

Trade Interdependence of Greater Mekong Sub-Region Countries

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Abstract— Since 1992, the Asian Development Bank has provided various development projects under the official development assistance (ODA) to boost economic activities in Greater Mekong Sub-region (GMS). With the completion of some of major projects, we expect these countries to show interdependencies of vertical and horizontal integrated of trade. Against this background, this paper aims to clarify the causal relation of export activities between the five countries of GMS i.e. Thailand, Vietnam, Myanmar, Cambodia, and Laos. For this purpose we run the Toda-Yamamoto causality test on quarterly data from 1990 to 2009. The results suggest the followings. The Toda and Yamamoto (1995) test results indicate different causality pattern among the GMS countries in export and FDI flows. Differences in their causality pattern is determine by combination of several factor, such as differences in income per capita, internal and international political condition, and membership in socioeconomic and political cooperation such as ASEAN.

Keywords- Greater Mekong Sub-region (GMS), export, Toda-Yamamoto Causality Test

I. INTRODUCTION

Between 1960 and 2005, economic growth of East Asian countries (i.e. Japan, NIEs, ASEAN-4, and China) has expanded with an average of more than 20 percent annually.¹ According to reference [1][2][3][4][5], this remarkable achievement was made possible due to high regional integration and concentration of trade and investment among these countries. Despite of several regional and global crises, this region continues to show their economic resilience and progress further. This growth potential is still very large especially with positive progress of economic transition in Greater Mekong Sub-region (hereafter GMS). The integration of the GMS countries—especially Vietnam, Laos, Cambodia and Myanmar—into East Asian division of labor is expected to extend the vitality of trade and investment in this region.

In order to utilize this potential, the countries of the GMS with the support of the Asian Development Bank (ADB) have initiated the economic cooperation program in 1992. The

vision of the GMS is to achieve enhanced connectivity, increased competitiveness, and a greater sense of community. Toward realizing this vision, ADB has identified several key project especially roads, bridges, hydropower project and ports which are crucial for trade and investment activities. Some of the project such as the US\$280 million Thuen Hinboun Hydropower project has been opened in 1998.² From the economic perspective, reference [6] cites that the ultimate goal of these projects is to promote productivity that can be garnered from the spatial integration of countries with complementary countries. However, to what extent the goal had been achieved needs wary analysis from various aspects such income, employment, trade and investment. These would helps to confirm that each development projects and programs produced optimal results.

In addition, the diversity and complexity of the GMS economies in its development process have important theoretical and empirical implication in economic development. From the theoretical perspective, the GMS countries should not be considered as homogenous in term of development process. They have undergone several phases of economic and socio-politic adjustment process and witnesses different level of achievement. For these reasons, we should not overlook the importance of some dynamic countries, which often regarded as poor emerging countries from East Asian economic perspective. Furthermore, it is also important to study whether the economic progress in one country of the GMS is stimulating other country to change and develop positively or negatively. As stated by reference [7], with the forces for economic integration and cooperation supported by the pragmatic attitudes of the leadership, these country are inextricably intertwined.

As far as the economic cooperation in GMS and the realization of its vision is concerned—perhaps due to the unavailability of data³—most of the past studies have been limited to several development issues using the exploratory approach. There are two economic components which are still lack of empirical evident are trade and investment integration among its member countries. These two economic activities

¹ Computed based on gross domestic production (GDP) at constant price year 2000, which include the following countries: Japan, the NIEs (Hong Kong, South Korea, Singapore—data for Taiwan is not available), Malaysia, Thailand, Indonesia, Philippines (ASEAN-4), and China. Source, World Development Indicators, 2008.

² See for more discussion on the GMS project, reference [8].

³ See for example reference [9].