Executive Summary

This report is about balanced economic development in the Northeast of Thailand. It is about growth and poverty reduction, cities and villages, enterprises and workers, skills and education, infrastructure and trade, and rice and silk. Northeast economic development is only part of Thailand’s development challenge, but it is among the most important. We look back at how the Northeast has fared in terms of growth, poverty reduction and social capital over the last decades relative to other regions in Thailand. We examine today’s challenges, analyze the constraints facing those who seek to meet these challenges, and then propose an agenda that both outlines a general strategy and the specific priority actions.

**Record**

The Northeast’s image has seen little changes over the last decades. Isan has a reputation of being a tranquil and backward region, far distant from Thailand’s economic hubs, for a life burdened by the toils of the field rather than the stresses of modernity. But the image is misleading; its economic record suggests a rather different reality. Aided by a dynamic and rapidly changing economy, the region has had three major accomplishments: it has grown quickly, it has noticeably reduced poverty, and it has still preserved its strong communities.

**Stellar Growth**

During the last 35 years, the Northeast was one of the fastest growing economies in the world. The Northeast’s average per capita growth rate of 3.3 percent since 1970 has rivaled that of Latin America, South Asia or the group of high-income countries. Its economy is three times as large now than in 1970: GDP per capita in 2004, measured in 1988 prices, amounted to Bt34,000, compared to only Bt11,000 in 1970 (Figure 1). The rise is even more impressive in US Dollar terms due to the appreciation of the Baht vis-à-vis the US Dollar. The Northeast’s GNI per capita reached US$740 in 2004, compared to US$94 in 1970. With economic growth came change in the composition of output. Agriculture accounts for just under one fifth of GDP, compared to close to two fifths in 1970. Industry increased from the early 1990s onwards and contributes now as much to GDP as agriculture. And the service sector recorded the largest gains: it provides today over three fifths of GDP, compared to over two fifths three and a half decades ago.
Rapid Poverty Reduction

With value-added per person growing three-fold in the Northeast, household living standards improved dramatically. The poverty headcount fell from 48 percent in 1988 to 17 percent in 2002, and in spite of population growth, the number of poor dropped from 9 million to 4 million people (Figure 2). Thailand has made such impressive inroads into poverty that in the own assessment of poor people, lack of food is no longer an attribute of poverty. Rising living standards are visible in higher income and consumption as well as more durable goods. For example, over two thirds of Northeast households had refrigerators in 2002, compared to only one seventh in 1988. Almost all families own a television today, relative to only just over one in three in the late 1980s. Bicycle ownership went down over time, as households switched from bicycles to motorcycles or even cars.

Figure 2: Number of Poor, 1988 to 2002
**Vibrant Communities**

While economic forces have increased incomes and assets, the strength of community life remains one of the Northeast’s hallmarks. Kinship networks of the extended family, widespread land ownership, low mobility (with the notable exception of the adolescents), and Buddhist values have created communities with strong social capital. Over nine in 10 Northeast households participate in local groups and the provision of social services.

**The Need for Change**

In spite of these admirable achievements, the Northeast is not known as an example to emulate. Perhaps one reason is that more has been expected of the Northeast, especially by the Isan people themselves. As they look to the North, South, Center and Bangkok, or across Thailand’s borders, the Isan may rightly feel that Northeast development has not been rapid enough. Being home to a growing fraction of Thailand’s poor provides harder evidence of this shortcoming. And not participating as much as other regions in Thailand’s economic growth over the last decade makes more rapid economic development a pressing policy matter.

**Low Growth and Productivity Relative to Other Thai Regions**

Economic growth, while decent by international standards, lacks behind Thailand’s other regions. Since 1970, annual economic growth fell short by one percentage point compared to the national average, and the Northeast’s contribution to Thailand’s GDP fell from 16 percent to only 9 percent even though the population share remained constant at around one third. The main factor behind lower economic growth is weak productivity gains. Much of the Northeast’s human, physical and natural resources are absorbed in low-yielding activities. In 2004, the Northeast worker generated only one sixth of the value added of the average worker in Bangkok, Central, East and Vicinity, and just over two-thirds of the output of a worker in the North. And the gap to other regions is rising. Since 1990, labor productivity growth in the Northeast fell short by 0.4 percent compared to the North, by 0.5 compared to Thailand, and by a remarkable 7.7 percent compared to the East.

**Low Growth Relative to its International Neighbors**

Missed growth opportunities are also apparent from a look across the border. While the Northeast is poorer than other regions in Thailand, it traditionally has been richer than its GMS neighbors. Yet, differences in growth performance begin to unravel the basic income geography that had broadly remained unchanged for many decades. Excluding the rest of Thailand, the Northeast’s share in GMS GDP dropped from close to one third in 1995 to just over one seventh in 2003, and the GNI per capita of China’s Yunnan Province exceeded the one of the Northeast for the first time in 2004 (Figure 3).
Growing Concentration of Thailand’s Poor

The slower pace of change has held back poverty reduction. With poverty falling faster in other regions, poverty has become more concentrated in the Northeast. While one in two poor persons lived in the Northeast in 1988, three in five poor persons resided there in 2002. Poverty is about 60 percent higher in rural areas, where livelihood depends mostly on agriculture, than in urban areas, which offer jobs in industry and services. Northeast rice farmers alone account for over two fourths of Thailand’s poor.

Growing Strain on Isan Communities

Faced with low agricultural yields and absence of off-farm jobs, about one in two Northeast families rely on migration and remittances to boost incomes and support the local economy. At the same time, almost one in two Northeast villages report many problems with migration. Migration separates family members and exposes migrants to great risks. While some get help from friends or family members who previously migrated, others who do not have such a social network end up in inhumane working conditions.
The Constraints to More Rapid Development

Economic growth and trade integration are proceeding at a rapid pace all around the Northeast. Unless the Northeast responds to and shapes the changes taking place in Thailand and East Asia, its growth will continue to fall behind, poverty will remain high, and migration will continue to trouble communities. While much is at stake, the opportunities are even greater. Thailand can transform the Northeast’s economy and spread prosperity to neighboring regions and countries alike.

Overcoming growth differences presents an enormous challenge, since the Northeast lacks certain key drivers for change. The Center, and to a lesser degree the North, relies on manufacturing, the South on agriculture, and Bangkok on transport, communication and business services for economic transformation. By contrast, the Northeast’s dominant activity is retail trade, a sector without cross-regional importance and sustained by household remittances from other regions. What prevents the Northeast from making the most of its opportunities?
A Dominant Primate City

Around the world, densely-populated urban areas have been a force behind economic concentration. They provide markets and allow firms to benefit from economies of scale, specialization and the rapid diffusion of knowledge and innovation. Bangkok, one of the world’s most cosmopolitan cities, is the nation’s big throbbing heart. It dominates Thailand’s urban development like few cities in other countries. It had around 6.3 million inhabitants in 2000, which was about 17 times the number of residents of Thailand’s second largest city. While the degree of Bangkok’s primacy is unusual, the factors of primacy conform to experience elsewhere. Bangkok is the country’s capital for a highly centralized government; has access to a major port; is a conduit for inter-regional traffic; is located above most of Thailand’s groundwater and surrounded by fertile lands. Bangkok’s primacy provides strong advantages for enterprises compared to outlying regions. They include easy access to export channels, lower transport costs, better utilities, higher labor productivity due to a skilled labor force, a more developed financial sector, close proximity to the public administration and policy makers, and strong forward and backward linkages to input and output markets.

Changes in the growth dynamics of secondary cities have widened the gulf between the extended Bangkok area and other regions even further. Mirroring trends elsewhere in East Asia, the largest population growth over the last two decades has taken place in Bangkok’s peripheries. In the early 1980s, the second and third largest cities were Nakhon Ratchasima in the Northeast and Chiang Mai in the North. By 2000, they had dropped back to 5th and 8th place, respectively. They have been replaced by Samut Prakan and Nonthaburi, both cities in Bangkok’s vicinity, which used to be ranked only as 12th and 25th largest city (Figure 4). Clearly, Bangkok’s strong pull factor has undermined urban development in outlying regions. The Northeast’s urbanization rate remains the lowest in the country at 18 percent, barely changed compared to the early 1990s.

Figure 4: Primary City Indices, 1983 to 2000
The Inability to Attract Manufacturing

The trends in the pattern of urbanization are directly related to the dynamics of the manufacturing sector, the principal driver of Thailand’s recovery from the Asian crisis. Manufacturing exports increased from less than 40 percent of GDP before the crisis to close to 60 percent of GDP as of today. As the importance of manufacturing has grown, the East and Central regions have taken off: their contributions to manufacturing GDP have exceeded Bangkok’s since 1996 and 2003, respectively. Firms in need of a large plant site are attracted to the Bangkok fringe, as it shares some of the agglomeration advantages, such as proximity to export facilities and input supplies, but avoids some of the disadvantages, such as high land cost. However, congestion in Bangkok and Vicinity has not benefited the Northeast, North and South, even though they offer cheap land and labor (Figure 5). The Northeast contributes only 4 percent to the manufacturing sector’s value added, the same fraction as in the early 1980s.

Figure 5: Spatial Distribution of Manufacturing Employment, 1996/7 and 2001/2
The differences in growth dynamics of manufacturing are linked to differences in the sectoral composition. Based on its comparative advantage, the Northeast specializes in labor-intensive and resource-intensive sectors, such as wearing apparel, textile and food processing, which have either contracted or grown modestly since the mid-1990s. The fast-expanding sectors are differentiated industries, such as electronic parts, machinery, and auto parts. These sectors rely on strong enterprises linkages and hence locate primarily around the Bangkok area. Northeast firms also lag behind in technological capabilities that are important for diffusion of knowledge and innovation. Low agglomeration and weak technological capabilities ultimately lead to low efficiency in combining capital and labor to generate output. According to the 2004/5 Productivity and Investment Climate Survey, the Northeast’s total factor productivity is almost 30 percent less than Bangkok’s.

The pull of the agglomeration in the extended Bangkok area is so strong that government policies to promote the regional spread of investment have had little success. Since 1987, the Board of Investment (BOI) has divided the country in three zones based on proximity to Bangkok, and offered higher incentives to outlying zones. Nevertheless, the Northeast’s share in BOI promotions averaged only 4 percent since 1997 (Figure 6). Even those firms investing in Zone 3 locate typically as close as possible to Zone 1 in order to limit transport costs while maximizing investment incentives. For example, about one half to three quarters of Northeast investment promotions go to Nakhon Ratchasima, which is in the Southwest corner of Zone 3, and close to Bangkok. Similarly, supply driven infrastructure projects are unlikely to succeed without a clear market demand. Only four industrial estates or parks are located in the Northeast, compared to 26 in the East. In addition, industrial estates dilute the impact of the BOI zoning policy as they offer similar incentives as those presented by Zone 2 or Zone 3.

Figure 6: Regional Board of Investment Promotion Certificates, 1997 to 2005
The unitary structure of Thailand’s rules and regulations reinforces the importance of agglomeration effects. The same business, bankruptcy and labor laws apply in Bangkok as in Khon Kaen. On paper, the costs of doing business are the same across the country, as outlying regions have no latitude to attract enterprises through adopting business friendly procedures. At the same time, firms in and around Bangkok benefit from lower shoe leather costs for obtaining investment promotions, permits and licenses through proximity to public institutions in Bangkok.

The concentration of enterprises in and around Thailand’s capital leads to a similar clustering in finance. Bangkok alone accounts for two thirds of commercial domestic deposits and three quarters of credits, and Bangkok and Center are home to about two thirds of all branches of domestic banks. By contrast, the Northeast accounts for only 5 percent of both deposits and credits. This gap reflects low household income and lack of business demand rather than low access (13 percent of all branches are located in the Northeast) or high cost of borrowing (formal interest rates are similar to those charged in Bangkok). In addition, about one quarter of all credits are provided through the three main public financial institutions (Government Saving Bank, Government Housing Bank and Bank for Agriculture and Agricultural Cooperatives), which are adequately presented throughout the country.

**An Unfriendly Environment for Skilled Workers**

Finding employment in the Northeast is not a problem. Even during the Asian crisis, the employment rate dropped by no more than 4 percent. This is due to two factors. First, wages are downward-flexible as labor unions are weak and minimum wage legislation is not effectively enforced. For example, wage earnings fell by 9 percent during the Asian crisis, and more than half of the daily wage workers received wages below the minimum wage in 2004. Second, when labor demand in industry and services falls short, workers become farm laborers either on the family farm or elsewhere. Although agricultural employment in the Northeast has declined by about 10 percent since the early 1990s, still almost one in two workers work in agriculture even during the slack season.

While getting a job in the Northeast is easy, receiving a good wage is harder. Less than two fifths of Northeast workers earned a wage at the age of 35, and just over one fifth earned a monthly wage. This compares to two thirds and one half in Bangkok, respectively. These differences in wage employment rates link back to occupation and education, as wage employment is more common outside of agriculture and among skilled workers. Among Northeast workers, about one third is employed in services and one fifth in industry. By contrast, for Northeast workers earning a monthly wage, these shares are four fifths for services and one seventh for industry. In the Northeast, almost one in two workers on a monthly payroll have vocational or university education, compared to only one in five among wage workers and no more than one in ten among all workers.
Wage employment is not only harder to come by, but it is also less well enumerated. Northeast wages, whether paid daily or monthly, are around 50 percent less than those in Bangkok. Since more Northeast than Bangkok workers receive daily wages and daily wages are only about 40 percent the level of monthly wages, the average wage received per month in Bangkok is twice as large as in the Northeast. Education is a strong determinant of wages, especially in the Northeast. For example, workers with university degrees earn about four times as much, and those with vocational training about three and a half times as much, than those without completed primary education (Figure 7). This compares to three times as much for university education, and one and a half times as much for vocational training in Bangkok. These wage premia have changed little over time, even though the workforce has become more educated. For example, the share of Northeast workers with at least primary education has increased by almost 20 percent since the early 1990s.

Figure 7: Returns to Education of Monthly Wage Earners Relative to Less than Primary in the Northeast, 1991 to 2004

Jobs have a lot to do with education and training. The better educated are more likely to find wage employment and receive higher wages. Much of the improvement in labor market outcomes in the Northeast over the last 15 years is linked to the dramatic progress in education. School participation rates for 14–year old children in the Northeast increased from less than 40 percent in 1988 to over 80 percent in 2002. The enrollment gap to other regions has been eliminated for all age groups up to upper-secondary education. Among the 15 to 21 year–old, the share of Northeast students who attended upper secondary, vocation, or university education increased from 5 percent in 1988 to over one quarter in 2002. Since less than one in twenty Northeast students attend a private school, the bulk of this progress was achieved through the public education system. However, the transition to a modern, child–centered and participatory education system in the Northeast has only begun.
Northeast students fall behind in test scores at grade 9 and 12, partly because teachers have lower qualifications. In addition, school fees are a strong deterrent for students to attend private vocational and university education. Northeast household with students in private vocational institutions spend on average 14 percent of their income on fees. Yet, it is those degrees that fetch the highest premium in the labor market.

Given the lack of jobs and lower wages, workers turn to migration, especially among the young. This leads to a twin-peak population structure in the Northeast, with many children and adults of 30 years or older, and a single-peak structure in Bangkok, with a high concentration of 20 to 35 year-old (Figure 8). But perhaps the most important effect of migration is remittances. More than one in two Northeast households benefited from such payments in 2002, compared to around 45 percent in 1996. Among receiving households, these remittances amounted to around one third of household income, and they lowered poverty from 17 percent to 12 percent.

Figure 8: Population Pyramids in the Northeast and Bangkok, 2002

Adequate Infrastructure for Internal, Not Regional, Integration

When assessed relative to the rest of Thailand, the Northeast appears adequately endowed with transport infrastructure. Road length, unpaved and asphalt, was expanded continuously in the Northeast, as in the rest of the country. The Northeast has two railway lines and eight airports, which connect the region to Bangkok. Such infrastructure integrates the Northeast with other regions, but it also facilitates the supply of goods and services from the major urban growth centers to the Northeast. This is especially attractive if other infrastructure continues to lag behind. While progress was achieved in power – almost all Northeast households had electricity connections by 2002, Northeast firms in the 2004/5 PICS complain more often than other firms about power outages. The Northeast also compares poorly in terms of water, sanitation and communication investment. For example, only one in seven Northeast business establishments have access to computers, and just over one third of them have internet connections. While the rural fixed telephone net remains patchy, mobile phones make up to some degree for the low coverage.
Strong economic growth in the GMS region raises the benefits from close ties among its member countries. The economy of the Northeast is only half the size of China’s Yunnan Province and two fifths the size of Vietnam (Figure 9). While informal cross-border trade has always taken place, but subregional integration in formal trade is a more recent development. Since 1980, Thailand’s exports increased in real terms annually by 1 percent to Lao PDR, by 13 percent to Cambodia, by 24 percent to Vietnam, and by 23 percent to Myanmar. These are encouraging developments but the direct benefits from trade integration to the Northeast remain small. Less than one percent of the around 13,500 Thai export companies are located in the Northeast. While the bulk of exports and imports with Lao PDR go through customs in the Northeast, trade with Vietnam, which accounts for the largest part of exports to the Mekong region, takes place mostly through the sea-route, by-passing the Northeast. The Northeast will only capture a greater share of the expanding trade among GMS countries if trade through the land route becomes less cumbersome. This requires improvements of infrastructure and custom regulations not just in the Northeast but also in other GMS countries.

**Figure 9: GMS GDP (Current Dollar Billion), 1995 to 2003**

Low Productivity in Agriculture, the Principal Activity of the Poor

While cities are important growth drivers, the bulk of the Northeast population resides in villages. Over four in five families live in rural areas. The need for higher income is perhaps nowhere greater than in agriculture. The Northeast generates just over one fifth of Thailand’s agricultural GDP, even though the region accounts for one half of the farms and two fifths of the agricultural land (Figure 10). Low agricultural productivity is linked to factors like small farm size, low market power of farmers, limited irrigation and lack of fertilizers and pesticides use. But perhaps the most important reasons are weak natural resources and the focus on rice production, a water-intensive crop. The Northeast has a long dry season as well as porous and highly saline soils which retain water poorly.
Over nine in ten Northeast farmers produce rice, but lack of water limits most of them to wet-season cropping. A large group of subsistence rice farmers exist alongside a small group of commercial farmers. The first group tends to produce glutinous rice for own consumption through rain fed main season cropping, while the second group applies irrigation to produce non-glutinous varieties destined for urban and export markets. Similarly, there is a duality in the production of silk with coexistence of subsistence oriented farmers with more commercial farmers, differentiated by the type of sericulture practiced (polyvoltine, poly-bivoltine and bivoltine). The immediate challenge is to raise productivity of subsistence farmers and integrate them into value chains. While efficiency gains through reforming production, processing and trade systems are still possible, the focus should be on increasing revenues by identifying highly processed and transformed rice and silk products that fetch a high value. In the medium term, improvements in rural living standards hinge on on-farm and off-farm diversification.

**A Noticeable Shortfall in Public Spending**

Regional economic development depends, among other factors, on how key sectors are funded with public resources. Channeling public resources to disadvantaged regions, if done well, can be a powerful way of promoting convergence in living standards. Yet, the Northeast receives fewer public resources than any other region and the expenditure gap with other region has remained fairly constant last five years (Figure 11). The Northeast obtained in FY 2003 Bt6,400 per capita (1999 Prices; US$160), which was one third less than the Center and 27 percent less than the North and the South. The spending shortfall compared to these three regions was close to around 30 percent in FY 1999 and FY 2003.
The Northeast is disadvantaged especially with regard to capital spending. Relative to the non-Bangkok average in FY 2003, capital expenditures were 48 percent lower and recurrent expenditures 17 percent lower. Lower spending overall translates into lower spending by function. Among the 11 main functions, the gap in FY 2003 was 8 percent for education, 33 percent for social security, 39 percent for transport and housing, and 43 percent for agriculture. The low per capita shortfall for education is related to the importance of spending on teacher’s wages which are normalized across the country. This evidence is consistent with a systematic bias arising from a rigid budget allocation system that preserves existing differences in staffing and facilities by applying fixed budget norms with little regard towards performance and new spending priorities. Such norms have a larger bearing on recurrent spending, especially salaries, whereas capital spending is by its very nature more discretionary and affected by political bargaining.

The concentration of the economic sector in and around Bangkok is reinforced by the organization of Thailand’s public sector. The highly centralized fiscal system grants only limited autonomy to lower government levels in terms of functions, area, staffing, funding and decision making. The central government appoints the chief local officials, determines local salaries, and approves local budgets. Even local utilization of the restricted funding is to a large part centrally mandated. For example, staffing levels and staff appointments of local governments are now centrally controlled. Local authorities are required to hire personnel and pay salaries, wages, and benefits in accordance with central regulations that often result in overstaffing and overspending. A second issue is local administrative capacity. The Northeast has the lowest number of government staff per person. Northeast public wages are from 5 percent to 56 percent lower than in other regions, as government staff is less qualified than in other regions.
The Agenda: General Principles and Priority Measures

Economic affluence is associated with prosperous enterprises, and enterprises locate where they expect the highest profitability. Firms will only invest in the Northeast if resources, business climate and markets are as or more favorable for their products than in other regions: economic development of the Northeast is connected to economic development in the country as a whole. Thailand has also thus far connected with its neighbors through Bangkok. While this has worked well for the country in general, this strategy may now have become a constraint for Northeast growth. The time may be right to augment the strong regional links through Bangkok and proximate areas with equally strong subregional international links through other parts of Thailand, especially the Northeast. But the success of these shifts in strategy in helping Northeast living standards converge with those of other Thai regions will depend on how well–prepared the Isan population is to compete. Fostering such a conducive climate will require government actions to upgrade services and institutions centered on three pillars: Thailand, the poor and the Greater Mekong Subregion.

What is Good for Thailand is Good for the Northeast

In the foreseeable future, the Northeast economy is dependent on the dynamism of the national economy. In the absence of weather shocks, growth in the Northeast tracks growth in Thailand closely, and jobs in the extended Bangkok area provide employment to Northeast workers whose remittances support a large service sector in the Northeast. To sustain Thailand’s economic expansion requires a focus on the new growth locations. Peri–urban areas in Bangkok’s neighborhood have attracted population inflows and have become the core of the manufacturing sector, Thailand’s most important growth driver. The specific priorities are:

- First, improving the business environment in the manufacturing in Central and East will be essential to ensure that these companies improve their productivity and continue sustaining Thailand’s export boom. This entails addressing deficits in infrastructure and business services, such as improvements in the logistics system and the provision of one-stop government centers.
- Second, prosperity in Bangkok depends not so much on large scale industries but more on high quality business and producer services as well as high amenity and sophisticated cultural products. These activities require dense, high transaction business environments with easy accessibility and flourish through the low cost of doing business, the – by international standards – low costs of living, and the cosmopolitan flair. This implies a focus on urban mass transit infrastructure and communication.
What is Good for its Poor is Good for the Northeast

In the longer term, economic convergence will depend on how well Thai policymakers meet three challenges—improved skills, service delivery to rural areas, and general government.

- First, the skills of Northeast workers have to improve to allow them to compete on par with workers from other regions for decent jobs: what is good for Northeast workers is good for the Northeast. While the Northeast has succeeded in closing the enrollment gap up to upper-secondary education, access to vocational education is still lagging and test scores are lower at higher grades. Employers reward vocational and university education, but not upper secondary education.

- Second, the prospects for rural livelihoods have to be made better. Growth has helped to lower poverty, but the duality of commercial and subsistence farmers has reduced the impact. Grass-root initiatives support rural areas but they do not differentiate between poor and non-poor villages. While this makes these programs politically more sustainable, it dilutes the effect on poverty. By exploiting the overlap of high poverty incidence and large number of poor in the Northeast, geographical targeting of public programs can help to eliminate poverty by the end of the decade. Such programs should allow for community level monitoring and bottom-up inputs through community plans. These changes should be integrated in public expenditure reforms that emphasize results-orientation, area allocations and monitoring and evaluation. However, the main channel for poverty eradication will not be government programs but improvements of rural incomes. Reducing costs, improving productivity and on- and off-farm diversification will go some way. These efforts should be complemented by measures to raise the value-added of products and reduce the vulnerability to weather shocks.

- Third, strengthening and empowering public administrations from villages to provinces will enable them to provide effectively the services demanded by enterprises. Zoning policies and industrial estates have failed to promote investment in outlying regions due to off-setting incentives as well as institutional weaknesses. Government officials should have the mandate and funds to improve the local business climate to attract investment. Increased responsibilities of province-level officials should facilitate the coordination between tambon administrations and municipalities, while more power for revenue collection and decision making in municipalities should support the development of secondary cities.

What is Good for the Greater Mekong Subregion is Good for the Northeast

Finally, promoting and integrating with a prosperous Greater Mekong Subregion can turn the Northeast from a land-locked into a land-linked region. This will require reducing structural and institutional impediments to the movements of goods, people, and capital. Lowering transaction costs should also help GMS to follow the example of ASEAN, which was transformed through stable macroeconomic environments, reliable and transparent investment rules, and foreign investment in internationally integrated production systems. The priority measures are:
First, overcoming inadequate transport and communication linkages and promote common networks in transport, power distribution, trade and commerce will help to boost competitiveness by integrating markets and exploiting scale economies.

Second, to allow the integration of markets for products and services as well as for inputs such as finance, labor and energy, physical investments should be accompanied by investments in easing processes and building capacity. This includes the harmonization of legal and regulatory frameworks and the facilitation of cross-border flows.