ECONOMIC DEVELOPMENT IN THE MEKONG:

AN OVERVIEW OF TRENDS, PROSPECTS AND CHALLENGES

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I. INTRODUCTION

1. **This paper discusses the economic outlook for the three Mekong countries, Cambodia, Lao P.D.R. and Vietnam.**[2] All three countries have made significant advances since their decision in the late 1980s and early 1990s to move towards open, market-driven economies. Vietnam has made the most progress in this period, reflecting the fact that its initial conditions were more favorable, and that its economic reform program started earlier and has been more far-reaching. At the same time, Cambodia and Lao P.D.R. have also made impressive gains over the past 15 to 20 years. Nevertheless, the legacy of the Mekong 3's turbulent past is still evident—most starkly in the loss of human resources from prolonged conflict—and there remains a significant "development gap" between them and "old ASEAN"[3], which needs to be bridged (Table 1).

2. **While the outlook for the Mekong 3 is reasonably encouraging, they will need to address a number of challenges to realize their economic potential.** The growth outlook for these economies is relatively bright, not least because of their favorable location, abundant natural resource endowments and human capital potential. However, two key challenges stand out. First, the need to complete their transition to market-based economies, which will be critical to enhancing their ability to compete in an increasingly integrated regional and global economy. Second, particularly in the case of Cambodia and Lao P.D.R., the need to address the legacy of the Indochina wars by increasing investments in infrastructure and human resources. While the international community can support this process, it will require deep-rooted reforms of their fiscal regimes, not only to mobilize revenues but also to improve the allocation of public expenditure.

3. **The paper is organized as follows.** Section II sets the scene by contrasting the growth performance of the Mekong 3 between 1960 and 1990 with that of the rest of East Asia. It then discusses the improvement in their economic performance over the last decade and a half, which has been driven by extensive trade and investment liberalization.

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[2] Hereafter, referred to as the Mekong 3.

[3] The ASEAN-4, namely Indonesia, Malaysia, Philippines and Thailand.

Section III assesses the outlook for these three economies and outlines some of the challenges that they are likely to face to enhance their competitiveness in a fast-growing region and an increasingly integrated global economy. Section IV concludes.

II. Background

The Lost Decades

4. **The economic history of these three Mekong countries bears some striking similarities and is, in many respects, in stark contrast to that of the rest of the region.** All three emerged from French colonial rule in the early 1950s and were heavily affected during the next quarter of a century by the wars of independence that erupted in the wake of World War II, known collectively as the "Indochina wars", and the revolutions that ensued. These conflicts have left a lasting legacy, not least in terms of the loss of valuable human resources and the destruction of infrastructure.[4] In the mid-1970s, the Mekong 3 adopted Soviet-style models of central planning and forged close economic relations with the Soviet bloc. In the process, they isolated themselves from the rest of the region, which was undergoing a period of extraordinary economic transformation and development. Other parts of East Asia were engaged in a process of "clustered and sequential" industrialization, supported by increased openness to trade and investment flows. Such flows resulted in the rapid integration of these economies into regional supply chains and production networks.

5. **As a result, the growth paths of the Mekong 3 began to diverge widely from those of the rest of East Asia** (Figure 1). In the 1960s, the Mekong 3 shared broadly similar levels of per capita income as the NIEs and the ASEAN-4. Between 1960 and 1990, however, the growth performance of the Mekong 3 paled in comparison to the rest of East Asia. Over this 30-year period, real per capita income in the NIEs and the ASEAN-4 grew at an annual rate of around 7 and 4 percent, respectively. By contrast, the Mekong 3 trailed with an average per capita growth rate of just over 1½ percent—lower than in South Asia, and only marginally higher than that observed in Sub-Saharan Africa over the same period. By 1990, per capita income in the Mekong 3 had fallen to about 30 to 35 percent of the ASEAN-4 average and was lower than in both South Asia and Sub-Saharan Africa. The development gap—as measured by per capita income—had widened from a ratio of 1.5 in 1950 to 10 relative to the NIEs, and from 1.4 to 3 relative to the ASEAN-4.

The Reform Period

6. **In the late 1980s and early 1990s, Cambodia, Lao P.D.R. and Vietnam embarked on extensive reform programs**. These reforms were prompted largely by their poor economic performance and subsequently accelerated by the collapse of the Soviet Union, on which all three economies had been heavily reliant for trade relations and aid inflows.

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[4] To this day, there are nearly 1,000 deaths and injuries every year in Cambodia and Lao P.D.R. from unexploded ordnances dating back to the Vietnam war. During the revolutions, almost the entire educated class in Lao P.D.R. was either incarcerated or forced to flee as refugees, and a significant proportion of the educated elite in Cambodia murdered.

Vietnam led the way in 1986, with the launching of the "doi moi". Lao P.D.R. followed suit soon after with the introduction of the "new economic mechanism", and Cambodia in 1993 following UN-sponsored elections which paved the way for reform and the resumption of ties with the international community.

7. **The reform efforts were aimed at creating more open, market-driven economies.** The Mekong 3 began a transition from their rigid models of central planning and state ownership towards greater market orientation. Direct subsidies and price controls were gradually dismantled in many sectors, paving the way for market signals to determine the allocation of resources. The reforms also represented an effort to shift from insular to more outward-looking development strategies, resulting in reduced dependence on the Soviet bloc and closer economic relations with global and regional markets.

8. **Trade liberalization was a key pillar of the economic reform programs in the Mekong 3** (Table 2). At the start of the reform period in the latter half of the 1980s, the trade regime in all three economies was highly protectionist and biased against exports. Driven by a desire to promote export-led industrialization, and later by accession to the ASEAN Free Trade Area (AFTA) [5], much progress has since been made on trade reform. In particular, restrictions on private-sector participation in foreign trade have been lifted[6], exchange rate distortions largely removed and trade barriers sharply reduced. In Vietnam, tariffs on imports were introduced in 1988, subsequently rationalized in 1992 and simplified in the late 1990s. In 1989, further major reforms were enacted, as quotas were removed on most imports and exports, export duties scaled back, the foreign exchange system unified, and domestic producers allowed to engage with foreign trade companies. Similarly, there has been significant trade reform in Cambodia, where, until 1989, the government exercised a monopoly over trade, and licenses were required for all imports and exports. By late 1993, the licensing regime had been streamlined, tariff rates rationalized and tariff levels reduced. Lao P.D.R.'s trade regime was also hampered by high import tariffs and strict export restrictions until the mid-1980s. Tariff rates have since been gradually lowered and import licensing requirements have now been eliminated for all but four products (fuel, cement, steel and vehicles). However, the trading system is less transparent than in Vietnam, and traders often complain about cumbersome customs clearance procedures. While the pace of trade liberalization in the Mekong 3 slowed somewhat during the East Asian crisis, it has picked-up again in recent years, spurred by their interest in WTO accession and the signing of several important bilateral trade agreements.[7]

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[5] Vietnam joined AFTA in 1995, Lao P.D.R. in 1997 and Cambodia in 1999.

[6] In Vietnam, for instance the number of recognized trading entities increased from about 30 in 1988 to more than 16,000 in 2001.

[7] Cambodia acceded to the WTO in 2004, and Vietnam and Lao P.D.R. are currently engaged in accession negotiations (with discussions in the final stages in the case of the former). All three countries have signed bilateral trading agreements with the United States—Cambodia in 1996, Vietnam in 2001 and Lao P.D.R. in 2005.

9. **There was also a concerted effort to promote foreign investment, particularly in export-oriented sectors.** Each of the three countries enacted foreign investment laws designed to attract FDI inflows in the late 1980s, with have been refined and amended in subsequent years. Adopting the ASEAN-4 strategy, reforms focused on relaxing restrictions on foreign ownership and providing investors with an array of incentives in the form of tax holidays, duty drawbacks, and tax exemptions on inputs for exports. Foreign investors have typically been attracted by the availability of cheap labor and abundant natural resources in the Mekong 3. In the case of Vietnam, which has a population of over 80 million, potential access to a large domestic market is also a powerful incentive. However, as discussed below, several factors continue to undermine the investment climate across the Mekong 3, notably infrastructure and human resource constraints, under-developed financial sectors, and the absence of effective legal systems.

10. **These reforms have resulted in significant improvements in economic performance** (Figure 2). There has been a sustained pick up in economic growth in all three Mekong economies since the launch of their reform programs. Growth rates have on average been higher than in the NIEs and ASEAN-4 over the last decade, helping to bridge part of the development gap with the rest of the region.[8] Growth has averaged around 7½ percent in Vietnam since 1988 (second only to China among Asian economies), 5½ percent in Lao P.D.R. over the same period, and 7 percent in Cambodia since 1995. This strong growth has led to a doubling of average per capita income since 1990, and contributed to dramatic declines in the incidence of poverty in the Mekong 3—with $1 a day poverty falling from 45 percent in 1990 to 19 percent in 2003. Nevertheless, particularly in Lao P.D.R. and Cambodia, poverty remains significantly higher than in the rest of the region and some development indicators (notably in health and education) are similar to those in Sub-Saharan Africa. Vietnam is clearly the strongest performer, having commenced the transition sooner and undertaken significant land and agricultural pricing reforms during its initial phases.[9] Despite the fact that reforms in Cambodia and Lao P.D.R. were not as entrenched until recent years, and notwithstanding the destruction and exodus of substantial human capital in the lead up to the reform period, the transition has also brought considerable macroeconomic gains in these two countries.

11. **One of the key drivers of this improved performance was the dramatic opening up of the Mekong economies.** International trade and investment links between the Mekong 3 and the global economy have grown rapidly since the late 1980s, transforming these countries into some of the most open economies in the world (Table 3). Trade openness—as measured by the sum of exports and imports relative to GDP—has more than doubled over the last 15 years in all three economies, and is especially high in Vietnam and Cambodia. Export growth has also been very rapid over this period, particularly in the case

[8] The gap in per capita income narrowed from a ratio of 10 in 1990 to 8.5 in 2003 relative to the NIEs, and from 3 to 2.1 relative to the ASEAN-4.

[9] These reforms boosted agricultural productivity and created surpluses that could be exported. This is illustrated by the dramatic transformation of Vietnam from a rice importer into the world's second largest exporter.

of Vietnam and Cambodia, whose share of global exports has tripled and doubled, respectively (Figure 3). At the same time, there has been a marked shift in the direction of exports away from the Soviet bloc towards the United States and the European Union.[10] While the Mekong 3 have traditionally received considerably less foreign direct investment than their neighbors, there has also been a significant increase in such flows relative to the 1970s and 1980s (Figure 4). Since 1990, the FDI to GDP ratio has averaged 5 percent in Vietnam, second only to Singapore in Asia, and by 2002 the Mekong 3 accounted for nearly 11 percent of total inflows into the ASEAN region.[11]

12. **However, the process of economic transition and integration remains incomplete.** While trade reforms are relatively advanced, domestic reforms have generally lagged behind across the Mekong 3. The slow implementation of domestic structural reforms has impeded efforts to improve competitiveness, and thus hindered the ability of the Mekong economies to participate fully in the process of regional and global integration. In particular, market institutions remain under-developed and the private sector has yet to firmly establish itself. In both Vietnam and Lao P.D.R., it has proved difficult to restructure state-owned enterprises, which continue to benefit from protection and dominate many sectors of the economy.[12] Weaknesses in the banking system also persist, limiting the scope for stimulating savings and providing credit to the fledgling domestic private sector.[13] In addition, judicial and legal systems remain relatively under-developed in all three countries. Such distortions have contributed to the weak investment climate in the Mekong 3, which is reflected in their low ratings in the World Bank's latest *Doing Business* survey (Table 4).

13. **At the same time, particularly in Cambodia and Lao P.D.R., the level of investment in human and physical capital remains severely inadequate.** There is an urgent need to increase resources devoted to infrastructure and human resource development, in order to deal with the legacy of the Indochina wars and lay the basis for broad-based economic growth. This will require fundamental reforms to the fiscal regimes in these countries, particularly with respect to revenue mobilization and improving public expenditure management. The former is needed not only to mobilize resources but also to reduce the

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[10] For example, between 1990 and 2004, the share of Cambodia's exports destined to the United States increased from 0 to 58 percent, and the share bound for the European Union from 7 to 30 percent. For Vietnam, the corresponding shares increased from 0 to 21 percent and 9 to 26 percent, respectively. For Lao P.D.R., the U.S. share remains low but the EU share increased from 11 to 34 percent. Increased access to these markets has been secured through the Generalized System of Preferences (GSP) granted by the European Union, and the normalization of trade relations (NTR) with the United States.

[11] In recent years, around one-fourth of this investment has come from within the region.

[12] For example, in Vietnam, despite 15 years of liberalization, state-owned enterprises (SOEs) still account for about half of the industrial and service sectors.

[13] In Lao P.D.R. and Cambodia, for example, credit to the private sector amounts to only about 10 percent of GDP.

heavy reliance of these economies on external aid. Ultimately, tackling these issues will hinge on political resolve as much as technical and administrative reforms.[14] More generally, fiscal reforms are important in all three countries to enable them to make further progress in reducing poverty and achieving the Millennium Development Goals.

14. **As a result, the economic base in all three countries is still relatively narrow.** In particular, exports continue to be heavily focused on primary commodities and garments (Figure 5). Even in Vietnam, which has the most diversified export base, these two categories account for nearly three-fourths of total exports, and high-tech electronic exports, which have been a major driver of growth in old ASEAN, are still very low. The relatively small share of intra-regional trade is also indicative of the Mekong 3's limited participation in regional production networks (Figure 6).[15] Similarly, FDI into the region is concentrated in a handful of sectors[16] and geographic locations.[17] In addition, the dominance of subsistence agriculture, which accounts for up to half of GDP and nearly three-fourths of employment, is also indicative of the narrow economic base in Cambodia and Lao P.D.R.

III. OUTLOOK AND CHALLENGES

15. **The economic outlook for the Mekong 3 has a number of favorable aspects.** Surrounded by a number of dynamic and fast growing South East Asian economies, the Mekong 3 enjoy a significant locational advantage. There is considerable scope for exploiting this strategic location by developing infrastructure and strengthening trade and investment linkages with the rest of the region. In the case of Lao P.D.R., proximity to high growth economies also helps to offset some of the disadvantages of being landlocked. At the same time, all three countries benefit from an abundance of natural resources, including oil and gas in Vietnam, rivers and forests in Lao P.D.R., and minerals in Cambodia. With its large and well educated labor force, Vietnam also benefits from significant human capital endowments. Given their relatively young populations, Cambodia and Lao P.D.R. too have considerable human capital potential, provided that there is a concerted effort to step up investments in health and education.

16. **These positive attributes are reflected in the Fund's medium-term growth outlook for these economies** (Table 5)**.** Notwithstanding the vulnerability of the Mekong 3

[14] In Lao P.D.R., for example, a sustainable improvement in the revenue effort hinges on fundamental reforms of the fiscal relations between the center and the provinces, which is a politically sensitive issue.

[15] The high share of intra-regional trade for Lao P.D.R. does not reflect exports linked to regional production networks, but mainly electricity and timber exports.

[16] FDI is concentrated in the natural resource sector (particularly oil and gas in Vietnam, mining and hydropower in Lao P.D.R., and forestry in Cambodia), garments, and tourism.

[17] In Vietnam, for example, about 60 percent of FDI activity is clustered in Ho Chi Minh City, Hanoi and Dong Nai province.

to external shocks, such as a domestic or regional outbreak of avian flu, their growth outlook over the medium-term is relatively encouraging.

- **Cambodia.** Economic growth is expected to average 6 percent, underpinned by garment exports, construction and tourism, and supported by improved agricultural productivity. In addition, the exploitation of large recently discovered offshore oil reserves is also likely to significantly boost the economy over the longer term.[18] The main challenge will be to broaden the base for economic growth by creating an environment that is conducive to private-sector investment. In this context, concerted efforts are needed to improve governance and address weaknesses in the banking sector. Clear and transparent land policies are also required to unlock agricultural growth potential.

- **Lao P.D.R.** Economic growth is projected to remain at around 6-7 percent, with large natural resource projects (in the mining and hydropower sectors) expected to contribute around 1½ percentage points per year. Underlying growth should be sustained at 5 percent, driven by agriculture, tourism and small-scale manufacturing. The main challenge, however, will be to accelerate structural reforms. In addition to maintaining sound macroeconomic policies, stepped up efforts to mobilize fiscal revenues and reform the state-owned commercial banks are needed to ensure macroeconomic stability over the medium term. To enable Lao P.D.R. to sustain high rates of growth by taking advantage of the opportunities for economic integration in the region, reforms to strengthen the investment climate and trade regime will also be needed.

- **Vietnam.** Among the Mekong 3, Vietnam is perhaps best placed for industrialization, given its sizeable and well-educated labor force, low labor costs and large domestic market. Economic growth is expected to remain robust in the range of 7-7½ percent, buoyed by the continued expansion of investment in infrastructure, labor-intensive manufacturing and service activities (including in the tourism sector), as well as a sustained increase in commodity and raw material exports. This positive outlook could be further enhanced as Vietnam pursues closer international economic integration in the context of its expected accession to the WTO. The main challenges will be to maintain macroeconomic discipline and accelerate market-oriented structural reforms. To encourage more private investment, stepped up efforts will be needed to reform state-owned enterprises and state-owned commercial banks, address infrastructure bottlenecks, and liberalize administered prices that distort the supply of key industrial inputs. Such reforms will also be important to enable protected sectors to deal effectively with increased foreign competition, as prohibitive tariffs, industrial subsidies, and barriers to the entry of foreign firms are removed following WTO accession.

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[18] While there is some uncertainty about the fiscal return of these projects, some estimates suggest that from 2010 onwards, they could generate additional annual revenues that are significantly higher than total government revenue in 2005.

17. **However, particularly in Cambodia and Lao P.D.R., there is a pressing need to rebuild the human and physical capital that was destroyed during the "lost decades" between 1960 and 1990.** This is needed to lay the foundations for sustained growth, and will hinge on reforms to enhance revenues and improve the allocation of public expenditure. Fiscal reforms are also important more generally in all three countries, to enable them to meet the Millennium Development Goals and ensure further progress in poverty alleviation.

18. **At the same time, all three countries will need to accelerate domestic reforms to complete their transition to market-driven economies.** To increase competitiveness and fulfill the Mekong 3's development potential, stepped-up efforts are needed to remove the vestiges of central planning, develop market friendly institutions and further improve the trade and investment regimes. These reforms have assumed greater urgency, in the light of potential competition for foreign investment and exports from China. In all three countries, the economic base and sources of growth need to be diversified by promoting private sector development. This will require efforts to improve the investment climate and reduce the cost of doing business by, inter alia, building up infrastructure and improving the general banking environment. In Vietnam and Lao P.D.R., steps will also be needed to accelerate the divestment of inefficient SOEs and the restructuring of state owned commercial banks. In addition, to build up investor confidence, the legal and regulatory systems in the Mekong 3 need to be developed, and administrative burdens reduced. In Lao P.D.R. and Cambodia, land and pricing reforms will also be required to support growth by boosting rural incomes and improving agricultural productivity.

19. **Economic integration with regional markets can play an important role in supporting this process.** A number of initiatives have emerged in the last few years, aimed at helping the Mekong 3 to integrate more fully and rapidly with the rest of the region, such as the ASEAN CLMV and the Thai-sponsored ACMECS programs. Such accelerated integration could assist the Mekong economies to deal with the challenges of globalization. By providing access to the larger regional market, integration could help the Mekong 3 to diversify their economic base, specialize in areas where they hold comparative advantage, and exploit economies of scale. The Mekong 3 are not yet fully "plugged in" to the production networks for electronics production and components that run across Japan, the NIEs and the ASEAN-4, and which have made important contributions to growth in these economies. The relocation of labor-intensive processes from "old ASEAN", where labor costs are high, to the Mekong 3 would enable the latter to become better integrated into these regional networks. Regional integration could also help ASEAN to adjust more effectively to the rise of China—by encouraging it to take advantage of possible synergies to enhance competitiveness, for example, through the formation of an integrated electronics industry that relies on the Mekong 3 at labor-intensive stages, as well as by enabling the Mekong 3 to reap scale economies in sectors where they face Chinese competition, such as textiles and clothing and labor-intensive manufacturing. At the same time, the emergence of China offers opportunities for the Mekong 3. In particular, certain traditional exports should gain from greater access to (and growing demand from) the large and dynamic Chinese market—especially agricultural products, raw materials, and other manufacturing inputs. The potential enlargement of AFTA to include Japan, South Korea, China and India could further increase the potential gains from expanded intra-regional trade.

20. **Appropriately designed trade policies and agreements could support regional and global integration, while also helping to build consensus for domestic reforms.** Accession to the WTO, in particular, will play a key role in this process. Vietnam's imminent accession has already led to an acceleration in the introduction of a market-friendly legal and regulatory framework, although as noted above, there are also important challenges that remain to be addressed. In the case of Lao P.D.R., the accession negotiations that are currently underway could also provide some impetus to the economic reform program.

21. **It will, however, be important to ensure that trade policies are designed to make the greatest possible contribution to economic development.** The Mekong 3 have signed a number of trade agreements in recent years—both bilateral, e.g. NTRs with the United States, and regional, e.g. AFTA. Under these agreements, they are committed to further tariff liberalization as well as opening up various sectors of their economies to foreign competition. At the same time, as noted above, there is also a push for multilateral liberalization in the form of WTO accession. These developments beg important questions, such as whether this proliferation of trade agreements will create an unmanageable "spaghetti bowl" trade regime which might complicate the process of WTO accession, the extent to which these agreements help the signatories reap the maximum possible gains from trade or threaten to lead to a suboptimal pattern of trade, and whether the Mekong 3 are adequately prepared to effectively negotiate and implement such agreements. Looking ahead, it will be important for the Mekong 3 to ensure that any further changes to their trade regimes are fully consistent with their previous commitments, and that they do not have any welfare-reducing effects on the direction of their trade. A general strengthening of the outward orientation of the Mekong 3 (as opposed to an over reliance on regional trading blocs) is likely to enable them to reap the full benefits of integration, while minimizing any adverse impacts arising from a diversion from optimal patterns of trade.

22. **The international community can also play a positive role in helping to address the Mekong 3's investment needs and supporting their transition.** While Cambodia, Lao P.D.R. and Vietnam bear primary responsibility for their economic and social development, they will benefit from open access to markets, technology, development finance and technical assistance. Continued support from bilateral donors and international financial institutions remains critical for these economies to make further progress in their economic transformation.

IV. Conclusion

23. **This paper has argued that the Mekong 3 have made significant progress since launching their economic reform programs in the late 1980s and early 1990s.** In addition to enjoying relatively stable macroeconomic conditions, these economies have made rapid strides towards greater market orientation and increased integration with regional and global markets. Their growth and export performance over the last decade and a half has been particularly impressive. However, there is still a significant development gap between them and the rest of the East Asian region that needs to be closed.

24. **While the outlook for these economies is relatively sanguine, they will need to confront a number of challenges to fulfill their development potential.** The growth outlook for the Mekong 3 is encouraging, partly reflecting their favorable location, abundant

natural resources and human capital potential. However, they are confronted with two main challenges. First, to accelerate and complete their transition to market-driven economies. This will be central to enhancing their ability to compete in regional and global markets. Second, particularly in Cambodia and Lao P.D.R., to redress their legacies of prolonged conflict by increasing investments in physical and human capital. This will require fundamental reforms to their fiscal revenue and expenditure regimes. Fiscal reforms are also required more generally across the Mekong 3, to ensure continued progress in reducing poverty and meeting the Millennium Development Goals.

25. **At the same time, this assessment leaves a number of questions for policy makers to consider.** To enable Cambodia, Lao P.D.R. and Vietnam to compete in global markets, three key issues will need to be addressed. First, how to accelerate domestic reform to enhance their investment climate and lay the foundations for sustained growth. Second, how to deepen the integration of the Mekong 3 into the regional and global economy in a manner that is supportive of an efficient pattern of development. And lastly, how best to involve development partners in facilitating and assisting the economic transformation of the Mekong 3.

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Table 1. Selected Development Indicators 1/ 2/

	Population (millions)	Urban Population (% of total)	Per Capita GDP ($US)	$1 a day poverty (%)	HDI Index	Life expectancy at birth (years)	Under-5 Mortality rate (per 1,000)	Adult Literacy rate (% of people 15 and above)
NIEs	82.9	…	16,951	<0.5	0.908	78	5	93
ASEAN-4	386.5	47.7	4,212	6	0.777	70	28	91
Mekong 3	100.7	24.6	1,988	19	0.607	60	85	75
Cambodia	13.1	18.6	1,271	19	0.571	54	140	69
Lao P.D.R.	5.9	20.7	1,322	28	0.545	55	91	66
Vietnam	81.6	25.8	2,151	10	0.704	70	23	90
Sub-Saharan Africa	607.9	35.6	1,321	46	0.515	48	174	65
South Asia	1,413.8	29.8	1,989	31	0.628	63	95	59

Source: Maddison (2003), WDI (2004) and UNDP (2005).

1/ Except for per capita GDP, regional aggregates are unweighted averages.
2/ Latest year available.

Table 2. Tariff Rates, 1997-2004

	1997	2000	2004
	(Simple Average)		
Cambodia	18.0	17.4	14.9
China	17.6	14.4	10.5
India	34.9	32.0	22.0
Indonesia	13.0 1/	6.8	7.0
Lao P.D.R.	9.6	9.6 2/	9.6
Malaysia	8.7	9.2	8.4
Philippines	13.4	8.0	6.2
Thailand	17.0	17.2	11.9 3/
Vietnam	15.6 4/	16.2	16.8
	(Weighted Average)		
Cambodia	…	16.8	…
China	16.0	…	…
India	27.7	31.4	23.6
Indonesia	13.8 1/	3.3	6.1
Lao P.D.R.	…	15.0	13.7
Malaysia	9.9	…	4.2 3/
Philippines	7.1 4/	5.0	3.8
Thailand		3.5	3.5 6/
Vietnam	16.3	15.5	14.8

Source: IMF, Trade Policy Database (2006).

1/ 1996.
2/ 2001.
3/ 2005.
4/ 1998.
5/ 1999.
6/ 2003.

Table 3. Trade openness, 1990-2005 1/

	1990	1995	2000	2005
Cambodia	29.8	65.2	100.3	125.2
China	26.8	38.8	44.2	70.0
India	16.6	24.6	29.0	45.5
Indonesia	48.4	49.4	76.0	72.6
Lao P.D.R.	36.9	59.6	73.5	76.3
Malaysia	147.2	191.8	228.9	217.4
Philippines	57.5	79.6	106.9	98.3
Thailand	81.8	90.9	125.0	154.5
Vietnam	63.6	87.8	110.8	147.4
Memorandum Items:				
Average of:				
ASEAN-4 2/	83.7	102.9	134.2	135.7
Mekong-3 3/	43.4	70.9	94.9	116.3

Source: IMF, World Economic Outlook (2006).

1/ Sum of exports and imports of goods and services relative to GDP.
2/ ASEAN-4 refers to Indonesia, Malaysia, Philippines and Thailand.
3/ Mekong-3 refers to Cambodia, Vietnam and Lao P.D.R.

Table 4. The Mekong Economies: Ease of Doing Business, 2005 1/

	Cambodia	Lao P.D.R.	Vietnam	Regional
Ease of Doing Business (rank)	**133**	**147**	**99**	
Starting a Business (rank)	**137**	**102**	**82**	
Number of procedures	10	9	11	8.2
Time in days	86	198	50	52.6
Dealing with licenses (rank)	**140**	**111**	**18**	
Number of procedures	28	24	14	18.0
Time in days	247	208	143	157.7
Registering property (rank)	**84**	**135**	**39**	
Number of procedures	7	9	5	4.6
Time in days	56	135	67	62.2
Getting credit (rank)	**154**	**152**	**106**	
Strength of legal rights index (0-10)	0.0	2.0	3.0	5.3
Protecting investors (rank)	**55**	**130**	**143**	
Strength of investor protection index (0-10)	5.3	3.3	2.3	5.3
Trading aross borders (rank)	**117**	**143**	**83**	
Number of documents for export	8	12	6	7.1
Time for export (days)	43	66	35	25.8
Number of documents for import	12	16	9	10.3
Time for import (days)	55	78	36	28.6
Enforcing contracts (rank)	**127**	**143**	**102**	
Number of procedures	31	53	37	29.8
Time in days	401	443	343	406.8
Closing a business (rank)	**144**	**149**	**95**	
Time in years	…	5	5	3.4

Source: World Bank (2006).

1/ Rankings are out of a total of 155 countries.

Table 5. The Mekong Economies: Medium-term macroeconomic framework

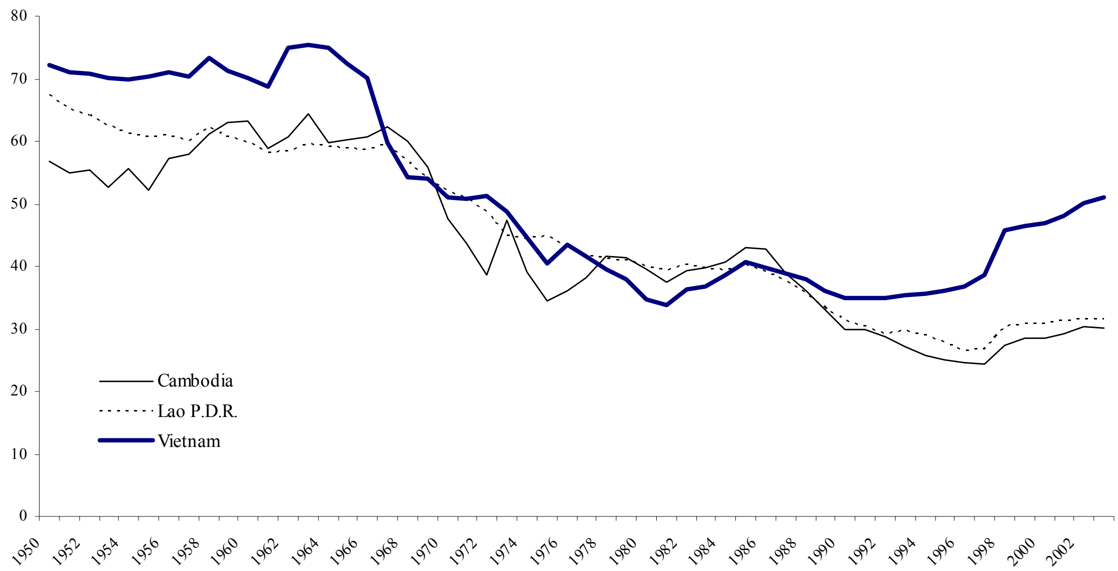
	2006	2007	2008	2009	2010
Cambodia					
Real GDP Growth (%)	5.0	6.5	6.1	5.8	5.8
Inflation (y-o-y)	5.0	4.0	3.5	3.5	3.5
Export growth (%) 1/	14.5	9.4	8.8	8.2	8.0
Lao P.D.R.					
Real GDP Growth (%)	7.3	6.6	6.9	6.7	7.8
Inflation (y-o-y)	7.7	5.0	5.0	5.0	5.0
Export growth (%) 1/	41.1	3.3	16.6	7.0	18.5
Vietnam					
Real GDP Growth (%)	7.8	7.6	7.5	7.6	7.528
Inflation (y-o-y)	7.7	6.1	6.1	5.5	5.5
Export growth (%) 1/	20.4	14.9	13.3	13.5	13.6

Source: Fund staff projections.

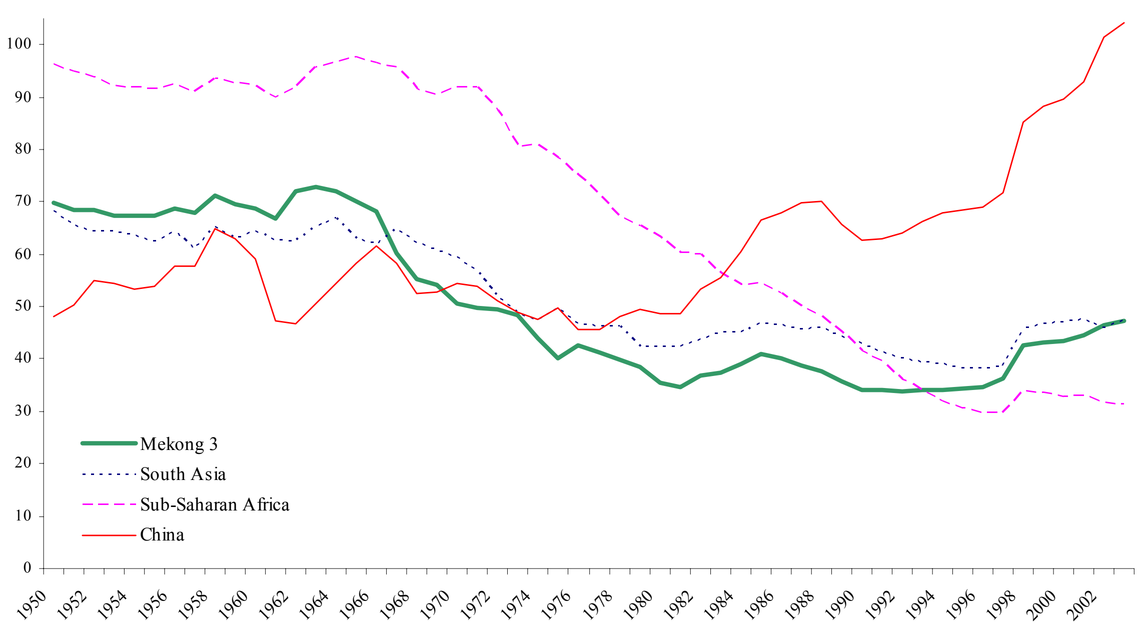
1/ Goods and services.

Figure 1.

Real Per Capita GDP in the Mekong 3 Relative to ASEAN-4, 1950 to 2003
(percentage of ASEAN-4 per capita income)

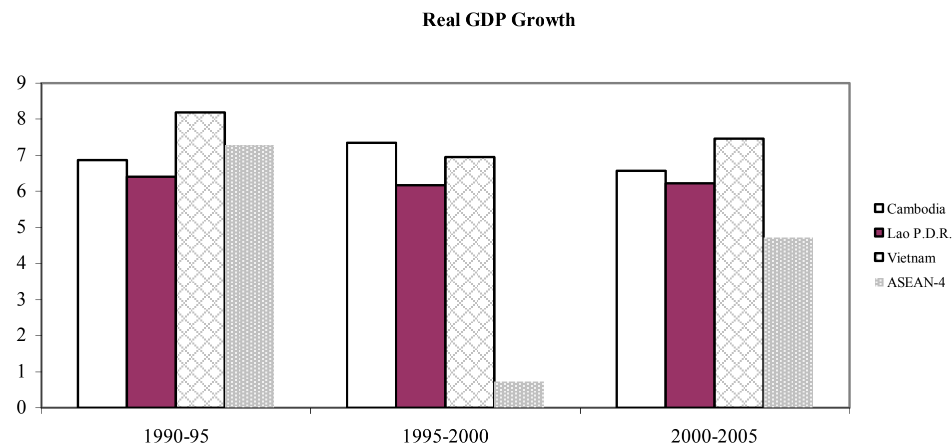


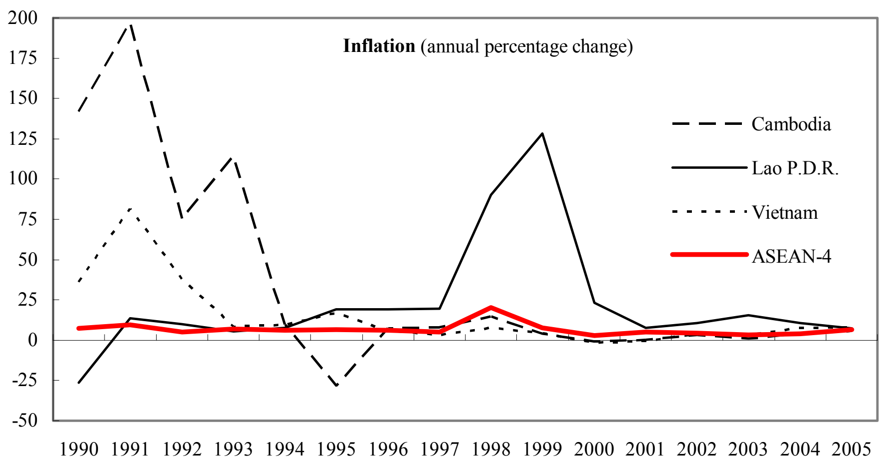
Real Per Capita GDP Relative to ASEAN-4, 1950 to 2003
(percentage of ASEAN-4 per capita income)

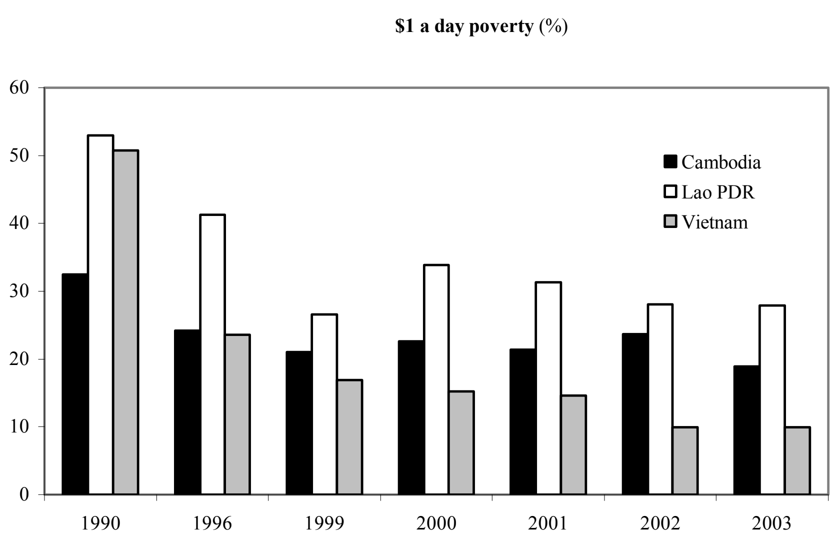


Source: Maddison (2003).

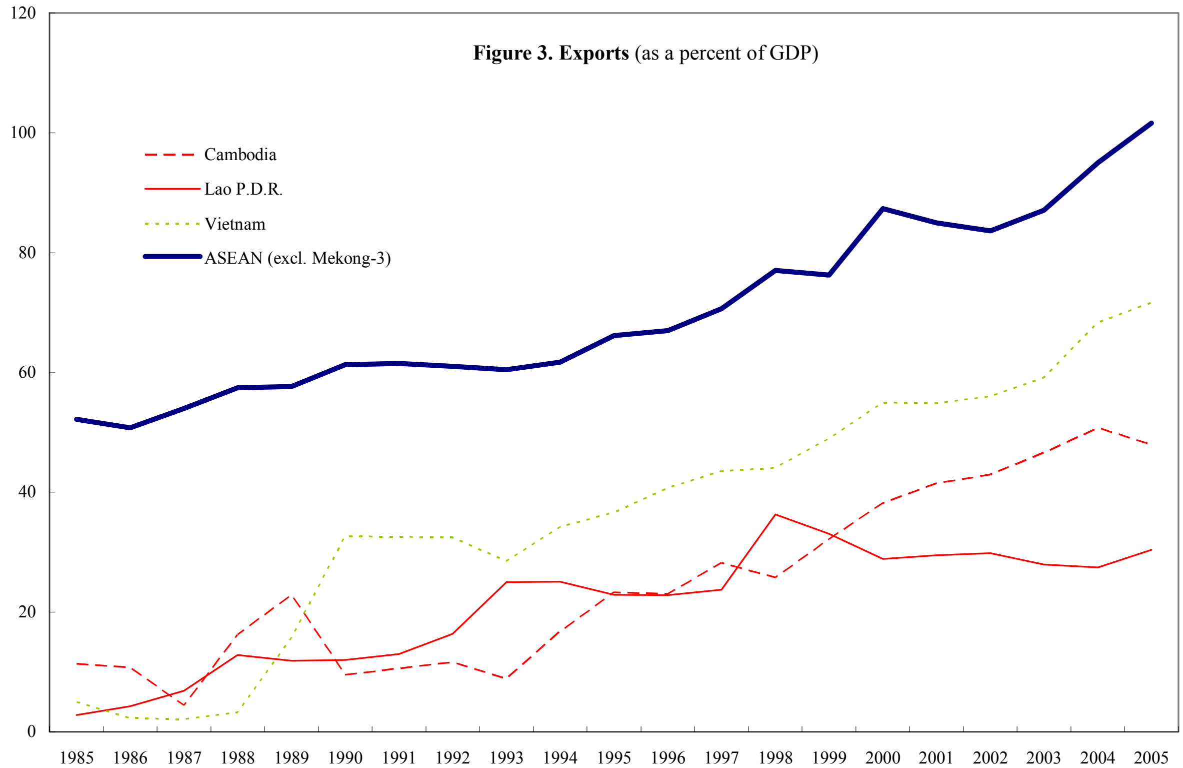
Figure 2. Mekong 3: Indicators of Economic Performance, 1990-2005

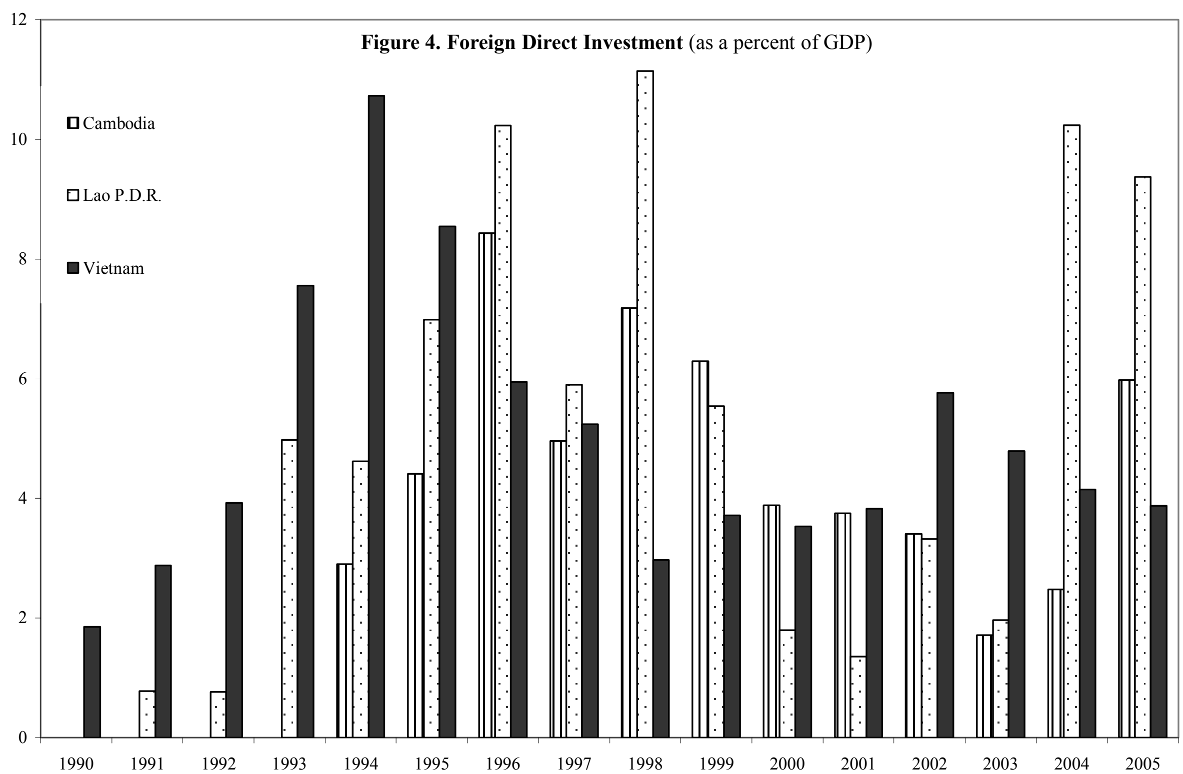






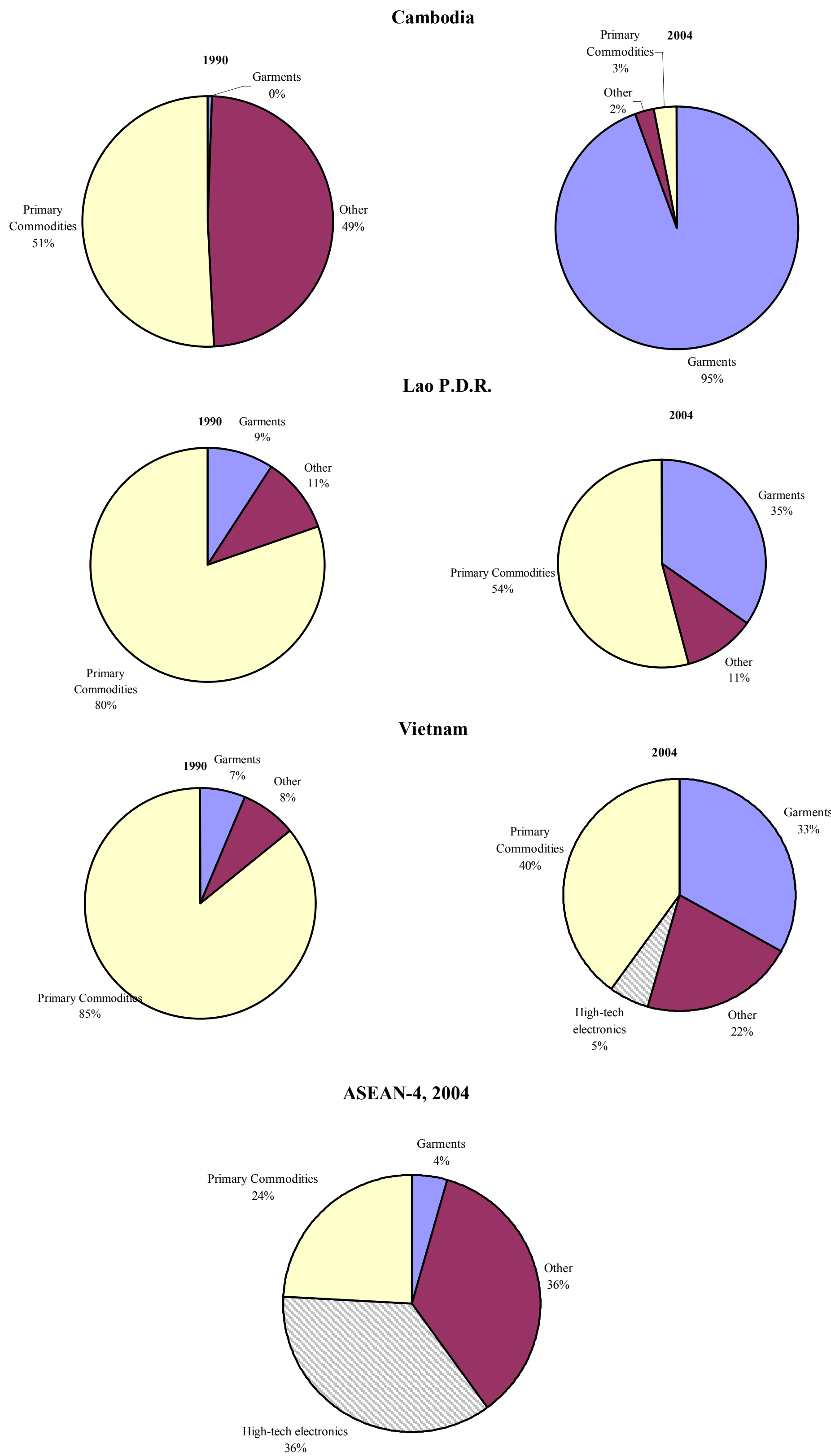
Source: IMF, World Economic Outlook (2006) and World Bank (2006).





Source: IMF, World Economic Outlook (2006).

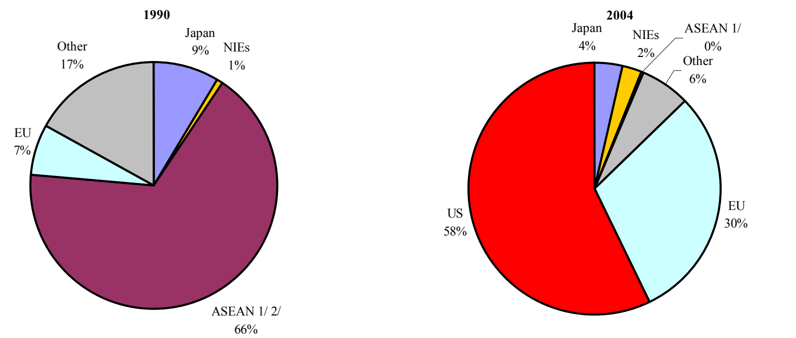
Figure 5. Mekong 3 and ASEAN-4: Composition of Exports



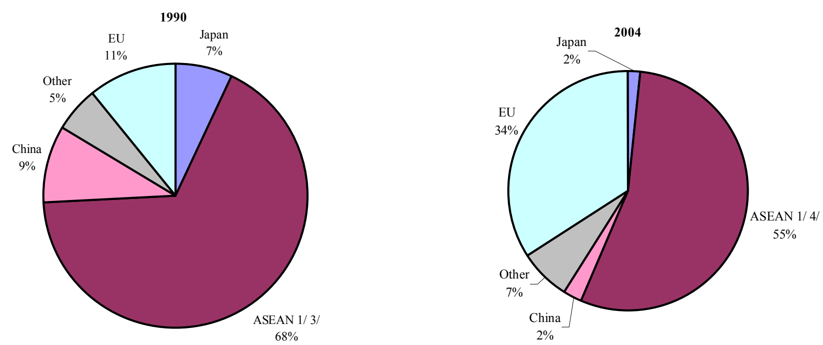
Source: WITS (2006).

Figure 6. Mekong 3 and ASEAN-4: Direction of Exports

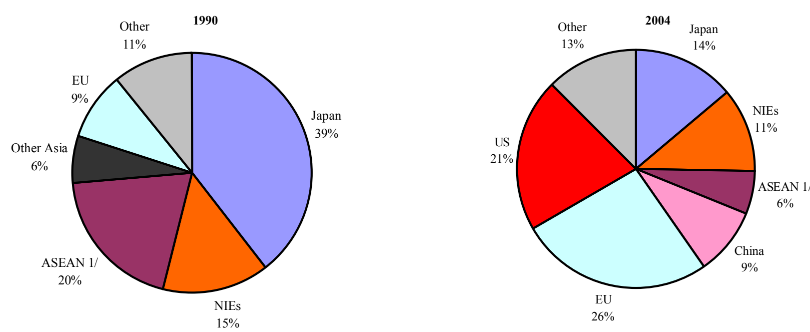
Cambodia



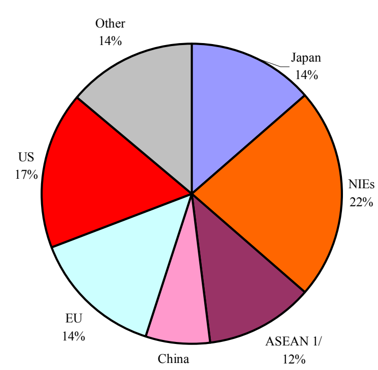
Lao P.D.R.



Vietnam



ASEAN-4, 2004



1/ Excluding Singapore.
2/ "Crude materials", mostly rubber and timber, accounted for 98 percent of these exports.
3/ "Crude materials", mostly rubber and timber, accounted for 90 percent of these exports.
4/ Electricity and timber account for 75 percent of these exports.
Source: WITS (2006).