

## **The Mekong Industrial Development Vision 2.0**

### **1. Background and Significance of Mekong-Japan Economic Cooperation**

The Mekong countries, which remain diverse in industrial structure and stage of economic development, have promising economic potential due to abundant labor forces and increasing domestic demand from rising middle classes. In order to turn this potential into steady economic growth, it is essential to implement initiatives to upgrade industries and narrow the domestic and regional development gaps. Additionally, in order to maximize the Mekong countries' geographic advantage of proximity to two enormous emerging markets, China and India, the realization of a free, fair, non-discriminatory, transparent, predictable and stable trade and investment environment is necessary. This will contribute to the progress of the Indo-Pacific countries including Japan. In this respect, Japan and the Mekong countries have been cooperating under multi-layered strategic economic partnerships.

A close cooperative partnership between Japan and ASEAN including the Mekong countries has contributed to the peace and stability as well as development and prosperity in Asia over the past 40 years. The Mekong-Japan Economic Cooperation respects ASEAN centrality and unity as strategic partners, contributing to realize a free and open Indo-Pacific. In order to achieve ASEAN's further prosperity and economic integration, Japan and the Mekong countries continue to strengthen the partnership steadily by sharing a common vision that consists of three pillars: Vibrant and Effective Connectivity, People-Centered Society, and Realization of a Green Mekong.

### **2. Progress through the Mekong Industrial Development Vision 1.0 (MIDV1.0)**

Japan and the Mekong countries adopted the Mekong Industrial Development Vision, which outlines the direction of economic cooperation from 2016. The vision was designed to realize 'Specialization & Collaboration', which aims to put the priority mainly in the areas where each Mekong country has its strengths, while to complement areas of weakness of each country. The vision also sees a picture of the Mekong region becoming the core of a value chain taking in the growth of Asia and the rest of the world. In order to achieve this vision, the Mekong Industrial Development Vision 1.0 sets three main pillars as a concrete policy direction, 'Partnering with neighboring countries',

‘Building a footing for more advanced industrial structure’, and ‘Strengthening infrastructure and resources that support regional value chain’. Through the cooperation between Japan and the Mekong countries, MIDV 1.0 committed to economic development in the region.

① Progress in ‘Partnering with neighboring countries’

In the pillar of ‘Partnering with neighboring countries’, an advancement in economic partnerships in trade and investment with the countries within and outside of the Mekong region has been recognized. The amount of trade within the Mekong countries increased from 20 billion USD in 2010 to 39 billion USD in 2017. In addition, investment from outside the region has increased, resulting in the accumulated foreign direct investment from 2010 to 2017 of 190 billion USD. Furthermore, business collaboration within the region has been developed since the emergence of local companies expanding business across the region. However, as the local procurement rates in the Mekong region are low, the expansion of supply chains inside and outside the region is still needed. Moreover, regional economic integration and free trade promotion are essential for the region.

② Progress in ‘Building a footing for more advanced industrial structure’

In the pillar of ‘Building a footing for more advanced industrial structure’ to foster competitive micro, small and medium-sized enterprises (MSMEs) and expand R&D efforts in the region, emergence of local startups has been apparent. It is worth noting that these startups cover a wide variety of business areas including tourism, education, and e-commerce. However, some issues regarding the business environment facing MSMEs, including lack of market opportunities due to information asymmetry and limited access to finance, are serious in some Mekong countries compared to other ASEAN countries. Furthermore, a relatively lower share of the population engaging in R&D activities in the Mekong region compared to other ASEAN countries still remains a challenge in R&D efforts as a driver for upgrading industries. From the perspective of further upgrading the industrial structure, there are remaining issues for Mekong countries to be tackled. Improvement in overall productivity and related human resources are essential for more advanced industry structure, which increase labor productivity and then lead to the rise of wages.

③ Progress in ‘Strengthening infrastructure and resources that support regional value chain’

In the pillar of ‘Strengthening infrastructure and resources that support regional value chain’, there has been a steady improvement in connectivity of hard infrastructure of land routes including highways and railways within the Mekong region, which is not limited to the economic corridor areas. Moreover, connectivity to outside the region has been improved through construction of a new hub airport. As hard infrastructure has been steadily developing, the gap among Mekong countries is narrowing, but the gap still remains and the further development is needed. Another challenge lies in consistent enforcement in the Mekong region in the area of soft infrastructure. Although the “Early Harvest” of the Cross-Border Transport Facilitation Agreement (CBTA) was implemented in June 2018 to improve intra-regional connectivity of soft infrastructure, progress in implementation depends on the country. In addition to the intra-regional connectivity, the operation of legislation and taxation systems within each country have been pointed out as obstacles to strengthen regional value chain. These operational improvements and procedural simplifications remain to be solved.

As mentioned above, the Mekong Industrial Development Vision 1.0 has played an important role as an industrial development policy in the Mekong region and it has been highly regarded for its various contributions under the strategic partnership between Japan and the Mekong countries. Continuous efforts are expected on the remaining issues by each country’s government.

### **3. Changes in Circumstance surrounding the Mekong region**

#### **The rise of digital innovation**

Rise of digital technologies represented by AI and IoT, and use of digital technologies such as e-commerce and FinTech, will fundamentally change the structure of existing industries. Upgrading of the industrial structure through digital innovation has been increasingly important not only in developed countries but also in emerging countries.

Industrial transformation through digital innovation has been seen in ASEAN. Rapid spread of smartphones and the Internet provides a platform that digital businesses are able to penetrate. Additionally, a rise of emerging digital companies aiming to solve social issues contributes to advancement of the existing industries and creation of new industries in ASEAN countries.

Mekong countries can upgrade existing industries and solve social issues by utilizing digital innovation. Collaboration with companies with expertise in digital technology

and digital business can be considered as one of the options to realize digital innovation in the Mekong region.

**Demand for realization of a society where “no one will be left behind”**

Mekong countries desire to shift to be more sustainable, diverse and inclusive, and to realize a society where “no one is left behind” by economic growth. To achieve this goal, both environmental and social approaches are necessary. Responding to climate change and associated disasters are essential for the sustainable development of the Mekong region, and environmentally conscious economic development would lead to the protection of vulnerable communities. Furthermore, additional efforts including human resource development and education are crucial in order to realize a People-Centered Society. These efforts will contribute to narrowing the gap within the region and between countries, and to realizing equitable and sustainable development in Mekong countries.

**The need for an environmental approach**

Pollution and destruction of nature caused by rapid economic development results in serious environmental issues such as climate change, natural disasters and water and air pollution. These issues pose serious threats to the people in Mekong countries and could impede development and growth in the region. The Green Mekong initiative, incorporating the region’s beautiful environments, it is expected to overcome the current issues and promote growth in harmony with the environment.

**The need for a social approach**

Besides environmental issues, addressing social issues is also an essential element for Mekong countries to realize a sustainable and inclusive society. In the future, for example, Mekong countries could face challenges arising from demographic changes including the progress of the aging society and the decrease in the working-age population. In addition, Mekong countries are facing rapid urbanization and associated issues such as severe traffic congestion and tight energy demand. Hence, solving these issues is critical to achieving the society where “no one is left behind”.

**4. Policy Direction**

It is crucial to upgrade (improve the efficiency and productivity) the existing industrial

structure in Mekong countries, particularly in agriculture and manufacturing. At the same time, changes in the external environment surrounding the region suggest that economic cooperation between Japan and Mekong countries should be established based on not only industrial structure but also on an understanding of the challenges and social contexts in each country. Additionally, the cooperation is necessary to contribute to further industrial upgrading in each country. It is also crucial to ensure “no one will be left behind” in an inclusive and sustainable society, and to utilize digital innovation and develop human resources for implementing the innovation.

Based on the current status of the region as illustrated above, the economic cooperation between Japan and Mekong countries should aim to enhance the quality of life and achieve economic development through innovation, in addition to conventional cooperation. Enhancement of three forms of **connectivity**, including hard, soft, and industry, based on the Mekong Industrial Development Vision 1.0 should be considered as a foundation of economic development. To achieve this, society should ensure that “No one will be left behind” and implement **SDGs**. Furthermore, the vision needs to see the upgrading of existing industries as well as resolution of social issues by utilizing rising **digital innovations**.

On the basis of the policy direction stated below, Japan cooperates with various existing initiatives, including ACMECS Master Plan, in order to realize this vision.

## ① **Connectivity**

### **Optimizing trade procedures and developing infrastructure**

In order to enhance industrial connectivity in the region, it is crucial to identify missing links in the major economic corridors and develop hard infrastructure to facilitate trade within the region. Besides hard infrastructure, soft infrastructure should also be developed to facilitate trade through efforts such as improvement in implementation of CBTA, reduction of Non-Tariff Measures/Barriers, and development of human resources in associated areas.

### **Promoting investment and business collaboration**

Considering legislative systems in each country, institutional design and establishment of operating structure are also essential to promote business collaboration and investment.

### **Fostering competitive MSMEs**

It is also essential to make efforts to enhance competitiveness of MSMEs for

achievement of regional economic development and narrowing the gap, given the fact that MSMEs are a foundation of the industrial structures in Mekong countries in terms of number of firms and employees. In order to do so, it needs to aim at efficiency and productivity improvement through infrastructure development, mechanization and capacity building, as well as provision of access to finance, leading to the revitalization of MSMEs in the area of agriculture and manufacturing in the region.

#### **Improving operational excellence**

Productivity growth through improvement of business operations is a significant factor to upgrading industries in Mekong countries. In addition to development of a coherent standard in the region or country and the introduction of the necessary tools, development of human resources to operate the tools will lead to improved business operations.

#### **Introducing global/regional rules**

Mekong countries and Japan will collaborate in promoting regional integration through FTAs and CPTPP, and through concluding RCEP to deepen the regional framework. Furthermore, rules that have been implemented in the ASEAN region and other countries should be introduced and applied in Mekong countries. All of the efforts to improve both hard and soft connectivity mentioned above will be a basis for industrial enhancement in Mekong countries.

## **② Digital Innovation**

#### **Upgrading industries through digital technologies**

Mekong countries have been developing existing industries with neighboring countries. To accelerate the upgrading of industries, digital technologies should be utilized. This requires development of digital technology-related talent as well as effective utilization of data, as well as both establishment and operation of frameworks that enable and promote the free flow of data.

#### **Incorporating regional innovations**

Collaboration between public and private sectors in the Mekong region and startups expanding business in ASEAN should be encouraged to create new industries and solve social challenges. Strengthening the measures to support the startups are necessary in order to promote such development. Furthermore, application of digital technologies with consideration to the actual state of industries in Mekong countries

should be advanced flexibly and promptly through experiment and validation.

### ③ SDGs

#### **Promoting green economy**

Addressing environmental issues is crucial to achieving sustainable economic activities in Mekong countries. Therefore, economic activities should be promoted with consideration for the environment including implement of environmental technologies as well as consolidation of systems. Human resources needs to be developed to utilize technologies such as pollution control and operate the systems effectively.

#### **Building sustainable society**

Social issues that the region faces should be addressed to realize an inclusive and sustainable society. To bring solutions to urgent social challenges such as rapid urbanization and demographic changes, both hard and soft infrastructures should be improved, and human resources for operating infrastructures and associated industries should be developed. Establishment of new social infrastructure such as smart cities is also vital. New added value creation and industry development will be achieved in the Mekong countries through the process of solving mutually-linked challenges that are addressed in the United Nation's SDGs.