

Trade and Investment in the GMS: Challenges and opportunities

Challenges:

1. Increased global nationalism and protectionism hampers trade- and investment led growth for GMS. In particular, multilateral agreements come under increasing pressure, including the WTO and the multilateral trading system which provides the most efficient system of global trade rules. This is perhaps the greatest challenge of all.
2. Increasingly nationalistic and autocratic regimes in ASEAN and GMS are not helping either as transparency decreases, media and free information come under pressure and Western countries may reduce consumption from GMS due to human rights concerns.
3. China's increasing aggressiveness in South China Sea also leads to tensions though ASEAN lets China get away with it due to compensations in the form of investment, aid and loans, and other forms of assistance, increasingly within the framework of the Belt and Road Initiative.
4. An increasingly ageing population will pose a big burden on the young to support the elderly. At the same time, many young people will find no jobs as a result of automation. The big challenge is for individual countries to move up the value-added and technology ladder to engage in the new economy but not everybody will be able to participate.
5. This is particularly important for Thailand. According to Japan, Thailand's main investor, Thailand is not equal to its Mekong neighbours in Japan's estimations. To Japan it is the lead goose of the proverbial flying geese 'V'. This is why Thailand's 'middle income trap' is such a concern to Japan's economic planners. They need Thailand to move up a tier and create demand for upper tier goods and services in order for a division of labour and capital to stratify the Mekong economies. Lack of adequate education and skills is the main bottleneck and not easily solved in the short-term.
6. Natural disasters continue to disrupt trade and investment. Asia has the highest incidence of natural disasters in the world and is particularly prone to the effects of climate change. There is a need to strengthen business' resilience to disasters.
7. There are plenty of RIAs and opportunities to strengthen regional cooperation and integration among ASEAN/GMS but political will is lacking to effectively implement them and individual countries continue to differ in terms of legal regimes and policy frameworks. Countries are competing for similar export markets and investors rather than collaborating. They see each other as rivals rather than as partners.

Opportunities:

8. The trade and investment link of GMS countries varies greatly: trade accounts for less than 40% of GDP in Myanmar and more than 100% of GDP in Viet Nam. Intra-regional trade makes up about 24% of ASEAN's total global trade, ranging from 13.9% in Viet Nam to 64.9% for Laos. Intra-GMS trade accounts has grown from 8% in 2013 to 11% in 2015 of total intra-ASEAN trade but has remained stagnant at 3-4% of total global GMS trade.

9. FDI in Viet Nam is booming and stagnating in Thailand. Myanmar FDI has also stagnated. Thailand has emerged as a strong outward investor, almost doubling FDI in 2016. In 2015, investment outflows from developing Asian economies reached \$323 billion, representing 30 per cent of global foreign direct investment (FDI) flows. Intraregional greenfield FDI inflows to ASEAN rose by 3.4 per cent to \$90 billion in 2016. The vertical fragmentation effect – associated with and extension of investment network resulting from the trade liberalization of intermediate goods – and the horizontal effect – a market expansion effect resulting from the reduction of trade barriers – are thus very likely to attract increasing investment flows from the region’s MNEs to ASEAN and GMS.
10. Promoting intraregional trade and investment holds great promise for ASEAN and the GMS. However, the expansion of merchandise trade is being impeded by high bilateral trade costs within the region. The largest costs are associated with non-tariff barriers, regulatory and procedural burdens, and high transport costs, which together can account for as much as 60 to 90 per cent of total trade costs in Asia-Pacific. The development of economic corridors and growth triangles can help address some of these bottlenecks.
11. One well-known economic corridor is the ADB led East-West Economic Corridor but implementation has been lacking for similar reasons: political interests and nationalism and differing national legal systems. ASEAN provides the framework for harmonization of these frameworks which involves surrender of part of individual countries’ sovereignty. Without the political will to surrender or “pool” sovereignty, ASEAN will remain a talk shop.
12. The BRI has 6 corridors, two of which involve the GMS: Bangladesh-China-India-Myanmar (BCIM) and China-Indochina Peninsula (CIP). While BRI has potential for GMS in terms of access to finance it may lead to dependency on China and large unsustainable debts. Therefore, participation in BRI holds great promise and is supported by the Asian Infrastructure Development Bank but needs to proceed with caution. Any form of regional cooperation and integration should be embraced as the future for individual countries lies in collective action. The biggest advantage of BRI would be trade facilitation: ESCAP research indicates that a one-percent increase in the efficiency of border administration and transport infrastructure will increase exports by 1.5 percent and 0.7 percent, respectively. A one-percent improvement in the quality of ICT on the other hand can increase exports by 1.4 percent.
13. ASEAN integration has proceeded with the ASEAN Economic Community, ATIGA and ACIA, which are progressive and comprehensive agreements, but implementation is lacking. Where is the single market with free movement of capital, goods and people? Protected sectors such as agriculture, steel and auto production are still heavily protected. ASEAN citizens will be allowed to work in other countries in the group, but work will be limited to jobs in eight sectors, including engineering, accountancy and tourism. The eight sectors account for only 1.5 per cent of the total jobs in the region.
14. GMS can spearhead integration through full implementation of the Cross-border Transport Facilitation Agreement (CBTA). However, free movement of people, trucks and goods across GMS borders is still far away from the EU ideal situation. Only main achievement is in the reduction of tariffs on trade in goods but NTMs remain rampant. Service liberalization under ASEAN contains no commitment to address behind-the-border issues, while the difference in laws and regulations among member countries remains problematic.

15. ASEAN agreements should consolidate outstanding FTAs and BITs of individual ASEAN members. Most GMS countries have BITS with each other which should no longer be necessary given the existence of ACIA. Also individual GMS/ASEAN countries continue to sign FTAs rather than in the framework of ASEAN. Why is there an ASEAN-India FTA and a Thailand-India FTA? Similar for agreements with China, Australia etc. RCEP should help consolidate these agreements but most likely it will result in another layer of confusing commitments and rules of origin.
16. Major regional integration frameworks affecting GMS involve TPP, RCEP and APEC. TPP is dysfunctional without US participation but sets new standards for international trade. Japan may be new leader. However, TPP divides ASEAN and is therefore not a recommendable option for GMS countries. APEC has no binding commitments and also divides ASEAN. RCEP holds much more potential, based on TPP standards, and includes all ASEAN/GMS countries but its adoption and implementation requires a level of political will perhaps not present and risks giving China the upper hand as the only super power in the region and the new trade hub.
17. The private sector is taking the lead in integration through its global and regional value chains. However, these chains are being consolidated. On the other hand, countries such as Thailand and Viet Nam are increasingly investing in the region. Countries need to pursue active and effective investment promotion and facilitation strategies and improve the business climate. Countries also need to promote regional investment regimes in a manner that better balances investor rights with host country development needs.
18. Countries should exploit complementarities based on differences in development level. However, ease of doing business in some remains very low. Singapore is no. 2, while Myanmar is at 170 and Laos is 139 and Cambodia is 131 and Viet Nam is 82 and Thailand is 46 (out of 190 countries). Major investment in education and R&D is required to make GMS countries innovative and more technology-oriented. This also includes strengthening IPR laws and enforcement. Major emphasis should be on addressing SME needs.
19. ESCAP can help countries in the areas of trade and investment. For instance, ARTNET in trade, UNNExT in trade facilitation and paperless trade, the Asia-Pacific FDI network and training courses in FDI. A Handbook on Policies, Promotion and Facilitation of FDI for Sustainable Development in Asia and the Pacific is in the process of being issued.
20. GMS countries should join the WTO Trade Facilitation Agreement also join and actively participate in the implementation of the Framework Agreement on Facilitation of Cross-Border Paperless Trade in Asia and the Pacific. This new UN treaty opened to all Asian countries involved in the BRI in October 2016. Both China and Russia, along with 28 other Asian countries, collaborated in its development. It provides a dedicated, neutral and highly flexible platform for countries at all levels of development to work towards next-generation trade facilitation measures, building upon existing bilateral, subregional as well as global trade facilitation initiatives. Becoming a party to the Framework Agreement would not only show strong political commitment to trade facilitation but also provide opportunities for capacity building and the development of concrete pilot projects, as envisaged in the treaty.
21. Business in the GMS and ASEAN should embrace principles of responsible business practice such as Global Compact, GRI and OECD MNE Guidelines. Business should also be much more outspoken in policy advocacy, including through mechanisms such as the ESCAP Sustainable

Business Network and Asia-Pacific Business Forum (APBF). The next APBF will be held in Hong Kong in April 2018.