Greater Mekong Subregion
Economic Cooperation Program

Fifth Meeting of the Subregional Investment Working Group
13-14 October 2005
Phnom Penh, Cambodia

MINUTES OF PROCEEDINGS

Introduction

1. The Fifth Meeting of the Subregional Investment Working Group (SIWG-5) was held on 13-14 October 2005 at the Raffles Hotel Le Royal in Phnom Penh, Cambodia. The key objectives of the meeting were to: (i) review and discuss the progress of the initiatives made since the previous meeting; (ii) exchange information and ideas about facilitating investments into the member countries and the region as a whole; and (iii) establish the near and medium term future directions and priorities of the SIWG. The Meeting agenda is in Appendix 1.

2. The Meeting was co-chaired by Mr. Chea Vuthy, Director of Public Relations and Promotion Office of the Cambodian Investment Board, and Mr. Robert Boumphrey, Director, Governance, Finance and Trade Division, Mekong Department, Asian Development Bank (ADB). Participants to the Meeting included officials in the GMS countries responsible for investment policy and promotion, representatives from the GMS Business Forum, the GMS national chambers of commerce, investors who are active in the region, and international organizations including ADB. The list of participants is in Appendix 2.

Session I: Opening Session

3. H.E. Sok Chenda Sophea, Secretary General of the Cambodia Development Council and GMS National Coordinator for Cambodia, in his opening statement referred to the recently concluded 2nd GMS Summit and cited the emphasis given on the important role of investment in the economic development of the GMS. Given the increasing desire to attract investments into the subregion, cooperation in this sector should be intensified. The role of SIWG as a venue to exchange views among the GMS countries on measures to improve the GMS investment environment should likewise be intensified. He encouraged the private sector to speak frankly about the issues and constraints to investing in the GMS, and to provide provocative ideas and suggest bold measures to overcome the constraints. H.E. Sok Chenda also cited the contribution of the development partners to the progress achieved by the GMS and welcomed the participation of JBIC, JODC, UNIDO and World Bank to the meeting. He cited ADB's leading role as catalyst but observed that the needs of the GMS are growing and the active participation of other development partners should be encouraged.

4. Mr. Robert Boumphrey, Director, Governance, Finance and Trade Division, ADB, also made reference to the GMS Summit and noted the Leaders' commendation of the considerable progress that has been achieved by the GMS since the launching of the economic cooperation program in 1992. While recognizing the advancements made in infrastructure development and the deepening of cooperation in the fields of environment, agriculture, tourism, and human resource development, the Leaders emphasized that private sector must increasingly participate in the GMS development activities. Private sector participation, however, will happen only if there is a conducive environment for trade and investment in the region and regional economic integration is seen as an important part of such an environment. Regional integration expands

markets for outputs and facilitates access to inputs, which paves the way for more vibrant regional investment activities. The challenge of the GMS countries, therefore, is how to facilitate investment into the specific countries and the GMS as a whole. The SIWG is seen as a vehicle for exchanging experiences and lessons learned in investment promotion among the GMS countries and to gain better understanding of what strategies have worked in different countries. Mr. Boumphrey noted that investors are likely to be encouraged by the prospect of harmonization of regulations across the subregion. In closing, he reiterated the following objectives of the meeting: (i) to review and discuss the progress of initiatives made since the previous meeting, (ii) exchange information and ideas about facilitating investments into the member countries and the region as a whole, and (iii) establish the near and medium term future directions and priorities of the SIWG. He enjoined the participants to actively and candidly express their views during the discussions.

Session I: Emerging Investment Opportunities in the GMS

5. Cambodia's presentation highlighted that FDI into Cambodia still largely comes from the ASEAN countries and investments are still concentrated in the industry and tourism sectors, each with about a third of the share of total FDI from 1994 to the first half of 2005. The Government of Cambodia, through its Council for the Development of Cambodia (CDC), has adopted policies to strengthen private sector development, in general, and public–private sector partnership, in particular. Bold measures are being adopted to: (i) significantly reduce informal costs and policy-related constraints to ensure the facilitation of trade and other business transactions, (ii) rationalize the role and responsibility of the government in import and export inspection by establishing one stop service with flat fee, (iii) implement improvements in customs and other concerned agencies at international border checkpoints, (iv) reduce the barriers to market entry for new business, and (v) implement a development program for SMEs. CDC will also undertake future improvements which among others includes establishing an inter-ministerial mechanism for trade and investment climate reform and a risk management strategy.

6. PRC's Yunnan Province reported that, according to a recent study by UNCTAD, PRC will continue to be the most attractive destination for FDI. The following factors contribute to the continued growth in FDI in PRC: (i) expectations of high rates of economic growth, estimated at around 9% in 2005, (ii) progressive reforms being made to align the legal system to international standards and practices, and (iii) opening up of the PRC's markets for investment, especially in the services sector. Yunnan reported that its GDP growth in the last 20 years has averaged at a high 9%. Its participation in the GMS cooperation program has resulted in increased investment support from the central government, which contributed to the economic growth in the province. Close economic ties have been established with its GMS neighbors; Myanmar is currently its biggest trade partner, Vietnam is third and Thailand is seventh. Combined trade with these three countries accounts for 27% of Yunnan's $3.7 billion total trade in 2004. The province is promoting five pillar industries, namely: (i) bio-resources development and industrialization (medicine, organic food, flower, and bio-chemical industries), (ii) tourism (infrastructure and catering industries), (iii) tobacco industry, which accounts for 50% of the province's revenue, (iv) mineral industry, and (v) hydropower development. Yunnan is additionally prioritizing the logistics industry and the commerce sector for cooperation in the GMS as both sectors do not require large capital. The report of PRC's Guangxi Province highlighted its economic performance for 2004 as follows: (i) GDP is $40 billion with per capita GDP at $800, (ii) FDI of $8.2 billion, and (iii) total trade with 138 countries amounting to $4.0 billion. Guangxi is the only province equipped with harbors in west China, which has a cargo handling capacity of 40 million tons. Other advantages include abundance of minerals (non-ferrous metals), water resources

capable of generating cheap power, and a variety of tourist resources in addition to offering competitive and preferential policies on investments. Guangxi also reported that it has established strong economic relations with other GMS countries. In 2004, total trade with GMS countries amounted to $882 million while total investments in Cambodia, Thailand and Vietnam amounted to $299 million. Guangxi identified six priority areas for cooperation with the GMS: (i) crossborder transport cooperation, (ii) tourism, (iii) agriculture and fisheries development, (iv) industrial sector development, (v) comprehensive development of resources, and (vi) customs clearance facilitation along border areas.

7. Lao PDR's transformation from a landlocked to a land-linked country is underway with the construction and development of several critical road projects that will efficiently connect Lao PDR with its GMS neighbors. The government is strongly pursuing FDIs by implementing competitive investment policies and incentives including the establishment of one-stop services for investors through the DDFI. From 2000-2005, a total of $2,766 million in FDI has been approved, of which $989 million has been implemented. From the GMS countries, 576 projects worth $1,097 million have been approved between 1998 and June 2005. Major sectors for investment include energy, mining, agribusiness, tourism, construction material, light industry and services. The potential for electricity generation in Laos is huge (over 23,000MW) and investments in BOT hydropower facilities are expected to be substantial. Currently, Laos has MOUs with Cambodia, Thailand and Vietnam for the development of power generation and supply projects. Laos readily recognized that there are no ready businesses for foreign investors to buy or take over. The opportunities for creating profitable businesses are, however, in abundance.

8. Myanmar recognized the significant contribution of FDI to its economic and industrial development. Given the continuous decline in official development assistance and borrowings from international financial agencies, FDI will continue to be a significant source of development. Weak infrastructure, however, has been a major challenge and disincentive for foreign investors. The Government is exerting all means to upgrade infrastructure facilities with the cooperation of interested investors, to some extent. Majority of foreign investment flows into Myanmar come from ASEAN and other Asian countries, which have now recovered from the financial crisis and are again making investments. With the implementation of the Foreign Investment Law (FIL) in 1988, Myanmar has been adopting market-oriented measures and continues to formulate new legal instruments to encourage private sector investments. Investments are encouraged in the following sectors: (i) agriculture including livestock, fishery, and forestry, (ii) mining, (iii) oil and gas, (iv) hydropower development, and (v) manufacturing. Myanmar shares common borders with three member countries of the GMS and joint efforts in border area development through trade and investment facilitation activities should be considered as being mutually beneficial.

9. Thailand reported that is currently ranked the 3rd most attractive investment destination in Asia, next to PRC and India, and 9th worldwide, according to an UNCTAD survey of the world's 325 largest transnational companies. Japanese manufacturers ranked Thailand as the 2nd most promising location, next to PRC, for overseas operations. These rankings are mirrored in the value of total foreign and domestic net applications that have steadily increased from $4.62 billion in 2001 to $16.4 billion in 2004 and expected amount of $17 billion in 2005. On a sector basis, the top three investment sectors were (i) services, utilities and infrastructure, (ii) minerals, steel, and ceramics, and (iii) chemicals, paper and plastics. The top three sources of FDI applications in 2004 were Japan, US and EU and the top three sectors were auto/metal processing, electrical/electronics and petrochemicals/chemicals. Thailand offers both tax (corporate income tax holidays and import duty reductions) and non-tax (land ownership rights,

permission to bring in foreign experts, and work permit/visa facilitation) incentives to draw FDIs. As part of its decentralization agenda, further incentives are given to enterprises that locate outside of or farther away from Bangkok. Recently, activity-based incentives have also been implemented, which provides foreign investments with maximum incentives regardless of the location for strategic activities if they are value-adding and knowledge-based, and within the 6 target industries, namely: agro-industry, fashion, automotive, electronics and ICT, energy, and value-added services. Thailand put forward some recommendations to better enhance regional cooperation in the GMS, which include, among others: (i) to jointly market GMS countries focusing on the strengths of each country, (ii) to study potential GMS value chains, and (iii) to open dialogue with the private sector to know more of their needs and requirements. Thailand emphasized that SIWG can serve as a dynamic forum for coordinating public and private sector initiatives.

10. In Viet Nam, there were 5,684 projects which received approval with $50 billion registered capital, and disbursed capital reached over $26 billion. FDIs' contribution to the economy has been significant as they: (i) accounted for 20% of total investment capital, (ii) contributed 14.3% to GDP, (iii) created 650,000 new jobs, and (iv) enhanced management skills, raised level of technology and driving the restructuring of the economy towards industrialization and modernization. A draft common investment law, which unifies the Domestic Investment Encouragement Law and the Foreign Investment Law, is expected to be approved by the National Assembly in October 2005. The new law will provide, among others, more liberal policies and more forms of investment for foreign investors. In principle, the law will abolish the 30% limit of foreign ownership in enterprises, which is anticipated to further increase FDI into the country. Viet Nam also reported that it has received investments from GMS countries totaling 480 projects with a disbursed capital of $872 million. Thailand is the largest GMS investor with 125 projects with disbursed capital of $685 million.

11. In the discussion that followed, the participants shared their views on the effectiveness of tax and non-tax incentives in attracting FDIs. Dr. Jingjai (GMS BF) noted that with the recent proliferation of bilateral investment agreements and double taxation agreements, tax incentives have become *fait accompli*. Increasingly, non-tax incentives that particularly relate to post-investment facilitation have become more important to investors. Investors seek to enhance their *bottom line* and enjoying the maximum benefits of their investments, such as being able to repatriate profits, is a prime consideration in deciding where to locate their investments. Viet Nam added that foreign investors are also considering other factors such as safe and comfortable living conditions when deciding where to invest making it more difficult for rural areas to attract investors. Mekong Capital added that foreign investors today give higher marks to host countries that provide clear and predictable rules and regulations.

12. ADB noted that Thailand has long been a preferred destination for Japanese investments and inquired about the main reasons. Thailand explained that this is the result of more than 45 years of investment promotion activities. In the early years of Thailand's development, it had received considerable amount of technical grants and assistance from the Japanese Government that was followed by the opening up of trading relations with Japan. The relationship was further boosted by Thailand's importation of a large part of its requirements for machineries and equipment from Japan.

13. Myanmar observed that the business sector of GMS countries is still mostly made up of SMEs, which need more assistance. Access to information about what strategies and policies have worked for stimulating the growth of SMEs would be useful to the GMS countries. In particular, information relating to mobility of capital, access to technology, human resource

development (HRD), improving governance structures for SMEs, as well as for establishing a progressive and forward-looking legal regime would be helpful.

14. Lao PDR agreed that GMS countries should strive to simplify their respective regulations and procedures. However, for small developing countries like Laos, tax incentives are a critical component for attracting FDIs to offset the lack of sufficient infrastructure, among others. Tax incentives are also needed to persuade FDIs to locate in rural areas and not merely concentrate in the big cities.

15. The World Bank stated that SIWG is an excellent forum for discussing private sector investments in the GMS. Three of the GMS countries are rated as among the best investment destinations in the world, indicating that best practices in investment promotion can actually be gained from the subregion. Knowledge sharing, therefore, should be a consistent aspect of the SIWG meetings. World Bank noted that regulatory framework remains a primary issue among investors and this was confirmed by a recent survey conducted among Thai private companies. Infrastructure is another issue for consideration and it was suggested that SIWG become a forum for accelerating the soft component of infrastructure particularly in terms of further improving the transport sector.

16. Lao PDR noted that trade and investment usually go together and the country is in a position of disadvantage in terms of effectively developing trade. In addition to having a very narrow range of tradable products, Lao PDR is landlocked and as such, is very dependent on its neighboring countries both for surface access and access to the sea. The access cost is currently very high and not competitive.

17. PRC agreed that trade facilitation is related to investment and suggested that TFWG and SIWG should develop closer working relations.

18. UNIDO emphasized that tax incentives and holidays should be carefully calibrated. Improving the overall regulatory environment is still key to attracting FDIs.

19. ADB summarized the discussions and noted that tax incentives appear to be a necessary component for attracting FDIs in the early stage, but that non-tax incentives, which include political stability and credibility as well as transparency in the legal and regulatory framework, are longer-term attractions for FDIs. The discussions also emphasized the linkage between trade and investment and the need to link the work programs of the other working groups with that of the SIWG.

Session II: Private Sector Views, Issues and Proposals

GMS Business Forum

20. Dr. Jingjai Hanchanlash stressed that private sector development is a key factor in any market economy and that close collaboration between the public and the private sectors should be encouraged. The formation of the GMS BF was specifically intended to enhance public-private sector cooperation in the subregion. Dr. Jingjai noted that the process of building cooperation in the GMS has engendered closer relations between private sectors in the subregion and between the private and public sectors. The GMS BF report of most recent accomplishments highlighted the following: (i) successful organization of the fee-based conference on the East West Economic Corridor (EWEC), (ii) setting-up of the GMS website and compiling a Business Handbook and a directory of SMEs in the GMS, (iii) jointly organizing

the High Level Public-Private Sector Consultation Meeting (PPCM) in September 2004 that provided the opportunity to directly coordinate with the GMS public sector, (iv) participation in the 13th GMS MM held in December 2004 in Vientiane, Lao PDR and in the 2nd GMS Summit held in July 2005 in Kunming where the GMS BF conveyed the issues of the private sector to the ministers and the leaders.

21. Future activities of the GMS BF include: (i) the finalization of the GMS Investment Handbook, (ii) continued development and implementation of the series of relevant conferences that seek to increase awareness on the investment opportunities in the subregion, (iii) e-business development in the GMS with UNESCAP assistance, (iv) implementation of the IAI/AMEICC joint project with assistance from JODC, and (v) conduct of a self-financing trade and investment field survey along the EWEC. DR. Jingjai supported the suggestion to establish closer relations between the TFWG and SIWG and suggested the harmonization of the work programs of the TFWG, SIWG and GMS BF.

22. Dr. Jingjai thanked the ADB, especially mentioning Ms. Madeleine Varkay, and UNESCAP for their continued support to GMS BF.

Mekong Capital/Mekong Enterprise Fund

23. The Mekong Enterprise Fund is an $18.5 million private equity fund that invests in leading private business in Cambodia, Laos and Vietnam. The first fund is expected to be fully invested in 2005 and a second fund of $40 million will be launched in 2006. The Fund is managed by Mekong Capital, a private equity investment management company based in Ho Chi Minh City. A second office in Hanoi will be opened in 2006.

24. Mekong Capital's strategy involves investing: (i) only in well-managed companies where owners demonstrate commitment, motivation, and capabilities to execute business plans; (ii) in manufacturing companies, as these companies take full use of the labor-cost advantage of the GMS; and (iii) an average investment size of $2.5 million and aim to hold 20-30% of a company whose revenues range at $10-$15 million and profits of about $1 million before investment. Mekong Capital provides strategic partnership that adds value to the company by strengthening management systems. It does not get involved in management or commercial decisions but it provides companies with post-investment assistance programs that typically consist of the following: (i) management and strategic consulting, (ii) process improvement, (iii) accounting and financing; and (iv) executive search and selection. To date, the Fund invested in nine projects, which are all located in Viet Nam. It has not yet invested in small companies which are prevalent in Cambodia and Laos. This is largely because smaller companies need more intervention from Mekong Capital, which adds to the cost of investment.

25. Mekong Capital reports that its investment strategy has shown positive results both to investors and for the development of investee companies and the economy. Its investee companies enjoy significantly higher growth rates than listed companies – revenues of 30% compared to 22% of listed companies and profits of 47% compared to only 10% of listed companies. Investee companies are also generally well respected, considered as high quality investments within the financial community. This enhances the possibility of exchange listing, a preferred venue for exiting from investment for investors. These companies may also act as models for other private companies. In 2004, the investee companies created a total of 993 jobs.

26. Some of the challenges faced by Mekong Capital in the application of their investment strategy are: (i) most private companies, particularly in Cambodia and Laos, but also in Vietnam, are still too small for the required investment size since most private companies were formed only in the last 10 years and annual revenues have not reached the $10 million range; (ii) middle level management in private companies is typically not strong; (iii) in Vietnam in particular, the laws still provide for a 30% limit on foreign ownership of private companies and there is a restriction in foreign investments in certain industries; and (iv) poor financial transparency makes it difficult for Mekong Capital from assessing the real financial condition of the investee companies.

27. Reasons given for the low corporate financial transparency include, among others: (i) weak tax enforcement, (ii) potential liability for past taxes, and (iii) large grey economy outside the VAT system. Governments can help improve transparency by simplifying tax rules and strengthening tax enforcement including the VAT enforcement system, and implement an amnesty period for historical tax liabilities for companies certified to meet the highest standards of transparency. The donor community can help by sponsoring programs that raise awareness of and help private companies to apply best practices in accounting procedures, management reporting, internal controls, and use of accounting software. For its part, Mekong Capital promotes the benefits of high corporate transparency through publicly available reports and helping investee companies become successful.

28. In the discussion that ensued, Dr. Jingjai commented that good governance is as much an issue for public agencies as it is for private companies and it is encouraging that Mekong Capital is focusing on improving corporate governance.

29. To the query of Thailand on the source of funds, Mekong Capital responded that it is the only truly private equity fund in GMS. Majority of its funds come from wealthy private and institutional investors. ADB holds 25% of the Fund.

30. JODC supported Mekong Capital's view that it is important for governments to collect tax. When governments are seen to be incapable of tax collection, foreign investors see this as an indication of a problem in collection overall. The investor then establishes his own risk mitigation, which invariably adds to his cost of doing business. JODC also suggested that tax rates could in fact be lower if there is more efficient tax compliance and collection, which in turn benefits the greater majority.

Charoen Pokphand (CP) Group of Thailand

31. CP Group has been in the business for 84 years. Agribusiness remains to be its core business although the company has diversified to among others certified seed production, pet foods, international trading, retail, marketing and distribution, petrochemicals, telecommunication, and real estate development. The CP Group has investments, operations and trading with 20 countries worldwide including the GMS. The principal objective of the company is to improve the quality of life of farmers by providing them with sustainable income.

32. CP Group considers the following factors in the operation of its core business: (i) market potential – assessment of the global and domestic market conditions and the specifications of the product appropriate for the domestic conditions; (ii) knowledge and technology potential – defining R&D objectives and potential for product development and differentiation; (iii) production potential – determining the suitability of the production area and the feasibility of contract farming; (iv) human resource development – availability and extensive use of local

knowledge and talents in agribusiness development; and (v) food safety and environmental conditions. The CP Group recognizes that agriculture and agribusiness are very high risk investments because of the considerable amount of uncontrollable variables such as floods and droughts.

33. CP Group discussed its contract farming operations for seed production, grain production and livestock, poultry and prawn fish culture. Under its contract farming arrangement, CP Group provides inputs on credit, production technology, and a guaranteed purchase price according to pre-established standards and price incentives for production achieved above the established standards. The company also provides assistance for quality control. It helps framers in setting planting and harvesting dates, and provides indirect support in case of drought. Contract growers are required to have some level of experience in the area covered by the contract farming agreement.

34. CP Group is expanding its contract farming operations to neighboring countries under the ACMECS program. Currently, it has developed corn cultivation projects under contract farming agreements in Cambodia, Laos, Myanmar, and Vietnam. Operations in Cambodia and Laos, however, are conducted indirectly through a dealer. CP Group emphasized that agriculture and agribusiness development requires tremendous assistance from the government. The technical and financial assistance that the CP Group provides under its contract farming arrangement is limited. And for the projects to be successful, the government is expected to provide a wider range of assistance including the pre-selection of farmers, availing financing to the project through some form of loan in kind, supervising the operations of the project, and training and extension services.

35. CP Groups responded to questions from the floor on their pricing and risk sharing mechanisms. On the pricing mechanism, the usual procedure would be to enter into a contract farming agreement at a guaranteed buy-back price that has been pre-determined by CP Group based also on market conditions. After 2-3 harvesting of crops, market conditions determine the normal pricing under the contract farming agreement. In terms of project risks or crop failures, the CP Group generally finds a way of recovering the losses of the farmers. CP Group works with the farmers to determine the causes of the failure and addresses the causes. For example, if the cause is the lack of know-how on the part of the farmer, the farmer is provided with training and extension services.

Session IV: Potential Schemes for Improving Investment Facilitation in the GMS

Proposed Regional Guarantee Facility

36. Mr. Christophe Bellinger, Senior Cofinancing Specialist of ADB, briefed the participants on the concept of a regional guarantee facility. This facility was first discussed during the Business Forum at the 2nd GMS Summit and at the Mekong Development Forum (MDF) held in Tokyo in July 2005. He reported that an ADB Mission has been actively discussing the concept with the GMS countries over the past two weeks and the concept had been received with enthusiasm. The Mission also discussed the concept with banks in the region and confirmed that banks had funds for lending but private companies are unable to access these funds because of the perceived high risks associated with investing in the GMS.

37. The proposed regional guarantee facility would issue guarantees and risk mitigation services to investors, contractors, exporters, and traders operating in the GMS. Risk mitigation instruments are used worldwide to increase trade and investment. Most investors, exporters and

even lenders in the developed economies have direct access to risk mitigation instruments. Among the GMS economies, only PRC and Thailand have export credit agencies and existing instruments in other countries are constrained and often cannot meet demand.

38. The proposal is for the member countries to finance and for ADB to manage and operate the regional guarantee facility, which will have the following components: (i) trade and investment guarantees, (ii) capacity building (market awareness), and (iii) mediation services. The facility will support projects in government priority sectors such as infrastructure, finance, manufacturing, agriculture, tourism, and SME development. It will have the capacity to guarantee a wide variety of trade and investment transactions including bank loans, loan guarantees, shareholder loans, and new financing structures such as public-private partnership without sovereign guarantee. In terms of risks, the facility will cover currency inconvertibility, political violence (including terrorism), breach of contract, and expropriation, among others.

39. The regional guarantee facility is seen as a mechanism for reducing country risks, thereby attracting more foreign investments into the GMS. The capacity building and the claims and mediation services components of the facility is expected to further boost the comfort level of investors in investing in the GMS. The regional guarantee facility, however, will initially be limited to government transactions and private sector transactions involving the government. Unlike the existing political and credit guarantee facilities of the ADB, which are tied to loans from the Bank, the proposed regional guarantee is a stand-alone facility.

40. The proposed regional guarantee facility is anticipated to have a paid-in capital of about $10 million from each country with a callable capital of up to $50 million per country. ADB anticipates mobilizing up to $1 billion using other sources such as commercial insurers and official insurers and guarantors. Preliminary results of consultations with GMS governments, commercial banks and export credit agencies have so far been very encouraging with governments showing keen interest in investing in the regional facility and commercial guarantors indicating comfort in working alongside the ADB.

41. Dr. Jingjai Hanchanlash noted that ADB already provides co-financing for projects and inquired if a guarantee would still be needed for projects that ADB is already a financial partner. Mr. Bellinger explained that an equity investment by the ADB in the project does not completely insulate the project from commercial and other external risks. The objective of the regional guarantee facility is to provide the project with as much risk coverage that would make it more attractive to investors.

Industrial Estate Authority of Thailand (IEAT)

42. IEAT is a state enterprise founded in 1972 for the purpose of providing, developing and managing industrial estates including export processing zones and industrial ports throughout Thailand. It is also mandated to promote and regulate all industrial estates[1] in Thailand. IEAT owns and directly manages 12 industrial estates and has a joint venture for 21 other industrial estates. Investment capital for the 33 industrial estates is $37,230 million; employment generated is 450,000; and factories established are 2,724. IEAT provides land plus utilities and infrastructure.

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[1] Industrial parks and industrial zones are developed and wholly managed and owned by private developers.

43. Japanese (31%) and European (29%) companies constitute the majority of foreign locators in the 33 industrial estates. Other investors come from Taiwan, Singapore and the US. The top five manufacturing sectors in the industrial estates are (i) automobiles, spare parts and assembly, which is in keeping with the goal of Thailand to be the "Detroit of Asia"; (ii) steel and alloy industry; (iii) electronic and electric devices; (iv) plastic, rubber, and synthetics; and (v) chemical industry. For the first 6 months of 2005, export value of factories in industrial estates was $18,517 million.

44. IEAT develops industrial estates in order to increase the competitiveness of Thai industries and to encourage economic cooperation with neighboring countries. IEAT emphasizes the promotion of industrial cluster development so that Thai industries and exports could gain a competitive advantage. In the development of industrial estates, IEAT considers the following factors

- Technical: location, size, topography and accessibility of proposed area, physical attributes especially availability of water, infrastructure, transportation linkage and logistics
- Marketing: target industries, sources of raw materials for locators, pricing
- Financial: investment cost, sources of funds, cash flow and financial analysis
- Economic: benefits of projects to local and regional employment, regional and national incomes and economic growth
- Management issues: government policy, human resource, legal and regulatory environment
- Social and political: social and cultural impact of the project, community involvement, quality and quantity of employment
- Environment: environmental impact assessment, environmental cost

45. Under the ACMECS Program, Thailand provides CLMV with technical grant and assistance in the preparation of feasibility studies for the proposed development of industrial estates. IEAT has completed the feasibility study for the Koh Kong IE in Cambodia. The following studies are underway: (i) Savan-Seno IE in Lao PDR is 60% completed and will be finalized by early 2006, (ii) Mawlamyine and Pa-an IEs and other proposed areas in Myanmar are 40% completed and will be finalized by mid-2006; and (iii) Distribution Center at Mukdahan in Thailand. Some of the early findings of IEAT on these projects are:

- Koh Kong IE: some parts are still under construction; the area is slightly sloping with sufficient supply of water; high potential for taking advantage of low cost of labor; target industries could be textile, garments and clothing;
- Mawlamyine IE: accessibility could be a problem since the area is quite far from the port;
- Pa-an: very attractive location
- Other areas in Myanmar: Myawaddy indicates some potential but Maw Taung is not recommended for industrial estate development;
- Savan Seno: near the Mekong River and contains 2 sites; Site A is recommended for golf course development and industrial estates; Site B is located at the junction of the North-South and East-West economic corridors about two hours from Danang; location is ideal for development as logistics center with facilities that include container yard, container terminal and customs bonded warehouses; target industries could be light industries and SMEs;

46. UNIDO inquired if IEAT had done any surveys on the effectiveness of incentives to attracting FDIs and also on the positive spillover of FDIs on the communities where these are located. IEAT responded that no such surveys have been conducted but their experience with investors strongly indicates that incentives are no longer as important as the post-investment services the government is willing to provide.

47. Myanmar inquired if different laws cover BOI and IEAT and if the incentives such as corporate tax holidays can be availed from both organizations. BOI confirmed that both organizations have different mandates. Whereas IEAT is the lead agency for industrial estate development and management, BOI has a wider mandate that covers all other forms of investments. The incentives given by BOI and IEAT are almost the same except that IEAT is not able to extend corporate tax exemption privileges. Locators to the industrial estates may avail of the corporate tax exemption by simply filing an application with the BOI.

48. Vietnam declared its willingness to provide assistance to Cambodia for the development of its special economic zones and industrial estates. Cambodia thanked Vietnam for its offer and stated that it would consider such an offer after it determines how to more effectively bring in investors to the proposed industrial estates.

Session V: Development Partners: Strategies and Initiatives toward Facilitating Investment in the GMS

Japan Bank for International Cooperation (JBIC)

49. JBIC's presentation highlighted Japan's assistance to the GMS countries particularly to CLMV under the Japan-ASEAN Action Plan. In 2003, PM Koizumi announced the establishment of Japan's 3-year $1.5 billion assistance in support of the ASEAN's enhanced integration through programs such as the GMS Program. Since then, 6 loans worth $800 million have been implemented in the GMS. As an aside, JBIC reported that the results of its assessment of the Second Mekong International Bridge will be completed as scheduled in December 2006 despite the incident that happened in July 2005.

50. JBIC presented the results of the survey it conducted among 900 Japanese companies on the most promising countries/regions for overseas business operations. Three of the GMS countries were ranked among the top 10 destinations. PRC ranked 1st, Thailand was 2nd and Vietnam was 3rd. The survey also showed that in these countries, the number of Japanese companies with existing plans for expansion increased in 2004 as compared to 2003. The predominant and most common factor for the selection is the growth potential of the market. Clearly, the efforts to establish GMS as a single market will open considerable opportunities for smaller economies in relation to investments from Japanese companies. There is need, however, for a deepening of the integration not only in terms of physical infrastructure but also in the software that supports and facilitates crossborder trade and investments.

51. A major initiative under the Japan-ASEAN Action Plan is the Blue Book Project, which is a policy recommendation report for improving the investment climate, initially in Cambodia and Lao PDR. The project is being undertaken jointly with UNCTAD. The Blue Book project features the promotion of labor-intensive industries, contains concrete action plans that are actionable within one year, and includes examples of best practices in investment promotion that are found in the subregion. The Blue Books for Cambodia and Lao PDR have been submitted to the respective countries on 8-10 December 2004. JBIC has received commitment and support from various other international and bilateral agencies (IFC, UNCTAD, JICA, AMEICC, AusAid, GTZ)

in the implementation of the recommended actions in the Blue Book both for Cambodia and Laos.

52. Another initiative undertaken by JBIC is the conduct of an agro-processing investment mission from Japan to Cambodia on 9-13 June 2005. The mission was co-hosted by Mitsui & Company and Toyo Engineering Company. Twenty Japanese companies engaged in food processing participated in the mission that visited factories in Phnom Penh, Sihanoukville, and Siem Reap. The mission findings are the following: (i) Cambodia is rich in natural resources, (ii) there is some specialization in organic products, (iii) low cost and diligent human resources, (iv) substantial investment incentives, (iv) easy access to ASEAN markets, and (iv) US dollar-based settlement. The mission also noted the potential impediments to investing in Cambodia, which includes: (i) weak infrastructure, particularly in terms of stable supply of reliable electricity, (ii) for fish processing, the lack of cold chain facilities is a serious impediment, (iii) lack of skilled labor force, and (iv) unclear directions in the development of export processing zones. Despite the constraints, however, some Japanese companies have indicated strong interest in further exploring the investment potentials.

53. A second agro-processing investment mission was conducted on 24-25 September 2005 and the results have been encouraging. One Japanese company had indicated interest in importing agro-products from Cambodia and another has shown interest in investing in cold chain facilities in Sihanoukville and Phnom Penh. JBIC is monitoring developments in these potential investments.

54. JBIC proposed to Cambodia to strengthen its linkages with neighboring countries to ensure its future development. Some of the links identified were: (i) to Thailand via National Highway No. 5; (ii) To Vietnam via Highway No. 1, (iii) strengthen the Growth Corridor Axis of Phnom Penh to Sihanoukville Port linking with the rest of the world, (iv) to Thailand via National Highway No. 48 along the southern coastline with the eastern seaboard of Thailand; and (v) perhaps with Vietnam through the southern route along the coast zone.

55. JBIC also recommended the following measures to increase the attractiveness of the Sihanoukville SEZ to FDI: (i) establish the SEZ Decree within the year, (ii) SEZ Program implementation should start immediately using the Sihanoukville as a pilot SEZ to be followed by 4 other promising SEZs (industrial development zone near the Thai border, Koh Kong Special Industry Zone, Bavet Industrial Zone, Phnom Penh SEZ) to be operational by 2010, (iii) One-Stop-Service should be practiced as soon as possible as part of the capacity building for SEZs, (iv) SEZ land should be priced more competitively, (v) implementation of urgent improvements in the power sector within a few years, (vi) introduction of an anti-corruption law, and (vii) review existing investment laws and implement reforms that would establish more investor-friendly policies.

56. In the discussion that followed, JBIC was queried on the complementarity of its national and regional assistance programs. JBIC responded that as of the present, its projects are still mostly bilateral. However, in view of the commitments made by PM Koizumi, JBIC is now formulating its regional strategy.

57. On Cambodia's query as to the target industries in the SEZ, JBIC stated that these are export-oriented and/or labor-intensive industries, particularly in the agro-processing sectors.

58. Laos, on the other hand, observed that there are still very few Japanese investments in the country. JBIC cited the survey of Japanese companies that showed that market growth

potential is a major consideration in the selection of overseas investments and Laos' small domestic market to some extent provides a disincentive. JBIC, however, noted that some Japanese companies have shown keen interest in participating in hydropower development in Laos.

Japan Overseas Development Cooperation (JODC)

59. JODC classified Japan's support to the GMS into three major areas: (i) building hard infrastructure – loans and grants for the development of major infrastructure facilities including roads, bridges, ports, power, (ii) establishing stable soft infrastructure through educational programs, advisory on improvements to the legal and regulatory systems, ports management, development of master plans, (iii) encouraging Japanese firms to invest in GMS countries.

60. Related to item (iii) above, JODC reported that there are several Japanese agencies implementing different programs to assist and facilitate Japanese investments in the GMS countries. Agencies with ongoing programs of assistance include: (i) JETRO, which is currently providing capacity building on trade and investment promotion to the GMS BF, (ii) JBIC which provides loans to Japanese companies investing in the GMS, (iii) Nippon Export and Investment Insurance (NEXI) which provides guarantees and insurance facilities, (iv) the Association for Overseas Technical Scholarship (AOTS) has over 20 running programs that assist Japanese companies located in the GMS, and (v) JODC dispatches experts to Japanese companies on a regular basis to help them deal with problems related to overseas investments.

61. JODC discussed two major impediments to investing in developing countries as viewed by Japanese investors, namely, the still weak infrastructure in many places in the GMS, and the lack of stability and predictability in the policy, legal and regulatory environments. Private investors are more concerned about the latter. It generally takes years to recoup investments in the manufacturing sector so it is important for the private investor to be able to predict with some level of certainty the future cash flows of the projects. Predictability is at the core of the decision to invest and governments are in the best position to enhance the predictability factor in businesses. Governments need to improve the basic software (education, legal/court system, public administration, etc.) and to demonstrate consistency in their investment policy. Post-investment negotiations should be minimized once manufacturing operations have started.

62. JODC also suggested that GMS consider taking advantage of external influences such as: i) regional agreements (BIT/FTA) could help improve the perception of investors about a country. NAFTA, for example, has helped to improve perception on the transparency and credibility of Mexico's investment rules. Membership of Central and Eastern European countries to the EU have led to the perception that their investment rules are as transparent and as reliable as the other members of the EU; (ii) ODA helps to create business relations between donor and host country. For developing countries, ODA is usually the introduction to deeper relationships and smooth execution of ODA projects generally contribute to improving the impression of the private sector in the donor country; (iii) reducing barriers created by borders to enable the less developed country to access and avail of better infrastructure from a more developed neighboring country.

63. Dr. Jingjai commented that, on occasions, the negative intervention and extreme views of NGOs have been impediments to economic development. He encouraged ADB to continue to work with the NGOs to ensure that better collaboration and cooperation is achieved. He agreed with JODC that ODA is an important entry point to stronger relations between donors and host countries but noted that ODA has been too focused on infrastructure development. Capacity

building in areas outside of infrastructure should likewise be given attention by donor countries and organizations.

64. PRC agreed that investors consider political stability and strong leadership when deciding on their investments. Improving the transparency and credibility of the legal system provides the long-term incentive for investors, and not the political strength of the leaders. JODC noted that in reality, however, stable and strong leadership make up for the institutional weaknesses in developing countries, particularly at the early stages of economic development. This institutional weakness is also the reason that pioneering investors usually demand for stronger incentives.

65. Vietnam emphasized that GMS countries are developing countries that are transitioning from to market economies. FDIs are a necessary ingredient in the economic development of the GMS countries. FDIs, however, must want to share the risks and their technology with developing countries.

United Nations Industrial Development Organization (UNIDO)

66. Mr. Frank Bartels, Senior Industrial Development Officer, UNIDO briefly presented the history of the organization. UNIDO was founded in 1966 as a specialized agency of the UN and it takes a lead role in the promotion of sustainable industrial development in developing countries and transition economies. UNIDO is not a funding institution but provides a wide range of technical assistance to industries.

67. The focus of the UNIDO presentation was on the Experts Group Meeting on the future of FDI in Southeast Asia and the future policy implications of FDIs to developing countries. UNIDO reported that from 1980-2003, the developed and industrialized countries received 75% of the world's investment and the reason is quite simple. Industrialized countries provide the ideal conditions for foreign investments, which includes an ideal enabling environment where the (i) legal and regulatory framework are transparent, clear and credible, and where the needed infrastructure to support the investments are readily available. It should be understood and appreciated that in the final analysis, FDI is ultimately a business decision and it will locate where profits can be maximized and receive full protection for its investments.

68. Multinational enterprises (MNEs) are increasingly transforming the world into an integrated global factory where operations are distributed and functions are coordinated spatially. The cost of distribution, transport, and logistics have significantly collapsed over the last fifty years making it possible for MNEs to source, process, manufacture, market and service goods and products from different locations in the world. For developing countries, what is important is being able to locate domestic companies within the global production chain and identify niches where it has some competitive advantage.

69. To effectively participate in the global chain and become part of the integrated global factory, developing countries must use every intellectual asset in their arsenal. A strong national innovation system has to be developed otherwise the developing countries could lose their indigenous skills, talents, and technology. It should be recognized that fundamental R&D still takes place in industrialized and developed countries. In developing countries, the so-called technology transfers are in fact product adaptation schemes.

70. On PRC: Concerns have been raised on whether investments to PRC are competing with or complementary to the investments flowing into ASEAN countries. PRC will remain the

top destination for investment for a long time. It is expected to be the "workshop of the world" principally because of its low-cost labor advantage. In its bid to produce goods for everyone, PRC will need significant volumes of inputs, both raw and intermediate, which it will not be able to produce by itself. Considering the physical proximity of GMS and other ASEAN countries, it would be more advantageous to find respective niches rather than competing with PRC.

71. Mr. Bartels also discussed the importance of having regular consultations with investors and conducting timely surveys to determine their needs and requirements. UNIDO noted that those countries that have not done any form of surveys on their FDIs have no real basis for their reforms. In short, the investment promotion agencies are moving blind and will find difficulty moving up to what UNIDO refers to as the 4th generation investment promotion (IP), which should be the goal of every developing country. The 4th generation IP is characterized by (i) the broadening of the role of the IP from just promotion to policy advocacy, (ii) pushing for horizontal incentivisation and economy-wide reduction of transaction costs of doing business, (iii) decreasing policy distinction between foreign and domestic investments, and (iv) inserting domestic firms in interstitial spaces in the "global factory".

72. Developing countries must realize that FDI is like importing a ready-made industrial sector. In most developing countries, SMEs make up the majority of the enterprises. SMEs, however, are also internationalizing. Government leaders should make sure that existing FDIs are effectively linked to the domestic environment and economy.

73. In response to questions from the floor, Mr. Bartels explained the statement referring to the collapse of the cost of transport, distribution, and logistics. Over the last 50 years, the cost of transporting goods from one region of the globe to another has dramatically and rapidly declined because of the all- around improvement in infrastructure. The cost contribution of transport and marketing to the total cost of the product is no longer as prohibitive as it was many years ago, which now allows producers to produce where it is cost–effective using various competitive advantages ranging from raw materials to labor to capital.

74. On the question on how to promote R&D: Successful knowledge-based economies have one thing in common – high levels of investment in education and human resource development. Developing countries need to promote their respective universities to encourage them to engage in R&D activities. Governments, however, should be careful to provide standards of performance in exchange for the assistance being provided to universities.

Asian Development Bank

75. Mr. Hong Wei, Principal Economist, ADB discussed the financing and risk mitigation instruments of the ADB that enables it to support public sector but especially private sector initiatives. ADB's public and private sector windows both provide loans, technical assistance, guarantees and cofinancing. ADB additionally provides equity investment for the private sector. ADB's public sector portfolio in the GMS represents $1.4 billion in loans for 19 investment projects with a total project cost of $5.1 billion and 103 technical assistance (TA) projects amounting to $110 million. Future programs for the GMS include additional 17 loans totaling $1.1 billion and 29 TAs amounting to about $20 million.

76. In August 2005, ADB's Board of Directors approved new initiatives that would enable the Bank to expand its assistance program. The initiatives include: (i) standby type financing, (ii) subsovereign lending for municipalities and selective state owned enterprises, (iii) local currency

lending for both the public and private sectors, (iv) refinancing facility to sustain good projects, and (v) capacity to do syndications, co-insurance and reinsurance.

77. ADB's private sector operations account for 10% of its business. The target sectors for private sector assistance are infrastructure and financial sectors and the social sector on a pilot basis. The target infrastructure segments are power, oil and gas, transport, telecommunication, water, and urban services. ADB provides financing for Greenfield (new, start-up projects, including BOO, BOOT, BOT and other similar contractual structures) and Brownfield (acquisition, expansion, rehabilitation, modernization) projects; pre-privatization and privatization financing, restructuring and refinancing and multi-project facilities or vehicles for financing smaller infrastructure projects. Target financial intermediaries are funds, banks, leasing companies, insurance companies, and capital market institutions. In the financial sector, the focus areas include SME financing, housing finance, trade finance facilitation and resolution of bank non-performing assets.

78. ADB discussed its financing and guarantee instruments, which include equity investments, loans without sovereign guarantees, partial credit guarantee (PCG), political risk guarantee (PRG) and complementary financing scheme (CFS). The extent of risk mitigation covered by these instruments range from currency inconvertibility, expropriation and nationalization, political violence, breach of contract, and commercial credit risks. ADB is uniquely positioned to undertake comprehensive risk mitigation because both its public and private sector operations are under one roof allowing synergy between policy work and private sector investments.

79. Cambodia noted that the Multifibre Agreement (MFA) is expiring and GMS economies are at risk of increasing unemployment due to potential closure of garments factories. Could private sector borrow funds from ADB to sustain their operations? Lao PDR also inquired as to how the private sector can access private sector funds from ADB. Both Cambodia and Lao PDR were advised to provide more details of the private sector seeking the funds to enable the appropriate department (Private Sector Operations Department) to assess the projects and determine the specific requirement and assistance that could be provided by ADB.

80. PRC commented that in terms of competition, the government has been encouraging Chinese companies to invest in neighboring countries in the infrastructure and other sectors. A Chinese logistics company wants to cooperate with other logistics companies in the GMS but it is finding difficulty accessing information on other companies in the subregion.

81. Vietnam cited the high risks involved in project financing and suggested that ADB consider helping the GMS countries in developing public-private partnerships in infrastructure development. Mr. Bartels (UNIDO) in response remarked that infrastructure is public goods and that private sector participation in infrastructure development must be carefully considered.

World Bank

82. The World Bank provided technical inputs to the discussion but was unable to make a presentation in view of an urgent need to return to Bangkok. The presentation is attached for information of the participants.

Session VI: Future Directions of the SIWG: Focus and Results

Structure of the SIWG

83. Mr. Robert Boumphrey opened the session by thanking the GMS countries and the resource persons for their substantive inputs and contributions to the previous sessions. The importance of trade and investment for the continued growth of GMS had been stressed all throughout the discussions and the linkage between trade and investment had also been emphasized. Mr. Boumphrey solicited the views of the GMS countries on how best to promote the trade and investment linkage and what the institutional structure would best support the effort.

84. PRC stated that it would be more efficient for the Trade Facilitation Working Group (TFWG) and SIWG to work together more closely. Initially, joint meetings between the working groups could be held.

85. Thailand commented that in their case, trade and investment are handled by two very separate organizations and their preference is to maintain separate meetings of the two working groups. Although there are common areas of interest, the issues tackled by the two working groups are quite different. Thailand raised the concern that a joint meeting could be overwhelmingly trade-oriented.

86. Lao PDR agreed with Thailand for separate working groups. Similar to Thailand, trade and investment are handled by two different organizations in Laos. Closer cooperation and working relations between the two working groups, however, should be encouraged.

87. Myanmar and Cambodia also expressed support in maintaining two working groups since in both countries, the organizations handling trade and investment are likewise different.

88. Vietnam expressed the view that while the national institutions tasked with promoting trade and investment are different, the working groups could nonetheless be combined to serve the purpose of efficiency.

89. ADB proposed that as a pilot measure, the TFWG and SIWG could hold back-to-back meetings where there will be one joint session to discuss common issues and actions. The agenda for the joint session, however, needs to be carefully crafted so that no one working group dominates the discussion. The participants agreed with the ADB proposal.

90. PRC remarked that the SFA-TFI is all about trade; the investment sector had not been included in the strategy. It was suggested that the agenda of the next SIWG meeting should be how to develop an investment agenda within the SFA-TFI.

91. Mr. Boumphrey noted that Lao PDR had agreed to host the next meeting of the TFWG tentatively scheduled for May 2006, and inquired Lao PDR if it would agree to host both meetings. Lao PDR confirmed and accepted to host both meetings but requested that it be allowed time to reconfirm the dates of the meeting.

Future Directions of the SIWG

92. The exchange of information among the GMS countries, presentations made by the different resource persons and the discussions that ensued after each of the presentations all

provide very useful basis for setting the future direction of the SIWG. A plan of action was submitted during the 13th Ministerial Meeting in Vientiane and the progress of the identified priority activities were reported by the GMS BF. Considering the importance of investment as a means to achieve growth, the expectation is for SIWG to enhance its contribution to facilitating investments to the subregion. Mr. Boumphrey noted that Thailand in its presentation supported the continued implementation of the priority activities, which remain relevant to the working group's goals and objectives. Mr. Jong Hwa Lee, Senior Financial Specialist, ADB supported the view of Thailand and further noted that the implementation the projects identified under the SIWG plan of action require continuous efforts by all stakeholders.

93. PRC's view is that SIWG needs a more focused agenda. There is no specific sector or industry that is being promoted so that it becomes very difficult for the countries to decide which private sector groups should participate in the meetings. PRC also suggested that once a sector is identified, it would be easier to identify the experts and relevant private sector representatives to be invited to participate in the meetings.

94. Vietnam proposed that SIWG consider focusing on developing private sector participation in infrastructure development considering the huge requirement for funds in all GMS countries. The working group might look into mobilizing resources from the private sector and other sources of funds. Vietnam, however, remarked that a sector- or industry-based agenda might be too specific as to limit the flexibility of the working group to tackle other important issues.

95. Lao PDR proposed that the SIWG consider including in the agenda the issue land links as an agenda and how Laos can take advantage of the development of its neighboring countries at the same time promoting their further development by providing access to each other.

96. Thailand noted that an issues-based agenda is acceptable. But, SIWG should ensure that the issues being discussed and resolved are those that are relevant and important to the private sector. It should be remembered that the working group is made up of the public sector, which do not make the investments but are a critical factor to the decision by the private sector to make the investments. It is essential for the working group to get inputs from the private sector.

97. In summary, Mr. Boumphrey took note of the strong case made by the GMS countries for carefully selecting topics for the SIWG meeting. It seems, however, more difficult to arrive at a decision on the topics themselves. He also cited the suggestion of Thailand to engage the private sector more actively since the objective of the working group is to lift the constraints that private sector face in investing in the GMS. GMS BF and the chambers of commerce will have to be consulted on the issues and their recommended solutions will have to be obtained. Mr. Boumphrey requested that ADB be authorized by the working group members to carry out the process of selecting the agenda and topics; and, the agenda should be developed in a participatory manner and well in advance of the meeting date. ADB's request was granted with a rejoinder from PRC and Lao PDR that the agenda should cover industries or areas of common interest to the GMS countries.

Review of SIWG TOR

98. Mr. Jong Hwa Lee, Senior Financial Specialist, ADB recalled that ADB was requested at the SIWG-4 to review the existing TOR and present the amended draft during this meeting.

In the drafting the amendments, consideration was given to giving the GMS countries the flexibility to establish the future directions and appropriate work programs of the SIWG over the long-term without need for further review and amendment. It also gives the GMS countries a freehand to determine the role that development partners will directly play in the SIWG. The original and draft amended TORs are in Appendix 3 and 4, respectively, for ready reference.

99. There were no comments on the background and rationale of the TOR. On the main objectives, Thailand noted that there was no mention of, or reference to, the SIWG facilitating the implementation of the objectives and suggested that there should be a statement that SIWG would be involved to some extent in ensuring that the objectives are put into action. Mr. Lee responded that, although the work program may not be specified in the generic TOR, the revised TOR provides for the establishment of work programs and the plans of action at each meeting as well as mechanism for the SIWG to monitor developments. The objectives of the working group itself is unchanging but the work programs may be changed as often as necessary to ensure that the activities are aimed at achieving the objectives remain current and relevant.

100. On the membership, PRC proposed that ADB be included in the core group of the SIWG. Vietnam opined that other development partners should also be welcomed to provide support. And ADB's specific membership in the core group might be seen as a disincentive to other development partners to more actively participate.

101. Laos inquired if ADB will still co-organize and provide fund support for the working group meetings. Mr. Boumphrey reiterated ADB's technical and financial support for the SIWG and its specific commitment to co-organize and finance the next SIWG meeting in Laos. Even while ADB is not explicitly written in the TOR as being a member of the core group does not change its level of commitment and support to the activities and meetings of the SIWG. The draft document merely seeks to provide more general terms of reference that allows the SIWG to freely promote partnerships both with other development partners and with the private sector.

102. Thailand queried whether ADB is still the secretariat of the GMS Program. If it is, there is no reason for ADB not to be a member of the core group of the SIWG. Mr. Boumphrey explained that the TORs of other working groups, such as the one on trade, do not explicitly name ADB as being a member of the core group. Mr. Lee reiterated that review of the TOR is aimed at improving its wordings, ensure that all the objectives established more than 10 years ago still remain, and key clauses are revisited for their relevance. He further stated that ADB's continued support for the working group even if it is not a member of the core group. To enable the GMS countries to more carefully examine the proposed revisions in the TOR, it was agreed that comments on the TOR will be submitted to ADB within seven days (25 October 2005).

Other Matters

103. Lao PDR reminded the meeting of the need to prepare the agenda way in advance of any SIWG meeting to enable all the participants to better prepare for the meeting. Laos proposed that agenda matters should be submitted to ADB three months prior to the meeting date for consolidation and consent of the host country. The private sector, through GMS BF, should be consulted about the agenda matters and should be encouraged to provide their own agenda topics. The meeting agreed to implement Laos proposal.

104. Thailand sought clarification of the deadlines agreed upon as follows: (i) comments on the TOR should be submitted seven days after this meeting; and (ii) proposed agenda matters for the next SIWG meeting should be submitted three months prior to the date of the meeting.

105. Laos reconfirmed its hosting of the TFWG and SIWG and would inform the members of the working group and ADB of the date of the meetings.