice, and base metals and ores. Much of the country's exports go to Thailand, India, China and Japan, with Thailand accounting for 44.7 per cent in 2005. That same year, 35 per cent of imports originated in China; followed by Thailand (20.7 per cent), Singapore (16.8 per cent) and Malaysia (4.4 per cent). Despite calls from the main opposition party not to visit the country, tourism has steadily been becoming a more important source of income. While in 1990 only about 21,000 people traveled to Myanmar, that number rose to 242,000 in 2004, generating an income of \$84 million.

(e) Thailand

Thailand is the richest country of the Greater Mekong Subregion as measured in GDP per capita, which reached \$2,703 (ppp) in 2006 (ADB, 2008). The country's population is 65.8 million. It is also the most sophisticated economy; only 11.4 per cent of the GDP is generated by the labour-intensive primary sector, while industry and services account for 43.9 and 44.7 per cent, respectively. Thailand was hit badly by the Asian financial crisis and experienced negative growth rates in 1997 (-1.4 per cent) and 1998 (-10.5 per cent). It recovered in 1999 and has since been growing at an average annualized rate of 5 per cent. In terms of human development, Thailand is also comparatively better off; the current human development index value of the country is 0.786, placing it at the top of the Greater Mekong Subregion.

Thailand has the highest number of tourists in the subregion, generating a steadily growing income from this industry. The most current data show that the country was visited by over 11.7 million tourists in 2004. A substantial increase in trade has been recorded over the past 15 years. In 1995, exports and imports equalled 75 per cent of GDP. In 2007, the number was significantly higher, equalling 120 per cent of GDP. The

country's principal export commodities are computers, vehicle parts and accessories, electrical appliances, integrated circuits and plastic products. In 2007, 12.7 per cent of exports from Thailand went to the United States, followed closely by Japan (11.9 per cent), China (9.8 per cent) and Singapore (6.3 per cent). Imports to Thailand in 2007 originated mostly in Japan (20.3 per cent), China (11.6 per cent), the United States (8.6 per cent) and Malaysia (6.2 per cent).

(f) *Viet Nam*

Viet Nam is the largest GMS country in terms of its population, which topped 85.2 million in 2007 (ADB, 2008). GDP per capita was \$2,363 (ppp) in 2006. 2004 data suggest that about 43.2 per cent of the population lives below \$2 (ppp) per day. The human development index value of Viet Nam is 0.718, ranking the country at 114 worldwide and second within GMS.

Similar to Thailand, Viet Nam has managed to move away from a reliance on the labour-intensive agricultural sector to a more capital-intensive production structure. In 2007, the primary sector in Viet Nam accounted for 20 per cent of the GDP; the secondary and tertiary sector, 41.6 per cent and 38.1 per cent, respectively. The economy of Viet Nam has seen an average annualized growth rate of over 7.8 per cent in the last five years. The country has also become an increasingly popular tourism destination; 250,000 people visited Viet Nam in 1990. This figure rose to almost 3 million in 2004.

In November 2006, the General Council of WTO approved the membership of Viet Nam, allowing it to become the organization's 150th member. In 2007, Viet Nam had deficit in its trade balance in the magnitude of 14.6 per cent of GDP. Principal export commodities are textiles, marine products, rice, coffee, and wood and wood products (ADB, 2008). The country's most important export markets are the United States (22.8 per cent), Japan (11.5 per cent), Australia (7.5 per cent) and China (6.3 per cent). The bulk of its imports come from China (20.4 per cent), Singapore (11.8 per cent), Japan (9.6 per cent) and the Republic of Korea (7.7 per cent).

2. Competitiveness of GMS countries

Section A.1 of this paper provided an overview of the concept of competitiveness and how it is measured in a number of indices. The three indices based on the institutional approach, namely the Global Competitiveness Index, the *World Competitiveness Yearbook* and the Trade Competitiveness Index of ECA, aim to quantify similar aspects of competitiveness, although scope and methodology vary. This paper focuses on the institutional aspect, analysing the general "rules" that shape the environment for economic activity in general and for trade in particular. The present section will compile the results of various studies and reports that are available for the countries of the Greater Mekong Subregion. As identified previously, the general institutional drivers of competitiveness are: (a) bureaucratic quality, (b) effectiveness of the legal framework, and (c) market efficiency. This section will also attempt to identify additional specific measurements referring to trade-related efficiency.

The purpose of this paper is not to create another indicator for competitiveness, but rather to compile information and compare what existing indicators and measurements can tell us. Indicators from the Global Competitive Index are used, where available, for the GMS countries. A number of other indicators that are compiled by other institutions, but not necessarily aggregated into a competitiveness-related indicator, will be added to complete the picture.

Data for Cambodia, Thailand and Viet Nam are available from various sources. Data on the Lao People's Democratic Republic and Myanmar are available to a lesser extent. For Yunnan Province of China, data from China often has to serve as proxy, due to the lack of provincial information.

(a) *Global Competitiveness Index: institutional factors for GMS*

Table 2 shows a compilation of the institutional results of the *Global Competitiveness Report 2008-2009* for Cambodia, China, Thailand and Viet Nam. Unfortunately, data for the Lao People's Democratic Republic and Myanmar is not provided in the Report. This paper examines nine aspects that relate closely to the four categories identified above (bureaucratic quality, effectiveness of legal framework, market efficiency, and specific measures referring to trade-related efficiency). For reference, averages for both the Association of Southeast Asian Nations (ASEAN) and Asia are included in the table.

The ratings provide a mixed picture. Of the four listed countries, China scores best in the categories of bureaucratic quality and market efficiency, Thailand scores best in the legal-framework category and Viet Nam scores well in the trade-related area. Problems in the following areas can be identified:

- Burden of customs procedures, effectiveness of anti-monopoly and intensity of local competition (Cambodia)
- Number of procedures required to start a business and burden of customs procedures (China)
- Burden of customs procedures and prevalence of trade barriers (Thailand)
- Burden of government regulations and burden of customs procedures (Viet Nam)

These results are in line with those of Transparency International's annual Corruption Perception Index (2008), which ranks the GMS countries at the lower spectrum of Asia. The Lao People's Democratic Republic, Viet Nam, Cambodia (ranked 166th of 180 countries) and Myanmar (ranked 178th) score below 3 (range is 0 to 10), meaning that corruption in these countries is perceived to be "endemic" by the surveyed stakeholders.

(b) *Further indices that measure institutional quality*

As the Global Competitive Index does not include data on the Lao People's Democratic Republic or Myanmar, further measurements for institutional quality are needed. The World Bank offers data that aims to quantify and/or rank institutional quality.

Table 2. Global Competitive Index for selected countries

		<i>Cambodia</i>	<i>China</i>	<i>Thailand</i>	<i>Viet Nam</i>	<i>ASEAN average^a</i>	<i>Asia average^b</i>
Bureaucratic quality	Burden of government regulation (1 = burdensome, 7 = not burdensome)	3.0	3.9	3.5	2.7	3.6	3.5
	Transparency of government policymaking (1 = never informed, 7 = always informed)	4	4.5	4.2	4.2	4.4	4.2
Legal framework	Efficiency of legal framework (1 = inefficient, 7 = efficient)	3.1	3.9	4.1	3.8	4.1	3.8
Market Efficiency	Effectiveness of anti-monopoly policy (1 = not effective, 7 = effective)	2.9	4	3.9	3.4	4.0	3.9
	Intensity of local competition (1 = limited, 7 = intense)	4	5.6	5.3	5.1	5.1	4.9
	Number of procedures required to start a business	10	13	8	11	11	8.8
Trade-related efficiency	Prevalence of trade barriers (1 = insignificant, 7 = significant)	4.1	4.5	4.2	4.0	4.6	4.5
	Business impact of rules on FDI (1 = discouraging, 7 = encouraging)	5.2	5.4	5.3	5.5	5.4	5.1
	Burden of customs procedures (1 = cumbersome, 7 = efficient)	2.8	4.5	4.1	3.3	4.1	3.9

Source: Michael E. Porter, Klaus Schwab, eds., *The Global Competitiveness Report 2008-2009* (World Economic Forum, 2008).

^a Refers to a simple average of Brunei Darussalam, Cambodia, Indonesia, Malaysia, Philippines, Singapore, Thailand and Viet Nam.

^b Refers to a simple average and includes the countries of the Association of Southeast Asian Nations, as well as Armenia; Australia; Azerbaijan; Bangladesh; China; Georgia; Hong Kong, China; India; Japan; Kazakhstan; Kyrgyzstan; Mongolia; Nepal; New Zealand; Pakistan; Republic of Korea; Russian Federation; Sri Lanka; Taiwan Province of China; Tajikistan; Timor-Leste and Turkey.

Abbreviations: ASEAN, Association of Southeast Asian Nations; FDI, foreign direct investment.

(i) *World Bank Doing Business data*

A good source for information on the bureaucratic quality of a country is the Doing Business Data Time Series (see www.doingbusiness.org) of the World Bank. Doing Business is a compilation of the measured costs of business regulations and their enforcement. It is aimed at identifying the nature of regulatory reforms required to improve the business environment. The topics covered are: (a) starting a business, (b) dealing with construction permits, (c) employing workers, (d) registering property, (e) getting credit, (f) protecting investors, (g) paying taxes, (h) trading across borders, (i) enforcing contracts, and (j) closing a business. The total number of countries included in the 2009 rankings is 181. Doing Business data are available for all GMS countries but Myanmar.

Table 3. Cost of doing business: 2009 country rankings
(Out of 181 countries)

	<i>Cambodia</i>	<i>China</i>	<i>People's Lao Democratic Republic</i>	<i>Thailand</i>	<i>Viet Nam</i>
Ease of doing business	135	83	165	13	92
Starting a business	169	151	92	44	108
Dealing with construction permits	147	176	110	12	67
Employing workers	134	111	85	56	90
Registering property	108	30	159	5	37
Getting credit	68	59	145	68	43
Protecting investors	70	88	180	11	170
Paying taxes	24	132	113	82	140
Trading across borders	122	48	165	10	67
Enforcing contracts	136	18	111	25	42
Closing a business	181	62	181	46	124

Source: World Bank, "Economy Rankings", Doing Business 2009 Time Series Data (see www.doingbusiness.org).

This is in line with results published in the *Global Competitiveness Report*; when asked about the most problematic factors¹³ for doing business in their countries, respondents selected:

- Corruption, inefficient government bureaucracy and inadequate supply of infrastructure (Cambodia)

¹³ From a list of 15 factors, respondents were asked to select the five most problematic for doing business in their country.

- Access to financing, policy instability and inefficient government bureaucracy (China)
- Government instability/coups, policy instability and inefficient government bureaucracy (Thailand)
- Inflation, inadequate supply of infrastructure and inadequately educated workforce (Viet Nam)

Viet Nam stands out, as respondents did not identify any factors within the categories of bureaucratic quality, effectiveness of legal framework, market efficiency or trade-related efficiency.

(ii) *Worldwide Governance Indicators*

The World Bank's Worldwide Governance Indicators are a statistical aggregation of a large number of information sources (for the 2008 data, 340 individual variables measuring different dimensions of governance were taken from 35 sources and 32 different organizations, including the *World Competitiveness Yearbook*). Six aspects of governance are covered: voice and accountability, political stability and absence of violence, Government effectiveness, regulatory quality, rule of law, and control of corruption. The rank of a country is described by its percentile rank, indicating the percentage of countries worldwide that rank below that country. The higher a country's percentile rank, the more countries rank below, that is, the better off the country is in relation to others.

The Worldwide Governance Indicators are given for all GMS countries. Table 4 shows the percentile rankings in three categories, described as follows:

- (a) Regulatory quality, which measures the ability of the Government to formulate and implement sound policies and regulations that permit and promote private sector development;

Table 4. Worldwide Governance Indicators, World Bank

	<i>Regulatory quality</i>		<i>Government effectiveness</i>		<i>Rule of law</i>	
	<i>2007</i>	<i>2000</i>	<i>2007</i>	<i>2000</i>	<i>2007</i>	<i>2000</i>
Cambodia	31	43	21	19	14	19
China	46	39	61	55	42	40
Lao People's Democratic Republic	15	7	21	23	17	19
Myanmar	1	4	2	8	5	9
Thailand	56	67	62	61	53	64
Viet Nam	36	23	41	39	39	37

Source: World Bank, *Worldwide Governance Indicators 1996-2007* (Washington, D.C., 2008), accessed from http://info.worldbank.org/governance/wgi/sc_chart.asp on 13 January 2009.

- (b) Government effectiveness, which measures perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies;
- (c) Rule of law, which measures the extent to which agents have confidence in and abide by the rules of society, in particular the quality of contract enforcement, the police and the courts, as well as the likelihood of crime and violence.¹⁴

(iii) *Trade-related measurements*

Trade transaction costs play an important factor in determining a country's trade competitiveness, especially as the traditional tariff-based barriers have come down significantly over the last decade. Various studies estimate that the average gains from facilitating trade in the Asia-Pacific region are likely to be greater than potential gains from further tariff liberalization.¹⁵ Hindering the smooth flow of trade transactions leads to higher costs and ultimately to reduced trade volumes. For instance, a World Bank study has found that, on average, each additional day that a product is delayed prior to being shipped reduces trade by at least 1 per cent (Djankov, Freund and Pham, 2006). Common trade barriers include: (a) standards and certification, (b) customs procedures, (c) food safety or health requirements, (d) distribution constraints, (e) high internal taxes or charges, (f) import quotas or prohibitions, (g) inadequacies in intellectual property protection, (h) cargo handling and port procedures, (i) subsidies or tax benefits for domestic firms, and (j) import licensing. Major obstacles to trade could be minimized by reducing, among other things: (a) non-tariff barriers, such as inadequate trade regulations and their enforcement via complex and lengthy procedures, (b) complicated documentation and signature requirements, (c) inappropriate fees, and (d) cumbersome formalities and unclear rules. All these examples demonstrate how institutional factors are crucial in competitiveness and how the Government plays a decisive role in facilitating not only economic activity in general but trade in particular.

(iv) *World Bank Doing Business Data: Trading across Borders*

The Trading across Borders data refers to the procedural requirements for exporting and importing a standardized cargo of goods.¹⁶ The indices were generated by receiving data from local freight forwarders, shipping lines, customs brokers and port officials. Table 5 lists the main indicators, including: (a) the number of documents required to export/import goods, (b) the time necessary to comply with all procedures required to export/import goods, and (c) the cost associated with all the procedures required to export/

¹⁴ See <http://info.worldbank.org/governance/wgi/faq.htm#2>.

¹⁵ See, for example, Wilson, Mann and Otsuki (2003).

¹⁶ To make the data comparable across countries, several assumptions about the business and the traded goods are used. For precise information, see the Doing Business website (www.doingbusiness.org/MethodologySurveys/TradingAcrossBorders.aspx).

Table 5. Doing Business: Trading across Borders data, 2009

Region or Economy	Export			Import		
	Documents for export (number)	Time for export (days)	Cost to export (United States dollars per container)	Documents for import (number)	Time for import (days)	Cost to import (United States dollars per container)
East Asia and the Pacific	6.7	23.3	902	7.1	24.5	948
Cambodia	11	22	732	11	30	872
China	7	21	460	6	24	545
Lao People's Democratic Republic	9	50	1 860	10	50	2 040
Thailand	4	14	625	3	13	795
Viet Nam	6	24	734	8	23	901

Source: World Bank, "Trading across Borders", Doing Business (World Bank, 2009) available at www.doingbusiness.org/exploretopics/tradingacrossborders.

import goods. The table lists results for the five GMS countries that are covered by the survey. For reference, the averaged results for the whole of East Asia and the Pacific are listed as well.

(v) *Availability of trade-related information*

Trade-transaction costs can be significantly lowered by improving the transparency of trade and customs regulations and hence reducing associated risks. Widely and freely available trade information: (a) reduces the discretionary application of existing rules and regulations, and (b) reduces transaction costs and time, as traders can easily calculate applicable rates, without having to spend both time and money trying to find the relevant information.

As required in General Agreement on Tariffs and Trade (GATT) article X, para. 1, WTO members must publish all:

laws, regulations, judicial decisions and administrative rulings . . . pertaining to the classification or the valuation of products for customs purposes, or to rates of duty, taxes or other charges; or to requirements, restrictions or prohibitions on imports or exports or on the transfer of payments therefor, or affecting their sale, distribution, transportation, insurance, warehousing inspection, exhibition, processing, mixing or other use.

It is not specified where and how this information is to be published, apart from that it shall be published "promptly in such a manner as to enable governments and traders to become acquainted with them".

One practical solution could be that, in addition to providing the paper-based information available locally, all WTO members publish such regulations on a website easily accessible to all stakeholders involved in the trade transaction. Ideally, regulations or practices, including all relevant amendments, not duly published, should be considered void.¹⁷ This would be crucial not only for WTO members, but also—and maybe predominantly so—for non-members.

A Government can increase the attractiveness of its private sector by transparently informing the business community about (customs) regulations and procedures. When making a business decision (regarding issues such as sourcing inputs from a supplier in another country), unclear information about customs regulations is a considerable risk that flows into the decision-making process. Businesses from a country with unclear procedures and rules might lose their competitive edge to competitors that compare equally in terms of qualities, but that are based in a more transparent regulatory environment.

Two requirements can be identified: (a) information on customs regulations should be up-to-date and freely accessible; and (b) they should be understandable to the trading community at large. Online solutions seem to provide the best answer to the first requirement, as online information can be easily updated and is available to traders regardless of where they are located. With respect to making the information understandable, it should be provided not only in the official language of a country, but also in English, so that traders from other countries can understand and interpret it.

Table 6 lists the type of information available—albeit sometimes only partially—on websites of the government agencies responsible for foreign trade and/or customs. It does not include information provided by private sector institutions, such as chambers of commerce or business associations. Checkmarks indicate that the information is (at least to some extent) available. Yunnan Province of China has a large number of websites with provincial information; however, in many cases, information is provided in Chinese only.¹⁸

The type of information provided is classified along the categories of GATT article X:

- Classification or valuation of products for customs purposes
- Rates of duty, taxes or other charges
- Requirements (procedural and documentary), restrictions or prohibitions on imports or exports or on the transfer of payments therefor, or affecting their sale, distribution, transportation, insurance, warehousing inspection, exhibition, processing, mixing or other use

¹⁷ The ongoing World Trade Organization trade facilitation negotiations have broached these suggestions.

¹⁸ See, for example, the Administration Bureau of Industry and Commerce (www.ynaic.gov.cn), and the Yunnan Exit-Entry Inspection and Quarantine Bureau (www.ynciq.gov.cn).

Table 6. Online trade and customs information

GMS member	Data source	Type of information					
		A	B	C	D	E	F
Cambodia	Ministry of Commerce (www.moc.gov.kh)				<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>
	General Department of Customs and Excise (www.customs.gov.kh)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>
Yunnan Province of China	Department of Commerce of Yunnan Province (www.bofcom.gov.cn)		<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>		
China	China Customs (www.customs.gov.cn)			<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>
	Ministry of Commerce (http://english.mofcom.gov.cn)				<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>
Lao People's Democratic Republic	Ministry of Industry and Commerce (www.moc.gov.la/default.asp)				<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>
	Department of Domestic and Foreign Investment (www.invest.laopdr.org)		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>
Myanmar	Ministry of Commerce (www.commerce.gov.mm)	<input checked="" type="checkbox"/>					
Thailand	Department of Foreign Trade (www.dft.moc.go.th)	Info available in Thai only					
	Ministry of Commerce (www.moc.go.th) ^a						<input checked="" type="checkbox"/>
	Customs Department (www.customs.go.th)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>			<input checked="" type="checkbox"/>
Viet Nam ^b	General Department of Viet Nam Customs (Ministry of Finance) (www.customs.gov.vn/default.aspx?tabid=454)	<input checked="" type="checkbox"/>					
	Ministry of Industry and Trade (www.moit.gov.vn/web/guest/home_en)				<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>

Source: Author's compilation, as of January 2009.

Notes: A = Classification or valuation of products for customs purposes;

B = Rates of duty, taxes or other charges;

C = Requirements (procedural and documentary), restrictions or prohibitions on imports or exports or on the transfer of payments therefor, or affecting their sale, distribution, transportation, insurance, warehousing inspection, exhibition, processing, mixing or other use;

D = Law/legislation repository;

E = Downloadable electronic versions (or samples) of forms commonly used in F;

F = Import/export transactions, and/or the possibility for online submission;

G = Contact information (Ministry of Commerce, other ministries, private sector representatives).

^a The Department of Export Promotion (www.thaitrade.com) provides info on export procedures.

^b E-Customs is currently available on a trial basis for registered partners.

Three additional categories of information that are not included in article X, but that are useful to traders, are:

- Law/legislation repository
- Downloadable electronic versions (or samples) of forms commonly used in import/export transactions, and/or the possibility for online submission
- Contact information (Ministry of Commerce, other ministries, private sector representatives)

The overview in table 6 shows that the governments of all GMS members offer at least some types of online information. Most notably, with the exception of the Lao People's Democratic Republic, all provide information according to the GATT article X provisions. However, two observations are important: (a) although some information is available in most cases, it is not always complete, up-to-date, comprehensive or presented in a user-friendly way; and (b) information is scattered among different sources (such as Customs and/or the Ministry of Trade/Commerce). To obtain a complete picture, traders have to go to several official websites, which are often not systematically linked to one another. In some cases, the information is also partially available from other Government sources (for example, the customs code might also be available in a general law repository).

C. Policy recommendations to increase competitiveness

The previous section has drawn on existing work on competitiveness and governance aimed at establishing the institutional quality, that is, establishing the rules that shape the environment for economic activity in the countries of the Greater Mekong Subregion. The data collected suggests that there is indeed room for improvement in all four institutional drivers discussed. Results from the Global Competitiveness Index suggest that inefficient Government bureaucracy and policy instability are major constraints. Results from the Doing Business database and the Worldwide Governance Indicators show that corruption and inefficient Government bureaucracy—regulatory quality, including the rule of law—seem to be most harmful for businesses. The Trading across Borders data for East Asia and the Pacific show that there is still ample room for reducing the number of documents, the time and the money needed to export or import goods from or to GMS countries. Last but not least, trade information available online should be improved in all countries, especially in the main areas mentioned in the provisions of article X of GATT .

The GMS countries have become more open over the last decade, a development which was accompanied by a surge of economic growth. To sustain this growth, it is crucial to further facilitate the integration of their economies into world trade and to ensure that the institutional environment fosters economic activity. A closer look at the direction of trade of the GMS countries shows that a relatively large share of trade is taking place with countries in North America, Europe and with the developed countries of the Asia-Pacific region. Two clusters of traders can be identified: cluster A, which includes the Lao People's Democratic Republic and Myanmar, has a larger share of cross-border and

intra-GMS trading, while cluster B, which comprises Cambodia, China, Thailand and Viet Nam, has a larger share of trade with countries outside of the subregion (except China, with which all countries trade). The prominent role of both intra- and interregional trade shows that it is important that the countries of the subregion follow a two-pronged strategy: continuing to promote global exports while also promoting regional exports.

1. Trade facilitation at the country level

In order to increase the competitiveness of the countries of the Greater Mekong Subregion, non-tariff barriers should be reduced to a minimum. Examples of such non-tariff barriers include inadequate business regulations and their enforcement through: (a) lengthy procedures, (b) complicated documentation and signature requirements, (c) inappropriate fees, (d) cumbersome formalities, and (e) unclear rules. Such impediments increase trade transaction costs and the associated business risk, and adversely affect investment, employment, growth and development capacity. Appropriate regulations, effective Government institutions and efficient operations for facilitating trade are of particular relevance and importance for the GMS countries.

Trade facilitation can be described as the simplification, harmonization and standardization of trade procedures to reduce the cost as well as the time of trade transactions. Trade facilitation aims at improving a country's capacity to trade in a timely and cost-effective manner. Expected results include more efficient and cost-effective exports, less costly imports of raw materials for the manufacturing sector, more opportunities for small and medium-size enterprises to participate in international trade, and increased trade flows which lead to more foreign exchange earnings.¹⁹

Each country of the subregion can work towards implementing trade facilitation measures on an individual basis. Such measures include, for example, the revised Kyoto Convention on the Simplification and Harmonization of Customs Procedures,²⁰ which provides for the application of new technologies, the implementation of advanced customs control procedures based on risk assessment and the willingness of customs authorities to cooperate closely with the private sector. Another example is the trade facilitation recommendations of the United Nations Centre for Trade Facilitation and Electronic Business (UN/CEFACT).²¹ Taking into account the findings from the previous sections, measures to improve the competitiveness of each country should focus on: (a) establishing and enforcing clear and comprehensive trade and customs legislation, (b) improving trade procedures, including the simplification, standardization and harmonization of trade documents, and (c) good governance for effective trade controls and enforcement.

¹⁹ For more information on trade facilitation, with special reference to the Asian and Pacific region, see, for example, ESCAP 2002b and 2004.

²⁰ Adopted at the ninety-third and ninety-fourth sessions of the Council of the World Customs Organization, Brussels, 24-26 June 1999 (see www.wcoomd.org/kybodycontent.htm).

²¹ See www.unece.org/cefact/.

To systematically plan, implement and coordinate trade facilitation activities in a country, in its Recommendation No. 4, second edition, UN/CEFACT recommends the establishment and support of national trade facilitation bodies with balanced private and public sector participation in order to:

- (a) Identify issues affecting the cost and efficiency of their country's international trade;
- (b) Develop measures to reduce the cost and improve the efficiency of international trade;
- (c) Assist in the implementation of those measures;
- (d) Provide a national focal point for the collection and dissemination of information on best practices in international trade facilitation;
- (e) Participate in international efforts to improve trade facilitation and efficiency. (ECE, 2001, para. 3)

According to a survey conducted by ESCAP in October 2006, countries in the Greater Mekong Subregion have undertaken some efforts in this respect. The Lao People's Democratic Republic has established a National Transport Committee that is spearheaded by the Ministry of Communication, Transport, Post and Construction and the Ministry of Commerce. Viet Nam has established a National Transport Facilitation Committee led by the Ministry of Transport as well as the Viet Nam Center for Trade Facilitation and E-business (VnPRO). China has also established a National Transport Facilitation Committee, led by the Ministry of Communication.²² Furthermore, the Government of Cambodia has committed to and fulfilled several actions, including the creation of a Special Inter-Ministerial Task Force, and has formed a cross-agency reform team that includes all agencies involved in investment climate and trade facilitation issues (Sovicheat, 2006).

UN/CEFACT, in its Recommendation No. 33, further recommends the establishment of a single window, that is, a facility that allows parties involved in trade and transport to lodge standardized information and documents with a single entry point to fulfil all import, export, and transit-related regulatory requirements (ECE, 2005, 3). Standardized and automated customs declarations, for example, not only expedite the transaction process and enable the application of modern risk-management techniques, but also reduce interference by individuals and thereby lower the chance of having to pay "tea money" to accelerate a process.

The ESCAP survey also asked about the status of the implementation of single windows. The Lao People's Democratic Republic is currently developing a Single Window Administration, an initiative spearheaded by the Ministry of Industry and Commerce, the Ministry of Communication, Post, Transport and Construction, and the Ministry of Finance. Viet Nam has expressed plans to establish such a body and has proposed a national committee for the establishment of single window mechanisms. This committee includes

²² Cambodia, Myanmar and Thailand did not provide responses for the survey.

the General Department of Customs (Ministry of Finance) as well as the ministries of trade, agriculture, health, transport, industry, culture and information. Thailand currently seems to be the most advanced in the implementation of a single-window system, with its Thailand Single Window e-Logistics Environment initiative, which is scheduled to be operational in 2009. A pilot project, launched in 2005, included the implementation of e-licensing and e-certificates systems for exporting fruits and automobiles. Once it has been gradually extended to more products and later all imports, exports and transport activities, the single window system in Thailand will be integrated into the ASEAN Single Window initiative, which is discussed in the next section. Furthermore, in 2007, the Department of Customs has initiated a paperless customs environment using e-Export, e-Import, e-Manifest and e-Container, based on ebXML messaging services and XML messages (Keretho, 2008).

2. Continue implementation of existing initiatives at the subregional level

In addition to initiatives that the GMS countries can carry out on their own, a number of subregional initiatives have been undertaken over the past years and are in various stages of implementation. Coordination at the subregional level, especially in the area of trade facilitation, is crucial as interoperability and harmonization lie at the very heart of such initiatives. The region can tap its potential as a growth area by collaborating and creating synergies among the efforts of individual countries.

This section briefly discusses two initiatives: the ASEAN Single Window Initiative and the trade and transport facilitation initiative under the GMS Economic Cooperation Programme. The implementation of these initiatives can be considered vital for increasing the competitiveness of the GMS region.

(a) ASEAN Single Window initiative

In December 2005, the members of ASEAN, namely, Brunei Darussalam, Cambodia, Indonesia, Lao People's Democratic Republic, Malaysia, Myanmar, Philippines, Singapore, Thailand and Viet Nam, agreed to establish and implement the ASEAN Single Window. According to the agreement, the ASEAN Single Window is the environment where national single windows of member countries operate and integrate. The national single window system is defined as one which enables:

- (a) A single submission of data and information;
- (b) A single and synchronous processing of data and information;
- (c) A single decision-making for customs release and clearance. A single decision-making shall be uniformly interpreted as a single point of decision for the release of cargoes by the customs on the basis of decisions, if required, taken by line ministries and agencies and communicated in a timely manner to the customs. (ASEAN, 2005, art. 1)

The timeline for the ASEAN Single Window projected that Brunei Darussalam, Indonesia, Malaysia, Philippines, Thailand and Singapore would operationalize their national single windows by 2008, and that Cambodia, Lao People's Democratic Republic, Myanmar and Viet Nam would operationalize their national single windows by no later than 2012.

(b) *Trade and transport facilitation under the GMS Programme*

Trade and transport facilitation are complementary and highly interlinked, as they both target the removal of obstacles to a smooth and efficient flow of goods across national borders. They overlap in many places, for example, in the physical inspection of cargo at border crossings; the inspection of common documentation, such as customs declarations, bills of consignments, packing lists; or in the collection of statistical data. Within the GMS Economic Cooperation Programme, a number of initiatives specifically target these issues.

(i) *Trade Facilitation Working Group*

The Subregional Trade Facilitation Working Group was established under the GMS Economic Cooperation Programme to serve as an advisory body on issues related to facilitating trade in the subregion. The objectives of the working group are:

- (a) To provide a venue for identifying constraints (e.g. regulatory, legal) that affect procedures, processes, practices and tools for facilitating trade-related transactions in the subregion;
 - (b) To provide a vehicle for cooperation related to the improvement and coordination of procedures and processes related to the subregion;
 - (c) To provide a vehicle for improving the availability and consistency of trade-related information, and the application of information-technology to trade facilitation;
 - (d) To provide a venue for institutional cooperation among participating countries in formulating and implementing appropriate trade facilitation strategies and mechanism [sic]. (Subregional Trade Facilitation Working Group, 2008)
- (ii) *GMS Agreement on the Facilitation of the Cross-border Transport of Goods and People*²³

One initiative that works towards a smooth transaction process at the border is the GMS Cross-Border Transport Agreement. The Agreement was originally a trilateral agreement between and among the Governments of the Lao People's Democratic Republic,

²³ Agreement between and among the Governments of the Kingdom of Cambodia, the People's Republic of China, the Lao People's Democratic Republic, the Union of Myanmar, the Kingdom of Thailand, and the Socialist Republic of Viet Nam for the Facilitation of Cross-Border Transport of Goods and People See www.adb.org/GMS/agreement.asp.

Thailand and Viet Nam, which signed in 1999. Cambodia acceded in 2001, China in 2002 and Myanmar in 2003, by which date the agreement came into force. The Agreement is a comprehensive multilateral instrument that covers all the relevant aspects of cross-border transport facilitation, including:

- (a) Single-stop/single-window customs inspection;
- (b) Cross-border movement of persons (i.e., visas for persons engaged in transport operations);
- (c) Transit traffic regimes;
- (d) Requirements that road vehicles will have to meet to be eligible for cross-border traffic;
- (e) Exchange of commercial traffic rights
- (f) Infrastructure, including road and bridge design standards, road signs and signals.²⁴

(iii) *Promotion of the application of international standards for trade security*

In recent years, the major actors in international trade have started to focus on security risks that originate in the trade transaction process, especially with regard to container trade. The United States, for example, has implemented a number of measures to reduce such risks, such as, among many others, the 24-hour Advance Cargo Manifest Rule which requires sea carriers to provide the United States Customs and Border Protection agency with detailed descriptions of the contents of any container bound for the United States, 24 hours before the container is loaded on board a vessel. Carriers found in violation of the rule for individual containers may be denied permission to unload and be fined. In 2007, the United States was the most important export destination of all GMS countries, with the exception of Lao People's Democratic Republic and Myanmar. This underlines how important it is for the countries of the subregion to adhere to international standards regarding the international supply chain. It is necessary to see that while such measures might result in some added costs, they also are complementary to the trade facilitation measures described above.

In 2005, the World Customs Organization (WCO) endorsed a strategy to secure the movement of global trade in a way that does not impede but, on the contrary, facilitates the movement of that trade. The strategy, called the Framework of Standards to Secure and Facilitate Global Trade²⁵ (or SAFE Framework) is based on four core areas: (a) harmonization of advance electronic cargo information before goods are exported, through the use of the WCO-developed Customs Data Model; (b) establishment of a consistent risk management system to identify high-risk cargo and address security

²⁴ See www.adb.org/GMS/agreement.asp.

²⁵ The Framework was endorsed by the Council of the World Customs Organization during its annual sessions in Brussels, 23-25 June 2005 (see www.vam.hu/loadBinaryContent.do?binaryId=15833).

threats; (c) use of non-intrusive detection equipment when examining high-risk consignments of cargo or containers at port of origin or departure; and (d) enhanced trade facilitation for legitimate trade by promoting the provision of benefits to businesses that meet minimum supply chain security standards and best practices. These facilitation benefits could include, for example, minimal customs intervention at the border which would have cost benefits for international traders.

(iv) Improvement in trade information

Another area which could lead both to an improvement of the trade transaction process and an increase of trade volume is the improvement of information regarding trade and customs regulations. This area is closely interlinked with the above proposed measures to facilitate trade. In fact, the World Trade Organization, which uses a narrow definition of trade facilitation—covering only issues related to GATT articles V (Freedom of transit), VIII (Fees and formalities connected with importation and exportation), and X (Publication and administration of trade regulations)—includes trade information as one of the constituting issues.

As already discussed, GATT article X requires the publication of all:

laws, regulations, judicial decisions and administrative rulings of general application . . . pertaining to the classification or the valuation of products for customs purposes, or to rates of duty, taxes or other charges, or to requirements, restrictions or prohibitions on imports or exports or on the transfer of payments therefore, or affecting their sale, distribution, transportation, insurance, warehousing inspection, exhibition, processing, mixing or other use.

Currently, this type of information might be available only in the local language or in local publications, such as official gazettes which are published in hard copy by the Government. Table 6, however, shows that all GMS countries are demonstrating efforts to make information publicly and electronically available. These efforts could be increased to provide more comprehensive information on all aspects named in article X of GATT.

In the first stage, the information at the national level has to be made as complete as possible and include all information which is currently missing. In the second stage, the information provided should be synchronized over all media. Currently, information has to be collected from various—often not interlinked—websites and at times the information from the different sources is contradictory. Access to and dissemination of information could be significantly improved if there existed either: (a) a central website, or (b) clear cross-references between all domains that host trade-related information. At a later stage, a study could be conducted regarding the feasibility of creating a central website that includes information for all the GMS countries, or of using existing forums—for instance the GMS Business Forum website—for that purpose.

D. Concluding remarks

The Greater Mekong Subregion is home to about 300 million people, a large number of them living in poverty. Economic progress in the region has been significant over the last two decades, originating in reforms and the steadily growing openness of the countries of the region. To sustain this growth pattern it is crucial to continue this integration of the countries into the world market.

In an increasingly integrated global trade, the competitiveness of a country plays a crucial role. Not only competitiveness on the supply side—that is, the quality or price of the goods and services being produced—but also, and maybe predominantly, the competitiveness of the institutions that shape the trade transaction process.

The aim of this paper was to explore indicators on the quality of the institutional framework that relate to the trade competitiveness of the countries of the subregion. It has been shown that there are still areas where improvement is necessary—and possible. To increase their competitive edge in world trade, the countries should focus on reducing the non-physical bottlenecks to trade, as identified in this paper. Facilitating trade, both at the national and subregional levels, through the improvement of the bureaucratic quality of the relevant institutions, and guaranteeing the effectiveness of the legal framework will result in increased trade flows, employment opportunities, foreign exchange earnings and, ultimately, an improvement in the standard of living.

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