

《Chapter 1》 Overviews of the Mekong Economy

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1. Introduction

The Mekong economy is located along the international river named Mekong River². It is flowing from the southern part of China PRC, passing through Myanmar, Thailand, Laos PDR, Cambodia, and Vietnam respectively. In terms of economic cooperation, the Mekong economy is an economic integration having the Asian Development Bank as its Secretariat. It has evolved since 1992 and nominated as the *Greater Mekong Subregion (GMS)* with member countries: Cambodia, the People's Republic of China (specifically Yunnan Province and Guangxi Zhuang Autonomous Region), Lao People's Democratic Republic, Myanmar, Thailand, and Viet Nam respectively. With the Population: 340 million (2016), GDP at PPP (current international dollars) or \$3.1 trillion (2016), the Intra-GMS Trade of \$444 billion (2015), the GMS has a high potential of developments prospect.

2. Economic Growth and Development of the Mekong Economy

The Mekong has an average annual growth rate of 6.56 percent during 1992-2017. Economic growth rates are sustained at 6.74 percent during 1998-2009 - 6.87 percent during 2010-2017 respectively. This has proved that the Mekong economy can recover from the Asian Financial Crisis (AFC, 1997-1998) and the Global Financial Crisis (GFC, 2008-2009). This may be owing to the fact that the Mekong economy was still a fundamentally self-sustained economy with agriculture base, abundant natural resources, and manpower. Thailand as a four runner in Mekong's economic development has played as core economy. Vietnam has her economic development rapidly enough especially after joining the WTO. She will join the CPTPP³ led by Japan to gain higher trade and investment in the GVC⁴. Vietnam will gain higher

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2 'Me' stands for 'Menam' or literally 'river'. 'River-Kong' is, therefore 'Mekong'.

3 Comprehensive Partnership of Trans-Pacific Trade Agreement led by Japan, a new version of TPP.

4 Global Value Chain, stands for a direct and indirect linkage of trade and investment among world trading partners. It is

welfare for her people. Cambodia has been the long-standing country to manage the capital inflow and light industrial development with foreign capital. She has a strong economic base for further development. Laos has played a crucial role as a source of energy for Asia by investing in electricity generation facilities all over the country. She will be center for energy base development in Mekong economy and ASEAN. The later coming of Myanmar has been welcome. Myanmar has sufficiently large population size, rich natural resources and with high potential for economic development in many respects. We do not have so much information on the Mekong member from South China. However, we always feel that the people and culture there are very familiar with us and their presence in the Mekong will mean significantly as the destination of the land link to the Chinese market. China's presence would have a positive impact on the Mekong economy. Especially, the Chinese proposal of 'Belt Road Initiative', BRI would mean to the world as well as to the Mekong too.

The average growth rates during 1970-2015 were impressive for Cambodia (3.82 % p.a.), Myanmar (6.32% p.a.), Laos (6.02% p.a.), and Vietnam (5.97% p.a.) respectively. The growth performances of other ASEAN neighbors during the same period were 5.93 % p.a. for Indonesia, 6.6% p.a. for Malaysia, 4.07 % p.a. for the Philippines, and 5.6% p.a. for Thailand, 7.10 % p.a. for Singapore accordingly. Also, The pace of growth of Mekong member the CLMV⁵ and other ASEAN countries were lower than fast growth performance of 9.01% p.a. for China PRC and 7.15% p.a. for Korea respectively. The leading ODA⁶ donor for CLMV which is Japan had her growth performance of 2.58% p.a. during the same period.

The success of the economic development in the Mekong economy was impressive as countries starting with a low income per capita and living standard as compared with other ASEAN neighbors. The achievement of higher growth performance by Cambodia, Laos, and Vietnam attributed by own endowments of rich unexploited natural resources and population. The flow of external resources to CLMV has helped to build up of physical as well as human capital for further development of production. It would also help CLMV to open her trade toward the world market as well.

3. Trade Openness, FDI and Industrialization of the Mekong Economy

Trade openness is the critical engine of growth in economic integration and the objective of WTO. The pattern of trade openness in selected Mekong economy the especially the latecomers CLMV. During 1970-2015 it was remarkable for Cambodia and especially for Vietnam accordingly. Clearly, openness, foreign direct investment has induced the industrialization process in the Mekong economy. It can be seen from the case of Thailand, Vietnam, and Cambodia respectively.

based on the International Input-Output inter-industrial-countries relationship.

5 CLMV indicates Cambodia, Laos PDR, Myanmar, and Vietnam respectively. They are the member of Mekong economy.

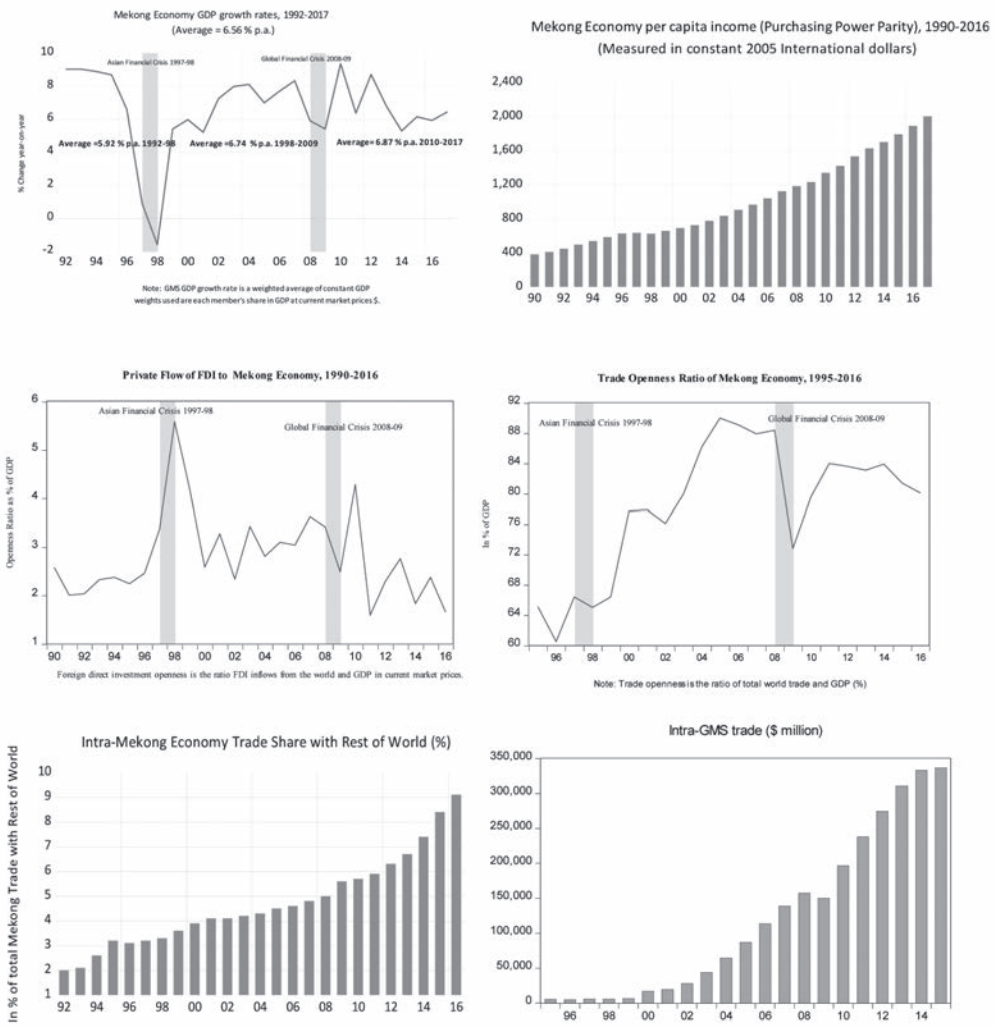
6 ODA indicates Official Development Assistance.

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<https://greatermekong.org/review-configuration-greater-mekong-subregion-economic-corridors>

Figure 1: Selected Key Indicators of Mekong Economy



Note 1) The graph is plotted by the author from data retrieved from the GMS Statistical Database.

2) The GMS Secretariat estimates; CEIC Database. [https:// ceicdata.com](https://ceicdata.com) (Accessed April 2018); Asian Development Outlook April 2018.; [www.World Bank. World Development Indicators Database. http://data.worldbank.org/data-catalog/world-development-indicators](http://data.worldbank.org/data-catalog/world-development-indicators) (Accessed January 2018).

Source: Greater Mekong Subregion Statistical Database <http://www.greatermekong.org/statistics/>

The 'openness'⁷ of international trade was still moderate for Laos while it was quite rapid for Myanmar during pre-2000 year and decline after that. It is a wonder if Asian and Global Financial Crisis would have any impact on selected Mekong economy the CLMV's delaying their trade openness. Myanmar and Laos seemed to have changed their openness trend after the Asian crisis in 1997 while Cambodia and Vietnam have not shown such structural change. Cambodia-Vietnam has chosen her path of economic development climbing the level of globalization and economic integration, while Laos and Myanmar have been more cautious. Trade in services in Cambodia appeared unaffected by the contagion of the Asian Financial Crisis in 1997, while other neighbors had their service trade-GDP ratio declined from past trend. All of them were however immune to the Global Financial Crisis in 2008.

The Mekong economy has attracted foreign capital to supplement their domestic savings for development purposes. The FDI/GDP ratio has shown a rising trend over the period in CLMV. During 1970-2015, the annual average FDI/GDP ratio is 3.31% for Laos, 5.7% for Cambodia, 3.73% for Myanmar, and 5.2% for Vietnam respectively. The CLMV like some other ASEAN countries has been affected by the Asian and Global Financial Crisis. Myanmar received its most considerable boost of FDI during the Iraq War of 2003 and the post-Global Financial Crisis.

4. The Migration

The wage gap between Mekong economy and the rest of world, especially with Thailand has induced an outgoing of emigrations from the countries. The international migration has help reconciled the labor market tightness in Thailand owing to labor shortages. Especially, Thailand has faced a severe unskilled labor shortage as a result of a demographic transition with declining fertility rates and absorption of the education system as well as foreign direct investment and export in recent years. In February-July 2016, the government starts to register foreign worker from Mekong countries. In June 2017, Thailand has launched a new *immigrant act* with legal punishment. Under the new law, an employer who hires an illegal foreign worker faces a fine of up to 800,000 baht. The registration Act has driven an exodus of migrants from Thailand. Some still remain in home countries; others have sought legal permission back to Thailand. It, however, *de facto* that Thailand is desperately needed labor intensive foreign migrants from Mekong economy.

⁷ 'Openness' indicates the ratio of merchandise export plus import over GDP

Table 1: Migration stock as of 2010⁸ of Selected Mekong Country

		Country of Destination						
		Thailand	Vietnam	Cambodia	Laos PDR	Myanmar	Rest of ASEAN	Rest of World
Country of Origin	Thailand		996	89,342	3,543	78	167,121	588,748
	Vietnam	10,635		108,696	6,877	200	45,628	1,779,574
	Cambodia	177,607	112		1,018	31	7,564	275,981
	Laos PDR	151,613	161	773		35	9,757	302,687
	Myanmar	1,042,923	567	155	294		34,921	167,014
	Rest of ASEAN	19,486	8,108	1,645	14	599		4,294,793
	Rest of World	496,131	12,129	9,541	3,065	112,591	2,125,361	
	Total	1,898,395	22,074	210,152	14,812	113,534	2,390,351	7,408,798

Source: IOM, (2012, 2018) and Ministry of Labor, Thailand

5. The Research Questions

The Mekong economic development was successfully recorded above. There are still many hurdles to face towards sustainable growth in the next decades. Thailand may assume as a forerunner of the 'flying geese' flock has struggled to exit from the 'middle-income trap' after the Asian Financial Crisis in 1997-98. The contagion effect of AFC and Global Financial Crisis 2008-09 had an affected the economic growth, openness, the FDI flows as well as development potential of Mekong economy.

The lessons that we would like to learn from Thailand are centered around the reality of structural changes in primary sector whether there have been 'turning point' in agriculture and thus induced a structural change in the non-agriculture sector, especially the light manufacturing sector in Thailand during the same episode of growth before the Asian Financial Crisis 1997. The research questions remain to be answered whether other Mekong economy should follow their predecessors, Thailand and East Asia. It is wondered to know whether Mekong economy will follow the monocentric spatial growth model of 'urbanization' like Thailand or multipolar growth model like other Asian countries.

Since the global industries have been closely linked according to value change, it is a wonder if Mekong economy can catch up with others counterparts to climb the Global Value Chain (GVC) and gains from the networking. The research question remains to be answered concerning the determination of GVC of the selected Mekong economy the CLM, Vietnam, and Thailand. In addition, it is curious to know how the trade creation among the Mekong economy via road network can facilitate the regional trade among themselves and China PRC. This trade facilitation would open up the opportunity for deeper spilled over to climb the GVC.

⁸ used Migration Stock 2007 data from Migrant DRC. We also use NESDB (2556), Tran Van Ho(2557) to collect the stock data especially migrant stock in Thailand. We update migration stock to the 2010 year by the model results

The past experience of economic development in Thailand had suffered from premature liberalized external financial accounts. It was a pre-text to the AFC in 1997. The overheating economy was fueled by the liberalization of financial account under the IMF's guideline that relaxes the interest rate adjustment and allowing the capital account's inflow-outflow namely 'Bankok International Banking Facilities'. This had caused matchmaking of short and long-term debt obligation and finally overblown the external accounts, overshooting exchange rate and banking crisis. It remains research questions to other Mekong economies where ones should speed up the liberalization to obtain a free flow of foreign capital to help finance industrialization. Most of Mekong economies are very prudent of the liberalized external account where only Cambodia has relied on 'dollarization' as result of her historical financial flows during early days of development. The research question is whether this macroeconomic management will hamper the monetary policy management. The Cambodian experience would be the best to learn from.

The research questions which still remain to be clear as to whether Mekong economies are 'converging'. In other words, "*convergence*" can be interpreted as *catching up to reference value or decline of inequalities*. The 'Unconditional' and 'Conditional' convergence will need to be explored. The conditional convergence model may rely on human and physical capital growth as well as trade openness, foreign direct investment, and Official Development Assistance, etc. The spot check of the global phenomenon of out of school in Myanmar may give insight into how the international donors can consider a social infrastructure on top of the physical infrastructure ODA. All these research questions would be analyzed by applying econometric models, Input-Output Analysis, as well as general equilibrium model respectively. This special issue of the Social Science Reviews, Saitama University on the Economic Development of Mekong Economy is our attempts to answer the above research questions.

6. Discussions and Synthesis

The papers in "The Social Science Review: Special Issue, 2018" comprise in-depth country study on economic development experiences of Thailand and other Mekong economy. Bunnag S. (2018) has proved economic convergence in the Mekong economy. Furthermore, as the agriculture production and export are still the main sources of employment and foreign currency earnings, Bowonthumrongchai T. (2018) has, therefore, proved a 'Lewisian' hypothesis that Thailand had passed through a 'Turning point' during the last decade and are currently facing labor shortages. Ketsawa W. (2018) in addition has shown epoch of industrialization in Thailand during the last decades. The paper has shown sources of growth and deviation from balance growth during 1980-2010. The paper by Samreth S. and Sok (2018) has evaluated the impact of exchange rate on the dollarization of Cambodian. It is very informative to understand how the monetary policy is managed in Cambodia. Uttama N. P. and Promnart R. (2018) have further proved the impact of foreign direct investment in the Mekong region. Their paper has pointed out the comparative efficiency and effectiveness of FDI from particularly from China and Japan. Taguchi H. et., al (2018) investigated the

determination of Global Value Chain in Vietnam with the so-called 'smile curve'. They have shown how Vietnam has climbed up the GVC in her trade and industrialization. The paper has proposed constructive policy recommendations for Vietnam and can be a case study of other Mekong member. Ruankham W. et., al (2018) has introduced how the road network in the Greater Mekong Region could stimulate trade creation among Mekong economy and rest of the world. Puttanapong N. (2018) has proposed how to reduce the spatial inequality of urbanization in Myanmar. The paper has applied the information from satellites and ground survey of Myanmar cities. As Myanmar still has high out-of-school children, Ni Lar et., al (2018) has used survey data to analyze the cause and looking for an alternative of an education program on life skills. She has estimated with an econometric model and found some policy recommendations. Asaeda has contributed his short notes on the environmental issues in the Mekong based on the Mekong river. The paper is groundbreaking for future public policy both at local and international level.

All these analyses have applied one or another econometric method analysis. The models are static rather than attempted to approach from the dynamic point of views. Even with partial rather than general equilibrium analysis the authors have found solid evidence and laid constructive policy recommendations to our SU Journal. The paper by Limskul, K. (2018) has generalized the economic impact overall resources flow to Mekong economy. The private FDI and well as the net Official Development Assistance flow into the Mekong region is now being an exogenous source of growth. Limskul (2018) has applied the General Equilibrium Model of the Mekong economy to analyze the economic impact of ODA. It is assumed to raise the supply potential of the social infrastructure.

We synthesize the overall findings from country-specific and overall Mekong analysis. That is to say, Mekong is ready to be included in the World's GVC via Trade openness and industrialization. They have newly emerged economies led by agriculture and light industrial and service growth potential following past experiences of Thailand. Furthermore, with sufficient private and official resources flow, the Mekong would be sufficient as the destination of foreign investment and industrial relocation within ASEAN and from East Asia. The Mekong has the potential to participate in the China PRC's world vision on modern 'Silk Road' or Belt Road Initiative (BRI). However, it is still not clear which direction the spatial development of each Mekong economy will flourish and induced inequality spatially. We agree with the policy implication that setting up industrial estates along the border may tone down the inequality *within each and between* the Mekong economies. Our CGE analysis has answered Ni Lar (2018) on the question of human resource development in education and schooling. The official development assistance may help reconcile this bottleneck in human capital investment in the Mekong economy.

The role of Japan and other donors would play a significant role together with other donors. Japan's ODA on the 'social infrastructure' help build up the human capital on top of the physical infrastructure as noted by Limskul K. (2018). The ODA as public resources flow will *hypothetically* benefit Mekong economy and proved by our econometric and CGE model. Asaeda (2018) paper has finally given us further thought on the importance of environment issue in economic development. Our publication of these academic

papers in *The Social Science Review: Special Issue on Mekong Economy* would be a starting analytical piece of work for the Mekong's policy planners.

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