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East-West Economic Corridor (EWEC) Strategy and Action Plan

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May 2009

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MPRA Paper No. 41147, posted 09 Sep 2012 18:18 UTC

East-West Economic Corridor (EWEC)

Strategy and Action Plan

RETA-6310
*Development Study of the
East-West Economic Corridor*
Greater Mekong Subregion

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May 2009



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List of Abbreviations

ACIA	ASEAN Comprehensive Investment Agreement
ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
AHTN	ASEAN harmonized tariff nomenclature
AIA	ASEAN Investment Area
AMEICC	Economic and Industrial Cooperation Committee
AusAID	Australian Agency for International Development
BCI	Biodiversity Conservation Corridor Initiative
BDS	Business Development Service
BEZ	Border economic zone
BOI	Board of Investment
BOOT	Build-Own-Operate-Transfer
BTC	Belgian Technical Cooperation (
BUILD	Unit for Industrial Linkage Development
CBTA	Cross-Border Transport Agreement
CCI	Chamber of Commerce and Industry
CDTA	Capacity Development Technical Assistance
CEP	GMS Core Environment Program
CEPT	Common Effective Preferential Tariff
CGF	Credit Guarantee Facility
CIDA	Canadian International Development Agency
Concern	Concern Worldwide Lao PDR
CSF	Cost Sharing Facility
DTIS	Diagnostic Trade Integration Study
EC	European Community
ECF	Economic Corridors Forum
EOC	Environment Operations Center
EPZ	Economic processing zone
EWEC	East-West Economic Corridor
EWEC-2	Second East West Economic Corridor
FDI	Foreign direct investment
FRC	Forest Research Center
FRETA	Freight Transport Association
GMS	Greater Mekong Subregion
GMS-BF	GMS Business Forum
GRP	Gross regional product
HS	Harmonized System
IDE/ERIA-	Geographical Simulation Model for the Economic Research Institute for ASEAN and East
IEAT	Industrial Estate Authority of Thailand
IF	Integrated Framework
IGA	ASEAN Investment Guarantee Agreement
IL	Inclusion List
ISDS	Investor-to-State Dispute Settlement
JAIF	Japan-ASEAN Integration Fund
JBIC	Japan Bank for International Cooperation
JICA	Japan International Cooperation Agency
LED	Local Economic Development
M&E	Monitoring and evaluation
MoU	Memorandum of Understanding
MSE	Micro and small scale enterprises
MSMEs	Micro, small and medium size enterprises
MTDP	Mekong Tourism Development Project



MTDP	Mekong Tourism Development Project
NAFRI	National Agriculture and Forest Research Institute
NCA	Norwegian Church Aid
NESDB	National Economic and Social Development Board
NGO	Non-governmental organization
NSEC	North-South Economic Corridor
NSEDP	Sixth National Socio Economic Development Plan
NTFC	National Transport Facilitation Committee
NTFP	Non-timber forest product
NUOL	National University of Lao
NZAID	New Zealand Agency for International Development
ODA	Official Development Assistance
ODOP	One-district-one-product
RCSP	Regional Cooperation Strategy and Program
ROC	Regional Operation Center
RPTCC	Regional Power Trade Coordination Committee
SBZ	Special border zone
SEDP	Socio-Economic Development Plan
SEIA	Strategic Environmental Impact Assessment
SEZs	Special economic zones
SFA-TFI	Framework for Action on Trade Facilitation and Investment
SIA	Sustainable impact assessments
SIWG	Subregional Investment Working Group
SMEDPO	National Small and Medium Sized Enterprise Promotion and Development Office
SMEs	Small and medium size enterprises
SNV	Netherlands Development Organization
SOEs	State owned enterprises
SPS	Sanitary and Phyto-sanitary Standards
STCF	Subregional Telecommunications Forum
STF	Subregional Transport Forum
TAGS	Thai Airport Ground Services
TBT	Technical Barriers to Trade
TDF	Trade Development Facility
TFWG	Subregional Trade Facilitation Working Group
TSS	Tourism sector strategy
TWG	GMS Tourism Working Group
UNESCO	United Nations Education, Scientific and Cultural Organization
USAID	United States Agency for International Development
UXO	Unexploded ordnance
VCCI	Vietnam Chamber of Commerce and Industry
WFP	World Food Programmed
WGA	Working Group on Agriculture
WGE	Working Group on Environment
WTO	World Trade Organization
WVL	World Vision Lao PDR
WWW	World Wildlife Federation



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Executive Summary

1. Introduction

In 1998 the Eighth GMS Ministerial Meeting held in Manila launched the East-West Economic Corridor (EWEC) as one of the flagship initiatives of the Greater Mekong Subregion (GMS). A decade later the EWEC has achieved many of the targeted infrastructural benchmarks. However, consensus is still lacking among government and development partner officials as well as private sector individuals on how to convert the transport corridor into an economic corridor. The original strategy and action plan for the EWEC, based on the Asian Development Bank's 2001 *Pre-Investment Study*, identified a broad range of initiatives and opportunities that were in some instances not taken up by stakeholders, particularly the private sector. Corridor-level impacts nonetheless show a potential upside in mainstreaming economic activity. Numerous interchange nodes link east-west trade with north-south trade, and this transportation network will likely produce large increases in traffic flows over the coming years. Nonetheless, as a development corridor, the EWEC targets some of the poorer areas of the GMS countries, and it is important to recognize this feature when reflecting on the strategic framework needed to transform the EWEC into an economic corridor.

Coverage: The aim of this report is to revise and update the strategy and action plan for the EWEC as a means of consolidating planning and programming activities by government authorities and development partners. It differs from the 2001 strategy and action plan in three ways. First, it shifts the vision of the corridor to the socio-economic development of the subregion with a poverty-based focus, linked closely to the other corridors and transport routes at the interchange, border and gateway nodes, as well as secondary and feeder roads offering access to markets for rural communities. Second, it focuses the action plan on a relatively few high-profile initiatives that have direct links to key strategic areas in private sector, social, environmental and multi-modal transport development. Finally, it broadens the sector coverage to those of private sector, social and environmental development, while maintaining trade and investment, agriculture and agro-industry, tourism and infrastructure as core development areas.

Consultation Process: An integral part of the process of revising and updating the strategy and action plan for the EWEC has been the consultation process with government officials of the EWEC member countries, representatives of the private sector, non-government organizations (NGOs), and development partners. The consultations were initially held between September and November 2008 in each of the countries and, in particular, along the Corridor. Once completed, the results of the meetings were consolidated into a stocktaking report, which reviewed the EWEC from a multi-sectoral perspective, covering spatial and socio-economic progress over the last ten years, and addressing practical infrastructure, human resource, policy, regulatory and institutional barriers to trade, investment, and the movement of goods and people. These issues were subsequently discussed at a workshop held on 24 April 2009 in Khon Kaen, Thailand, with the aim of consolidating the concerns and interests of stakeholders into an updated strategy and action plan for the EWEC's transformation into an economic corridor.

Updating the Strategic Framework – The EWEC vision is to create an economic corridor that will stimulate the type of economic growth that reduces poverty and raises the standards of living in the areas covered by the Corridor. This new strategic framework is guided by the overall GMS strategic framework and the Vientiane Declaration and, as such, it complements the GMS broader vision of enhancing connectivity, increasing competitiveness, and achieving a



greater sense of community. As such, the goals of the EWEC are (a) to enhance connectivity of the Corridor areas by reducing cross-border transactions and transportation costs; (b) to increase competitiveness through economies of scale offered by cross-border investments that based on value-adding processes and take advantage of the comparative advantages of different areas within the Corridor; (c) to empower the private sector by promoting joint financial, technological, marketing, production and other collaborations in the EWEC areas; and (d) to reduce poverty, support development of rural and border areas, and increase the earnings and provide employment to the low-income groups.

Implementing the Strategic Framework – Implementation will require practical initiatives for sustaining pro-poor growth that are more focused than the original strategy. The operationalization of the new strategic framework is based on a pro-growth area model that combines the comparative advantage and complementarities within the sub-region with one based on scale economies from the regionalization of production activities, driven by a broad participation of the population. It uses a pragmatic and holistic approach to pro-poor growth in key sectors like trade and investment, agriculture, tourism and private sector development. Each of these areas has its own strategic thrust and implementation modality, along with an action plan consisting of high-profile projects with demonstrable outcomes.

Creating a Better Implementation and Monitoring Modality – Until recently the absence of a single authority responsible for the EWEC's development gave rise to questions about the ability to coordinate the functions of different agencies, as well as those of development partner projects. Under the present scheme, the Economic Corridors Forum (ECF) is charged with ensuring the collaboration among areas along the GMS economic corridors and among GMS forums and working groups. Under the existing organizational framework, there are close links between the ECF and the GMS Business Forum (GMS-BF) and the Governors Forum, as well as the GMS Ministerial Meeting, Senior Officials Meeting, and various forums and working groups. Consideration should also be given to creating linkages with the Cross-Border Transport Agreement (CBTA) and the operations of the National Transport Facilitation Committee (NTFC), GMS Freight Transport Association (FRETA), Mekong Tourism Development Project (MTDP), and the Environment Operations Center (EOC) in order to ensure collaboration among all initiatives related to the EWEC and other corridors. Nevertheless, it is important to underscore the pragmatic nature of the GMS and the EWEC and its adaptation to the emergent conditions of the subregion. The role of the ECF within the GMS/EWEC organizational framework is therefore likely to be evolutionary as the existing situation gives way to increased need for collaboration and coordination among different sector initiatives in the Corridor.

Promoting Sustained Private Sector-Led Growth – The strategic objective of private sector development in the EWEC is to improve the business environment as a means of developing competitive commercialize activities for microenterprises and SMEs. The proposed implementation of the strategy relies on a high-profile program that initially could take the form of pilot projects intended to kick-start efforts to develop competitive commercialize activities among microenterprises and SMEs along the Corridor, with special focus on business development to take place in Savannakhet. The program would aim to develop value chains across all sections of the Corridor and, for Savannakhet in particular, it would establish Business Development Service (BDS) centers to provide the needed capacity building for small enterprises to take part in complementary cluster programs and value chains linking producers to consumers. An important component to support these activities would be the creation of a financing mechanism to sustain entrepreneurial activities along the Corridor.

Private Sector Development Strategy and Implementation Modalities – There are two



broad action plans: the first addresses business development services, especially for the weakest link of the Corridor, that is, Savannakhet; the second covers cross-border activities to enhance the competitiveness of the private sector, both in the production of goods and in the promotion of tourism. In the first instance, the action plan for business development focuses on four specific activities covering BDS centers for micro and small business development in Savannakhet; the establishment of an SME development fund; training programs and workshops on SMEs' participation in global value chains; and a mapping of those global value chain opportunities for SMEs in the Corridor. In the second instance, the proposed implementation strategy relies on a broad-based set of activities to facilitate trade through the implementation of the CBTA and the establishment of FRETA; development of SEZs; cross-border agricultural activities; pro-poor production activities; support for supply chains linking micro and small enterprises to large companies and niche markets, including those involved in tourism; and support for tourism activities that target the poorer areas of the EWEC.

Alleviating Poverty and Ensuring Environmental Sustainability – The strategic objective for alleviating poverty and inequality in the EWEC is the reduction in poverty through support to rural and border area development in such a manner as to provide employment and increased earnings of low-income groups. It also seeks to enhance mobility along the EWEC, especially across borders so as to enable rural communities that include ethnic groups and women to gain access to markets, employment opportunities and social services. Since growth as an engine of poverty alleviation has been more effective in some areas of the Corridor than others, it is important that direct interventions in social welfare improvements also take place. The interventions proposed in the present action plan include integrating HIV/AIDS programs into transport projects along the EWEC; strengthen the response capabilities to epidemics; and improving the coverage of prevention and care of selected communicable diseases in vulnerable populations; improving environmental health and reducing the burden of communicable diseases; improving management of HIV resources and programs; and targeting HIV preventions associated with the implementation of infrastructural projects. For environmental conservation in the EWEC, the strategic objective is the maintenance of the quality of ecosystems in such a manner as to ensure the sustainable use of shared natural resources and to improve the livelihoods of people in the Corridor.

Enhancing Connectivity – The strategic objective for enhancing connectivity in the EWEC involves the completion of the main artery of the Corridor through multi-modal transportation systems and developing secondary road systems to link rural communities to markets. Those infrastructural improvements aim to improve linkages to gateway and interchange nodes by saving time, reducing risks and lowering transportation costs; encouraging trade along the Corridor, as well as promoting production and employment opportunities; and improving the livelihood of people in the Corridor area. The proposed secondary road improvement program will support the latter objective by helping to link rural areas to markets.

Financing – Implementation of the EWEC Action Plan would require about US\$1.5 billion over a five-year period (2008-2012), equivalent to an average of \$300 million a year. This amount compares with US\$5.0 billion over the same five-year period for the North-South Economic Corridor (NSEC). Of the currently budgeted amount for the EWEC, about 90 percent is for transport infrastructure and the remaining 10 percent is for economic and social initiatives. Within the latter group, tourism absorbs the largest proportion (nearly one-half), followed by social and environmental projects (over one-third). Private sector development, including trade and investment initiatives and agricultural development, together account for one-eighth of the total budgeted amounts for economic and social projects. A number of the projects nonetheless remain to be costed, which will probably significantly increase the total budget and the proportion of economic and social initiatives within it.



1. Background and Accomplishments

1.1 Overview of the Corridor Area

The East West Economic Corridor (EWEC) was launched a decade ago at the Eighth GMS Ministerial Meeting held in Manila in 1998 as one of the flagship initiatives of the Greater Mekong Subregion (GMS). It has adopted a holistic approach to developing a cost-effective way of instituting an efficient transport system for moving goods and people in the subregion, while simultaneously developing telecommunications and energy infrastructure, tourism, and a policy and regulatory environment that facilitates and encourages private sector development.

Notable Characteristics – The Corridor extends 1,320 km as a continuous land route between the Andaman Sea in the Indian Ocean and the South China Sea (see Figure 1.1).¹ The provinces bordering the Corridor are as follows: In Vietnam – Da Nang, Dong Ha, Thua Thien Hue, and Quang Tri; in Lao PDR – Dansavanh and Savannakhet; in Thailand – Mukdahan, Kuchinarai, Kalasin, Khon Kaen, Phitsanulok, Mae Sot, and Tak; and in Myanmar – Mawlamyine and Myawaddy. Its notable geographic characteristics are as follows:

- ❖ **Commercial Nodes** – It links important *commercial nodes* in each member country: (a) Mawlamyine-Myawaddy in Myanmar; (b) Mae Sot-Phitsanulok-Khon Kaen-Kalasin-Mukdahan in Thailand; (c) Savannakhet-Dansavanh in Lao PDR; and (d) Lao Bao-Dong Ha-Hue-Danang in Viet Nam.
- ❖ **Border Nodes** – It contains the *border nodes* border checkpoints of Myawaddy-Mae Sot between Myanmar and Thailand, Mukdahan-Savannakhet between Thailand and Laos, and Dansavanh-Lao Bao between Laos and Viet Nam.
- ❖ **Gateway Nodes** – It includes the important *gateway nodes* of Da Nang in Viet Nam and Mawlamyine in Myanmar for access to external markets.
- ❖ **Interchange Nodes** – It intersects several north-south arterial routes at *interchange nodes*: (a) Mawlamyine in Myanmar for the interchange of Yangon-Dawei, (b) Phitsanulok in Thailand for the interchange of Chiang Mai-Bangkok, as part of the North-South Economic Corridor, (c) Khon Kaen in Thailand for the interchange of Nong Khai-Bangkok, (d) Khanthabouly in Laos for the interchange of Route 13 leading to the Southern Economic Corridor, and (e) Dong Ha in Viet Nam for the interchange of Highway 1A leading to the North-South Economic Corridor.

Figure 1.1: East West Economic Corridor (EWEC) Nodes



¹ Distances are as follows: In Myanmar, about 200 km from Mawlamyine to Myawaddy; in Thailand, 620 km from Mae Sot to Mukdahan; in Laos, 229 km from Khanthabouly to Dansavanh; and in Viet Nam, 271 km from Lao Bao to Da Nang.



Flagship Projects – There are 12 flagship projects classified under two broad categories of transport and other infrastructure, and managed under various forums or working groups:

A. *Core Transport*

- (1) East-West Transport Corridor
- (2) Water transport development
- (3) Railway development
- (4) Air transport development
- (5) Cross-border facilitation in the movement of goods and people
- (6) Human resource development for the transport sector

B. *Other Infrastructure:*

- (1) Development of electric power grid
- (2) Promotion of regional energy cooperation arrangements
- (3) Telecommunications backbone development
- (4) Tourism development
- (5) Economic corridor initiatives
- (6) Initiatives of the Ministry of Economy, Trade and Industry (ASEAN-METI), Economic and Industrial Cooperation Committee (AMEICC), and Working Groups on West-East Corridor Development

From Transport Corridor to Economic Corridor - Transformation of the EWEC transport corridor into an economic corridor is the overarching objective of its member states. The development of the economic corridor has involved a broad-based strategy supporting networks of transport information, energy, goods and people.

1.2 First Strategy and Action Plan, 2001-2008

Strategy – The corridor concept has provided a holistic approach to the spatial development of the poorer areas of the GMS by focusing on investments in priority sectors (e.g., transport, energy, telecommunications, trade and investment, tourism, agriculture and agro-industry, finance, and human resource development) to maximize the development impact and minimize cost. It has thereby allowed for a “focused, limited and ‘bounded’ way of expanding cooperation beyond infrastructure projects”.² In so doing, it has integrated physical infrastructure facilities and linked them to economic initiatives based on streamlined policies and procedures that facilitate linkages along a geographic corridor.

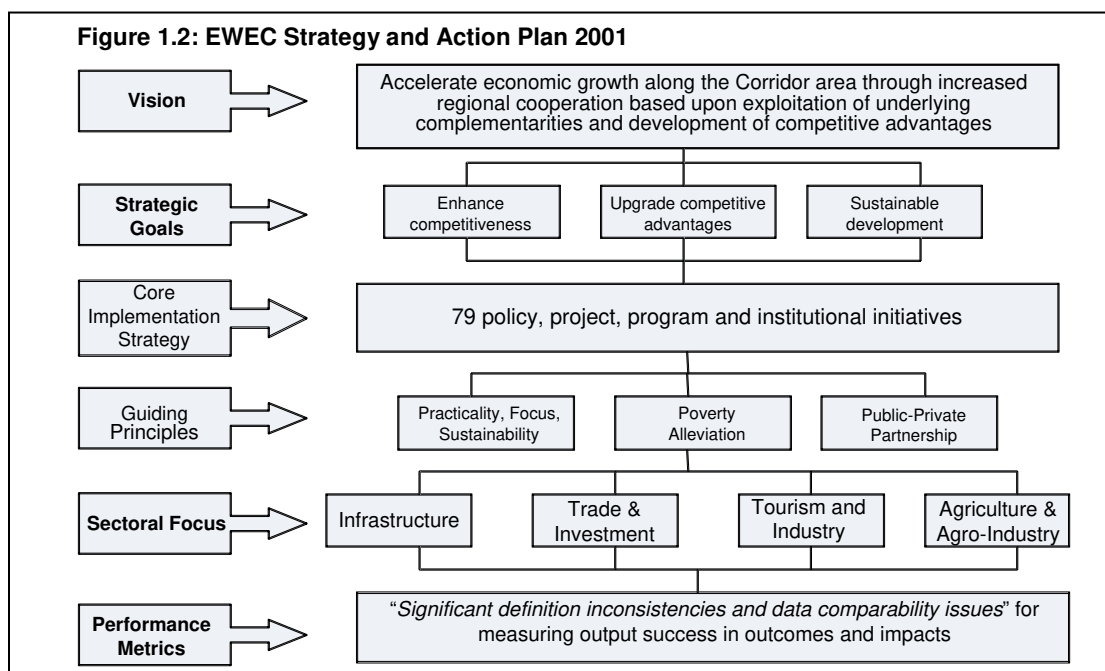
Action Plan – In applying the corridor concept to the EWEC, the *2001 Pre-Investment Study of the EWEC* laid out a pragmatic and sector-focused strategy and action plan to transform the East-West (Figure 1.2).³ The approach was designed to facilitate subregional economic cooperation while reflecting the development challenges of the area, addressing the key geographical nodes to could serve as demonstration areas for cooperation in other EWEC areas and other corridors. It proposed a vision for the Corridor that emphasized long-term development that would stimulate the growth of the participating areas and raise the incomes of their residents. That vision was to “accelerate economic growth along the Corridor area through increased regional cooperation based

² ADB Institute, “Facilitating Regional Cooperation in Asia”, 2003.

³ ADB, “Preinvestment Study for the Greater Mekong Subregion, East-West Economic Corridor”. Manila, 2001.



upon exploitation of underlying complementarities and development of competitive advantages”. The *Pre-Investment Study* provided a roadmap for facilitating the efficient exploitation of underlying subregional complementarities and developing a range of competitive advantages that could enhance the overall competitiveness of the area for value-added processing in regional and global markets.



Goals and Objectives – The goals and specific objectives proposed in the *Pre-Investment Study* were given as follows: (i) enhance the competitiveness of the EWEC area by reducing cross-border trading, transaction, transportation, investment, production, promotion and distribution costs; (ii) promote cross-border investments particularly in terms of value-added processing; (iii) upgrade competitive advantages through promoting joint financial, technological, marketing, production and other collaborations; (iv) empower the residents of the EWEC by raising their incomes, enhancing their skills, and devolving greater powers of decision-making to the local/provincial levels; and (v) develop the EWEC in financial, economically and environmentally sustainable manner. The *Pre-Investment Study* emphasized the fact that the aggregate economic impact of the Corridor would be modest in the initial stages and probably slow to materialize because of the existing levels of poverty and the reliance of the population on natural resource-based economic activities.

Proposed Initiatives – The *Pre-Investment Study* proposed a total of 79 policy, project, program and institutional initiatives, divided according to high, medium and low levels of priority. The high priority initiatives consisted of six core strategic thrusts: (i) spatial planning and physical infrastructure improvements to create the basis for the realization of the Corridor concept; (ii) policy and procedural simplification to reduce barriers to the efficient cross-border movement of goods and services; (iii) support programs to enhance the capabilities of enterprises of the EWEC to engage in regional trade and co-investment; (iv) capital and financing to provide project and other types of financing for the EWEC; (v) skills development to upgrade the capabilities of EWEC residents and businesses enhance long-term competitiveness of the EWEC; and (vi) institutional development to upgrade the capabilities of local-level bodies to sustain cooperation.



1.3 Accomplishments and Lessons

The major infrastructure components of EWEC have now been completed. In the transformation of the East-West transport corridor into an economic corridor, the major accomplishments of the initial strategy and action plan set out in the 2001 *Pre-Investment Study* relate to those that have been covered by the Cross Border Trade Agreement (CBTA), the GMS tourism sector strategy (TSS), as well as the GMS Business Forum (GMS-BF). Only about one-sixth of the policy, project, program and institutional initiatives have been implemented to date, and roughly another one-sixth have been either partially implemented or are in the process of being implemented (Table 1.1).

Among the initiatives not implemented have been a number of cross-border investment liberalization policies, programs and agribusiness projects; information systems on trade flows and cross-border investments; financial schemes to support business operations along the Corridor; port improvements in the gateway nodes; and business development services for micro and small size businesses along the Corridor areas.

Extrapolation from the project-specific details in Table 1.1 leads to a number of generalizations and lessons from the 2001 Strategy and Action Plan:

- ✓ First, the experience shows that wide-ranging initiatives are less likely to be implemented than are a few targeted initiatives within well-defined areas.
- ✓ Second, the limited port expansion that occurred in both gateway nodes (i.e., Da Nang and Mawlamyine ports) prevented the EWEC from opening up a window for products from Thailand, Laos, Myanmar and Yunnan to the emerging markets of South Asia and Europe, as well as the East Asian markets. It also impacted on the directional flow of commerce by, in part, shifting the focus towards the north-south arterial routes at the interchange nodes at Phitsanulok for the western section of the North South Economic Corridor (NSEC), at Khon Kaen for the interchange of Nong Khai-Bangkok, Khanthabouly for the interchange of Route 13 in Laos leading to the Southern Economic Corridor, and Dong Ha for the interchange of Highway 1A in Viet Nam leading to Hanoi and the eastern section of the NSEC.
- ✓ Third, few of the private sector development initiatives were implemented because (a) institutional mechanisms like the GMS-Business Forum (GMS-BF) was not fully operational until fairly recently; (b) capacity limitations in Laos and Vietnam prevented many of the proposed cross-border investment and agribusiness projects from being carried out by microenterprises, which predominate in terms of labor absorption in the formal and informal sectors; (c) proposed financing mechanism aimed at facilitating private sector development were not put into place; (d) potential development of commercial interchanges like Phitsanulok's Indochina Crossroads have remained untapped; and (e) the lack of a master plan for sectoral development across the Corridor means that project interventions are often fragmented and lack support from other sectors like infrastructure, finance, HRD and central or provincial economic policies.
- ✓ Fourth, progress in cross-border investments was hampered by problems related to (a) the promotion of good governance and curbing corruption, (b) provision of adequate infrastructure, (c) defining adequate and responsive policies on foreign investment, (c) establishing efficient industrial zones, and (d) difficulties in integrating micro-enterprises into value chain activities along poorer areas of the EWEC. More broadly, the GMS Subregional Investment Working Group's (SIWG) role has remained broad and nebulous since there has been considerable



divergence among GMS countries over SIWG's role, as a result of which much of its private sector promotion-related activities have been carried out by the GMS-BF.

Evaluation of the EWEC performance in terms of its impact cross-border economic activity remains challenging because of data limitations and lack of transparency. The recent EWEC performance evaluation report provides comprehensive statistics on logistics measures, vehicle and people cross-border movements, aggregate trade and tourism, as well as border community and market access surveys conducted during the evaluation. With limited data and lack of overall transparency, coupled with the absence of quantitative benchmarks, there remains a clear challenge for member countries to develop ownership, oversight and accountability on the progress in transforming the EWEC into an economic corridor.

Table 1.1: Achievements of the EWEC under the 2001 Pre-Investment Strategy and Action Plan

Sector	Implemented or in Progress	Little or No Implementation
Infrastructure	Most Corridor infrastructure complete	Deepwater port in Myanmar
	Extended cross-border container transport	Road toll and maintenance fund
	Second Friendship Bridge between Mukdahan and Savannakhet	Port Planning, terminalization and access
	Expansion of four-lane highway and road improvements along Thai EWEC.	Improvement of 70 km section of road from Kalasin to Na Krai in Thailand
	Lao Bao new border checkpoint	Upgrading of Tien Sa sea port and building Lien Chieu port to receive larger freight amounts from EWEC
	Upgrading to Class III highway between Lao Bao and Dong Ha	Development of service facilities along Route 9 in Savannakhet
	Construction of Hai Van tunnel in Da Nang	
	Completion of road between Thingannyinaug and Myawady in Myanmar	
Trade and Transport Facilitation	Streamlining and harmonization of border control documents	Border communications hubs
	Implementation and Training of a Standard Trade Valuation System	Cross-border EDI
	Improve Third Party Logistics	Reduce unofficial costs associated with expediting processing by customs officials
	Liberalize Protocol for Cross-Border Movements	Use of electronic data interchange system in Lao PDR
	Standardization of Trade Documents	Increased integration of customs and with other regulatory agencies
	Temporary Import Facilitation	Establishment of border trade database
	Single-stop customs inspection between Laos and Vietnam, and Laos and Thailand	Free trade zone in Mukdahan
	Measures for the exchange of traffic rights	Institutionalization of traditional informal trade
Facilitation of cross-border movement of people covering multi-entry visa	Application of risk management for customs and SPS regulation	
Investment and Special Economic Zones	Special economic zones in Mae Sot and Savannakhet	EWEC Investment Information System
	Joint Industrial Investment Promotion Program	Development of subregional marketing facilities
	Establishment of logistics center and a small-scale industrial estate in Mukdahan	Development of AICO-type Schemes in EWEC, which should now be expanded to include the ASEAN Comprehensive Investment Agreement (ACIA).
	Creation of Savan-Seno Special Economic Zone	Accelerate implementation of AIA for cross-border EWEC investments
	Establishment of border economic zone (BEZ) in Mae Sot	Harmonization of industrial zone management policies
	Creation of industrial estates in Lao Bao and Dong Ha	Streamline procedures for EWEC investments
Private Sector Development	Handicrafts and medicinal plants in Savannakhet	Development of B2B System for SMEs
	Establishment of industrial estates in Savannakhet	Enhance mechanisms for SME exporters to secure working capital



Sector	Implemented or in Progress	Little or No Implementation
	Industrial park in Hue and Da Nang	Establishment of Investment Finance Corporation for EWEC activities
	GMS Business Forum (GMS-BF) promotion of business activities and investment in the area by building up the capacity of the local private sector	Establishment of venture capital fund for investment in EWEC SMEs
Agriculture, Agribusiness and Industry	Supply chain management of cross-border raw material and intermediate inputs of EWEC countries	Various agriculture-based processing activities in Savannakhet
	Agro-Industry Forum through GMS Business Forum (GMS-BF)	Agriculture-based processing activities in Vietnam and Thailand
		Agro-industrial raw materials research coordination
		Agro-industrial raw materials research coordination
		Training in agro-industrial management
		Industrial zone/export processing zone at Mawlamyine, Myanmar
		Promotion of appropriate agro-industrial products
Power and Telecomm	Rural electrification along Route 9	Extend fiber-optic cable along Route 9
	Extension of power grid along Route 9	Extend telecoms services in West EWEC
	Expand private sector role in telecommunications	Extension of telephone service along Route 9
	Regional power planning	Cross-border wireless services
Tourism	Promoting and marketing tourism in EWEC	Training needs assessment of basic tourism skills for EWEC
	Inventory of natural, cultural, and historical tourism resources in EWEC	Development of tourism facilities along some of the poorer areas of the Corridor
	Feasibility study on developing cruise tourism in EWEC	
	Program to promote Buddhist pilgrimage tourism in EWEC	
	Program to promote overland tours in EWEC	
	Sustainable tourism development in Vietnam and Laos	



2. Perspective on EWEC Development

2.1 The Consultation Process

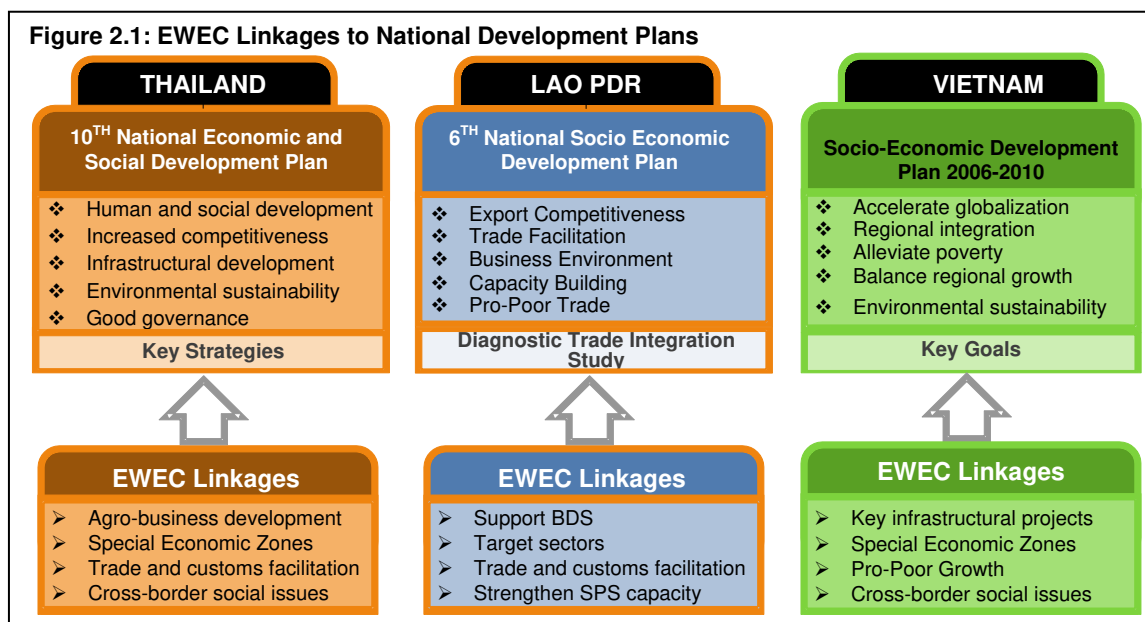
Consultations Process: An integral part of the process of revising and updating the strategy and action plan for the EWEC has been the consultation process with government officials of the EWEC member countries, representatives of the private sector, non-government organizations (NGOs), and development partners (see Annex A for the list of interviews conducted). The consultations were initially held between September and November 2008 in each of the countries and, in particular, along the Corridor. Once completed, the results of the meetings were consolidated into a stocktaking report, which was subsequently discussed at a workshop held on 24 April 2009 in Khon Kaen, Thailand (see Annex A for the agenda and participants to the workshop). The broad aim of the consultations and workshop was to identify and consolidated the concerns of stakeholders into the present report and from those voices to redefine the strategy and action plan for the EWEC's transformation into an economic corridor.

Government Sector: For the government sector, the national and provincial development programs have been explicitly linked to the Corridor's development since the GMS countries adopted a 10-Year Strategic Framework in the 12th GMS Ministerial Meeting in September 2003. That framework agreement established the mechanism for the EWEC to become a catalyst for change in the areas being targeted by the national, subregional and provincial development plans. The first part of this chapter describes those linkages in the national and provincial context of the EWEC for three of the four member countries.⁴

Private Sector: The private sector's interests can be generally classified into two components. The first refers to the use of EWEC's transport system, while the second concerns the opportunities and possible costs for socio-economic development of the area surrounding the Corridor. The EWEC contains a large number of interchange nodes linking east-west trade with north-south trade along the entire range of the EWEC, and this transportation network will likely produce large increases in traffic flows over the years to come. In contrast, the developmental aspects of the Corridor are often distinct from its commercial viability. As a development corridor, the EWEC targets some of the poorer areas of the GMS countries, and that feature is reflected in the relatively low level of private sector development and the low skill levels in some of the poorer areas of the Corridor. It is therefore important to recognize the distinction between commercial and development interests, as well as possible conflicts and competitive interests that can exist between the EWEC and other corridors having greater commercial viability in the region. The second section of this chapter examines some of these issues, while private sector development in the Corridor is examined in greater detail in chapters 6 and 7.

Development Partners: Most development partners in the EWC share a common vision of the socio-economic development of the regions that the Corridor transverses. The initial stage of the EWEC's development concentrated on the establishment and improvement of the transport infrastructure needed to efficiently transport goods, services

⁴ In the case of Myanmar, the Short Term Five-Year plan for 2001/02 to 2005/06 included the (a) Border Area Development Program, (b) plans for 24 Special Development Zones, and (c) an integrated Rural Development Plan. Information for the national development plan covering the current period is unavailable.



and people across borders. Improvement of this type of infrastructure has been considered to be essential in furthering linkages along the Corridor. The second stage of the Corridor’s development is now focusing on the reduction of poverty, development of rural and border areas, improvements in the earnings of low income and vulnerable groups, including the provision of employment opportunities for women, and the promotion of tourism along the Corridor. The final section of this chapter reviews developments in these areas.

2.2 Government Sector

Lao PDR: The Sixth National Socio Economic Development Plan (NSED, 2006-2010) focuses on economic growth and linkages to social development through increased competitiveness, building on international economic commitments in the framework of ASEAN, GMS and WTO. To that end, the Government’s Diagnostic Trade Integration Study (DTIS) action matrix has identifies the following five priority areas for reform that require external assistance: (a) export competitiveness, (b) trade facilitation, (c) business environment, (d) capacity building, and (e) trade opportunities for the poor. The Government is now implementing this agenda through a multi-agency entity consistent with the WTO Integrated Framework (IF) and the Vientiane Declaration on Aid Effectiveness that will coordinate Official Development Assistance (ODA) from the World Bank, the European Community (EC) and Australia (AusAID) using a Trade Development Facility (TDF).

Linkage to the EWEC: The TDF component on export competitiveness will support business development services with a market focus in priority sectors that are critical to the development of the private sector in Savannakhet. Of particular note for the Corridor are improvements in productivity of selected sectors with a high potential growth for export, namely the garment industry, handicraft, secondary wood processing sectors and agro-processing among others. In support of trade in these and other sectors, Sanitary and Phyto-sanitary Standards (SPS) activities will be strengthened and regulatory framework for Technical Barriers to Trade (TBT) will be improved. At the same time, the capacity building component will finance technical assistance and training program to strengthen local research, academic and vocational institutions and improve government



managerial and technical know-how of provincial as well as central government agencies. The trade facilitation component of the TDF will simplify procedures, automate their processes, and better coordinate to deliver on the trade facilitation agenda under the GMS. Key activities include establishment of a trade portal for the dissemination and use of information, procedures and systems to capture customs and other trade information, and the automation of licensing and registries. Customs operations are being rationalized and automated through a separate World Bank funded Lao PDR customs and trade facilitation project.

Vietnam: One of the principal tasks laid out for the country by the Government's Socio-Economic Development Plan (SEDP) for 2006-2010 is the expansion of trade through an acceleration of Vietnam's international and regional economic integration. The uneven distribution of benefits and associated adjustment costs of increased openness, especially between rural and urban areas, is often cited as the major challenge to Vietnam's international economic integration at the regional and international level. Many Vietnamese depend on agriculture and are likely to face income reductions as agricultural tariffs are lowered and as the economy becomes more exposed to imports from low-cost trading partners. Other concerns relate to potential damage to the manufacturing sector as tariffs reductions take place under the CEPT-AFTA arrangement and the 2006 accession to the WTO, farm profits fall in response to subsidy cuts, the competitive position of industries is eroded by higher processing standards. The SEDP views business development, increased private investment, and increasing international economic integration as crucial in providing opportunities for the poor to improve living standards.

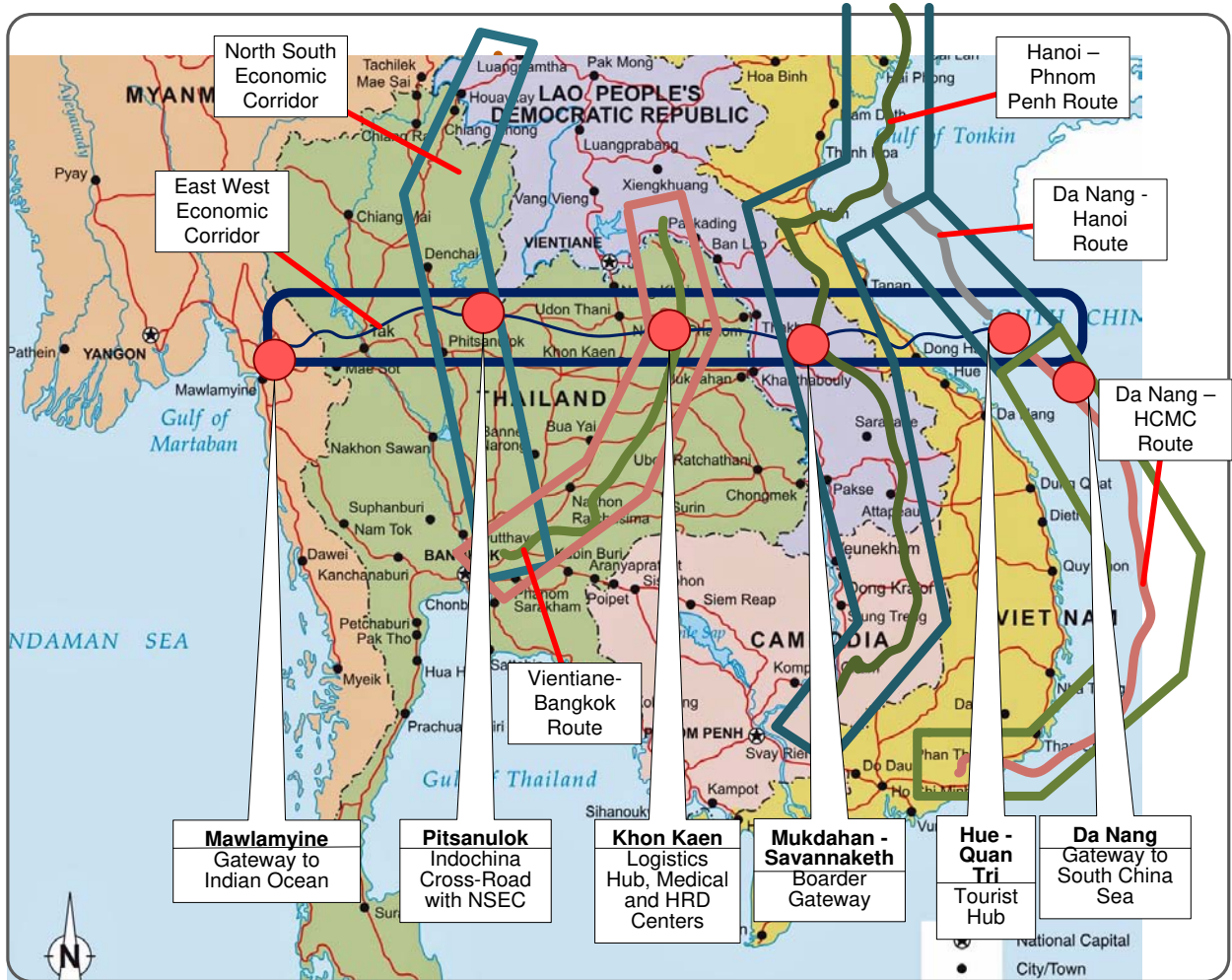
Linkage to the EWEC: The Regional Cooperation Strategy and Program (RCSP) for the GMS supports the SEDP by focusing on pro-poor growth in Vietnam's the lesser developed areas of the central region. The specific initiatives for those areas under the EWEC program include key infrastructure projects along Corridor and the facilitation of transport and trade, as well as the Core Environment Program that includes Biodiversity Corridors Conservation Initiative. It also focuses on linkages to regional trade, movements across borders, tourism, and natural resources management.

Thailand: The strategic framework for addressing Thailand's national development in for 2007-2011 is the 10th National Economic and Social Development Plan (NESDP). Among the five key strategies for achieving goals set out in the NESDP are human and social development to increase the country's productivity and competitiveness in the global economy, the restructuring of the national economy to achieve productivity gains, promote domestic and foreign investment and increase competitiveness, and the development of infrastructure and capital market. Central to this process is the further reduction in poverty to promote an equitable development across the country that, to date, have yet to be realized since more than 85 percent of the poor live in rural areas and there continue to be striking income disparities across regions. The incidence of poverty in the northeast, for example, is 50 percent higher than the national average.

Linkage to the EWEC: Development in the north and northeast provinces has lagged behind other GMS regions, with the result that per capita income of those areas has dropped relative to the other regions. The Government of Thailand recognizes that economic growth and trade integration must be a priority for the EWEC provinces if poverty is to be lowered and migration to metropolitan areas reduced. To that end, the Government has targeted the development of agro-processing and manufacturing industries in an effort to offset the growing agglomeration of fast expanding sectors such as electronics, machinery parts and auto parts in the Bangkok area. At the same time,



Figure 2.2: EWEC Complementary Corridors and Routes



Thailand has assumed a leadership role in cross-border issues such as environmental management, the trafficking of drugs and people, and the control of communicable diseases.

2.3 Private Sector: Transport Interests

Complementary Corridors and Routes: The EWEC is located in the center of several Indochina cross-roads (Figure 2.2). As a transit corridor, for example, the success of the EWEC portion linking Bangkok to Da Nang has led to the development of the Northeastern region of Thailand, and in particular the commercial interchange node of Khon Kaen, because of its strategic location in the Bangkok to Hanoi route through the Corridor. The comparative advantage of the eastern portion of the EWEC in the context of trade between major Asia commercial centers relative to the other GMS corridors has recently been validated by cross-GMS regional analysis, as well as the application of a gravity model. The results are not surprising since the concept of the gravity model itself shows greater benefits in terms of effectiveness for routes connecting large commercial centers like Bangkok and Hanoi than it does for those connecting smaller centers along a corridor. Nonetheless, the model outcomes serve to demonstrate the attraction of the EWEC as a transit road to major commercial centers beyond the Da Nang gateway node.



NSEC Intersection with Phitsanulok Commercial Node – Known as the Indochina Crossroads, Phitsanulok is situated on the geographical and administrative dividing line between the central and northern Thai regions. It is intersected by the North South Economic Corridor (NSEC) and EWEC, and the large anticipated expansion of trade along the NSEC could bolster commerce and industry in this commercial node and stimulate tourism activities.⁵ At present, infrastructure is lacking to support business and tourism, especially in attractive restaurants and hotel accommodations and, for now, the city's major activities centers around learning and research activities at Naresuan University. During the recent field visit to the region there was evidence along the EWEC in the eastern portion of the province of large trucking activity with electronic goods originating in southern China. However, commercial activity along that portion of the EWEC is constrained by the need for trucks to use secondary roads to bypass the Thung Salaeng Luang National Park along the Corridor, which increases travel time and transport costs to the Khon Kaen market.

Vientiane–Bangkok Route Intersection Node with Khon Kaen Commercial Node – Khon Kaen is bisected by Highway 2 (also known as the 'Friendship Highway') linking Bangkok with the northeast and Vientiane in Laos, and the multi-lane Highway 209 of the EWEC. The Thai Government had endorsed it as the leading export center for trade into the Indo-China region.⁶ There is considerable potential for value chains in sugar, electronics parts assembly, and tourism.⁷ Khon Kaen is also a regional development centers for education, financial institutions, government offices and medical facilities. Khon Kaen University is the location of the Mekong Institute, a New Zealand Government initiative supported by the ADB to provide capacity building on all aspects of the GMS, including the EWEC. The university also carries out work on the EWEC through the Regional Operation Center (ROC) on strategic issues with neighboring countries and various socio-economic topics through the graduate studies programs of different departments.

Hanoi- Phnom Penh Route Intersection Node with Savannakhet-Mukdahan Border Node – There is limited commercial activity along the National Road No 13 between Savannakhet and Ban Lao, though a potential link to Vinh in Vietnam to provide access between Hanoi and Phnom Penh has been raised by the Laotian authorities. Commercial activities between Savannakhet and Pakse in Champasak are presently greater than in the northern section of the highway. A draft agreement between Lao PDR and Cambodia for a transit transport route between Laos and Sihanouville port in Cambodia has not been concluded, which has limited the potential for further traffic along the highway. In November 2008 the prime ministers of Lao PDR and Cambodia met to discuss mechanisms to facilitate trade that would provide Laos with greater access to Sihanouville port. Implementation of those transit and trade facilitation arrangements would significantly impact on commerce along National Road No 13.

Hanoi-Ho Chi Minh City Intersection Node with Hue and Da Nang Gateway Node – There is a large volume of commercial traffic running north-south between Hanoi and Ho Chi Minh City. Highway Number 1 is congested and there are plans to create expressways

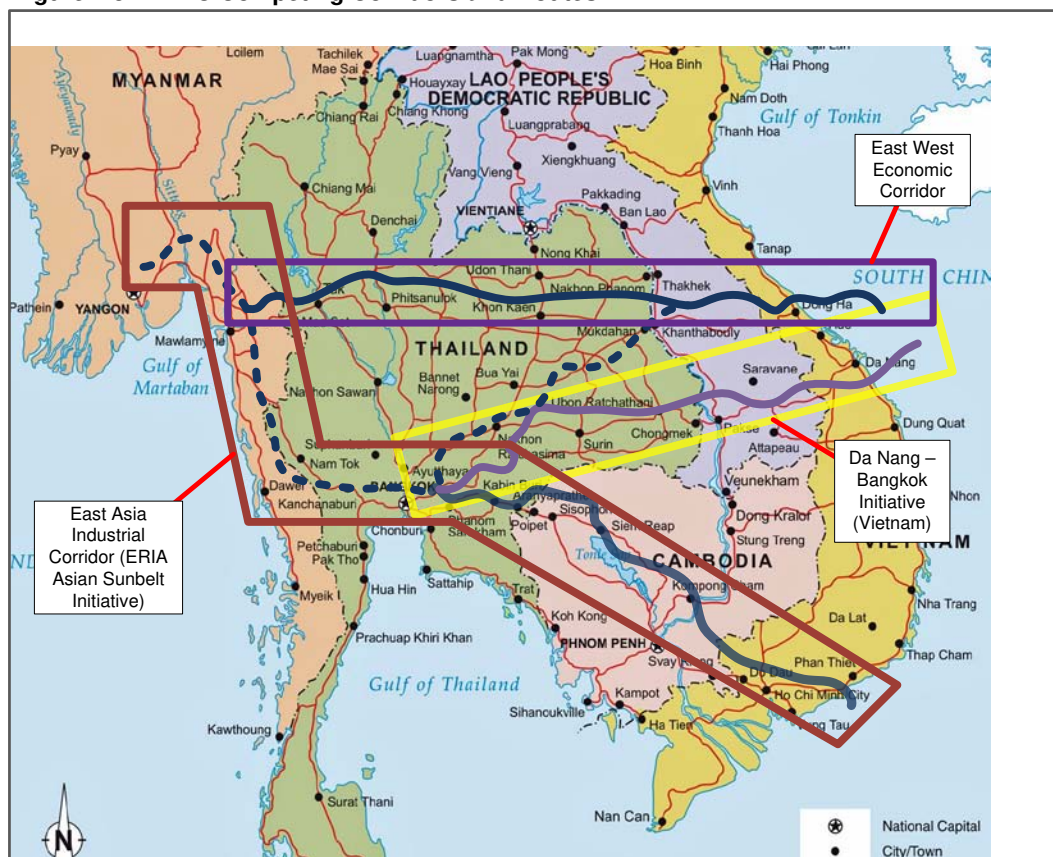
⁵ The city is a major tourist destination for the famous Phra Buddha Chinnarat at Wat Yai, and the province has one of Thailand's largest forest areas at Thung Salaeng Luang National Park.

⁶ Subdivision of Natural Resources, "City Report of Khon Kaen". Office of Public Works, Khon Kaen Municipality.

⁷ For details, see Northeastern Strategic Institute, "The Role of EWEC in Logistics Planning case: the Northeast of Thailand". Khon Kaen University (2006).



Figure 2.3: EWEC Competing Corridors and Routes



along the Da Nang to Guang Nai and Hanoi to Vinh portions of the highway to alleviate congestion.⁸ The thousand-mile single-track line along that route carries about 7 percent of the freight. The Government plans to rehabilitate much of the country’s highway system by 2025, including the entire so-called North-South Expressway Axis.⁹ In addition to supporting the rehabilitation of the north-south highway, the Japanese Government is supporting the construction of a 1,630 high-speed railway that will operate at speeds of 300-350km/hr and reduce travel time from between 30 and 40 hours to 10 hours. The project will cost US\$33 billion and will be completed by 2016.¹⁰ The resulting surge in commercial activity along the north-south rail and highway system could provide a major stimulus to commercial activity along the EWEC.

Competing Corridors and Routes: ERIA Asian Sunbelt Initiative – From a purely commercial viewpoint, the Southern Corridor has the greatest potential for population growth and industrial development. By 2025 population growth has been projected to increase six-fold in the Bangkok metropolitan area and eight-fold in the nearby coastal provinces of Rayong, Samut Sakhon, while negative population growth is anticipated in

⁸ P. Broch, “The Emerging Expressway Network in Viet Nam as Part of the GMS Transport Network”. Manila, Asian Development Bank, Southeast Asia Department, Infrastructure Division. Prepared for the 12th Meeting of the Subregional Transport Forum.

⁹ Viet Traffic, “Road & Rail Transport Market Outlook for Vietnam”. 15-17 October 2008.

¹⁰ “North-south rail link comes a step closer”. Vietnam Business Finance, December 11, 2008.



the north-central and northeast regions of Thailand.¹¹ The forecast is for a ten-fold increase in GDP accompanying the industrial expansion in these areas, a similar expansion in Vietnam's Ba Ria-Vung Tau near Ho Chi Minh City, and a nearly six-fold increase in GDP in the Ho Chi Minh City metropolitan area. For this reason, the Government of Japan is planning to focus its technical assistance on the development of the East Asia Industrial Corridor linking Rangoon-Bangkok-Phnom Penh-Ho Chi Minh City, according to discussions held in early November 2008 with Japan International Cooperation Agency (JICA) officials (see Figure 2.5). It encompasses the Southern Corridor and extends it to Rangoon as a means of accessing the only deep-sea port facilities in Myanmar that would link the Indian and Pacific Oceans.¹² At present, JICA has no further plans to support the development of the EWEC.

Competing Corridors and Routes: Da Nang–Bangkok Route – The Da Nang City People's Committee has proposed a Second East West Economic Corridor (EWEC-2) that represents a more direct route between Da Nang and Bangkok than the one currently offered by EWEC. It is a recent suggestion and details of the project and timeframe have not yet been developed. The route would begin in Tien Sa Port in Da Nang and run from Highways No. 14B and 14D to Dak-oc Border Gate in Quang Nam Province, then to Sekong and Pakse in Laos, and Chongmek and Nakhon in Thailand before reaching Bangkok. The total distance of EWEC-2 would be 987km, which is 400km shorter than the current road between Da Nang and Bangkok using EWEC. For EWEC-2 to be implemented, a 123km stretch from Dak-oc Border Gate to Sekong would need to be asphalted. In addition to providing a more cost-efficient route between Bangkok and Da Nang, it would also support the socio-economic development of the Boloven Highlands in Laos, which has large tourism potential.

In large part, the motivation underlying the traffic between Bangkok and Da Nang is the road access to Hanoi. Logistic services have been implemented by several companies. They currently use the portion of the EWEC from Kuchi Narai in Thailand to Dong Ha in Vietnam, which represents 28 percent of the existing Corridor. The reason for the focus of the business community on the Bangkok-Hanoi route rather than the EWEC has recently been examined using a gravity model.¹³ The findings show that the population density and gross regional product (GRP) of Bangkok and Hanoi make that route highly effective from a commercial viewpoint. The EWEC is nonetheless effective due to its links to the NSEC and other north-south routes discussed in the previous section, as well as furthering links that have been created between the northeast Thailand provinces and the central Vietnamese provinces.

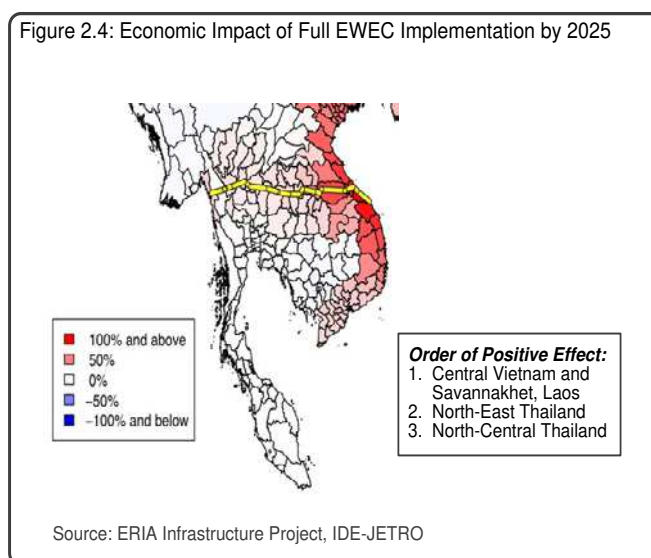
¹¹ S. Kumagai, T. Gokan, I. Isono and S. Keola, "The IDE Geographical Simulation Model: Predicting Long-Term Effects of Infrastructure Development Projects". IDE Discussion Paper No. 159. June 2008.

¹² Much of the motivation for the Asian Sunbelt Initiative is based on the modelling work being undertaken by the economic Research Institute for ASEAN and East Asia (ERIA). It adopts the New Economic Geography concept to continental Southeast Asian countries using a gravity model to account for geographic distance and economic size. For a description of the New Economic Geography, see M. Fujita and T. Mori, "Frontiers of the New Economic Geography". Discussion Paper No. 27, Institute of Developing Economies, April 2005; and for details of the ERIA model, see Hadi Soesastro, ed., "Geographical Simulation Model Analyses on Economic Corridors". In Developing a Roadmap towards East Asian Economic Integration. ERIA Research Project Report 2007, No. 1.

¹³ M. Ishida, "Evaluating the Effectiveness of GMS Economic Corridors: Why is There More Focus on the Bangkok-Hanoi Road than the East-West Corridor?" IDE Discussion Paper No. 123, October 2007.

2.4 Private Sector Provincial Interests

Consequences of Full EWEC Development: Understanding the impact of transport infrastructure developments and lower border costs is essential to motivating national authorities to implement regional integration programs. Recent progress has been made in modeling and predicting possible EWEC outcomes from alternative developments based on the Geographical Simulation Model for the Economic Research Institute for ASEAN and East Asia infrastructure project (IDE/ERIA-GSM). A recent application has examined the impact of different outcomes of the EWEC, ranging from the current state of development to full implementation of the Corridor.¹⁴ Without EWEC progress agglomeration of the population would continue around Bangkok and Ho Chi Minh City, with a resulting growth of inter-provincial income disparities in the EWEC region. With the full development of the physical infrastructure and customs facilitation along the EWEC, Savannakhet and central Vietnam (Da Nang and Quang Tri) would gain significantly in population and income growth. Indeed, full development of the Corridor would more than double Da Nang's GDP by 2025, while that of Savannakhet would expand by 70 percent. The northeast region of Thailand would also experience significant income and population gains.



Impact of Partial EWEC Development – Two intermediate scenarios have also been examined by IDE/ERIA-GMS. Either full development of the physical infrastructure or customs facilitation would leave much of the EWEC provinces in the same situation as the current baseline outcomes predictions, that is, a much more moderate expansion in provincial population and incomes. For example, in Savannakhet the partial EWEC development with either the completion of the physical infrastructure or trade facilitation would generate a level of GDP in 2025 that is 3.6 times existing levels, which is similar to the outcomes under the baseline (unchanged conditions) scenario.

Policy Implications – The results underscore the importance of reducing border costs in parallel to EWEC physical infrastructure development; just connecting inter-country provinces with highways is not enough to facilitate movements of goods and people. For the full benefits of those infrastructural developments to occur, they must be accompanied by reductions in border costs to fully affect the potential impact on the geographic distribution of populations, raise income levels and attract industries.

¹⁴ S. Kumagai, T. Gokan, I. Isono and S. Keola, "Geographical Simulation Model for ERIA: Predicting the Long-run Effects of Infrastructure Development Projects in East Asia". In N. Kumar (ed), International Infrastructure Development in East Asia: Towards Balanced Regional Development and Integration. ERIA Research Project Report 2007, No. 2, March 2008.

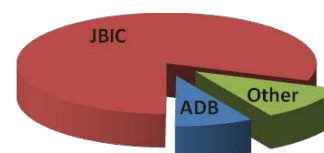
2.5 Development Partners

Development sequencing has been a cornerstone of the EWEC strategy. From the onset, the ADB's vision has been the socio-economic development of the regions that the Corridor transverses. This approach is shared by many donors and development partners supporting the EWEC and the geographic area covered by the Corridor.

2.5.1 Stage 1: EWEC Transport Corridor

The initial stage of the EWEC's development has concentrated on the establishment and improvement of the transport infrastructure needed to efficiently transport goods, services and people across borders. Improvement of this type of infrastructure has been considered to be essential in furthering linkages along the Corridor. For the eastern portion of the corridor, physically linking areas that were not previously connected has been achieved with the support of both the ADB and the Japan International Cooperation Agency (JICA) and the Japan Bank for International Cooperation (JBIC).¹⁵ The remaining task is the improvement and expansion of the existing links. In the western portion, plans are underway for completing the Mawlamyine to Myawaddy section of the highway with assistance from the Government of Thailand.

Figure 2.5: Donor Financing Sources for EWECs Transport Infrastructure



While the ADB has provided much of the technical cooperation for the EWEC transport corridor, JBIC has been the dominant financing source for much of the construction of the infrastructure. It has accounted for about four-fifths of the nearly \$900 million equivalent of the EWEC's transport infrastructure (Figure 2.5). The ADB has supported nearly 10 percent of the funding for that infrastructure, mainly for the rehabilitation of Road 9 in Lao PDR between Muang Phin and Dene Savanh near the border with Vietnam, and the upgrading of Road 9 in Vietnam between the Lao border and Dong Ha on Highway 1.¹⁶ Figure 2.6 shows the comprehensive coverage of these projects along all portions of the Corridor.

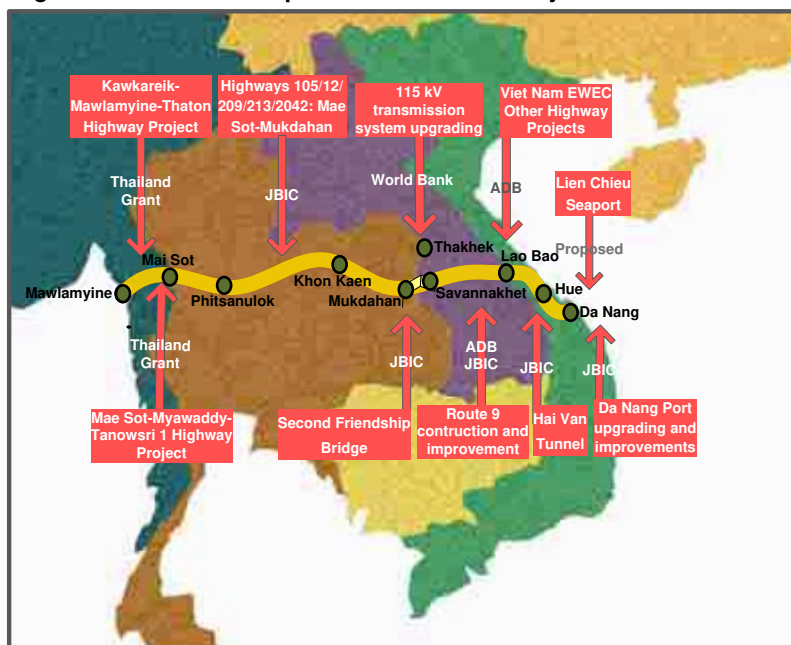
¹⁵ As of 1 October 2008, JICA will be merged with the soft loan arm of JBIC.

¹⁶ In Lao PDR, the ADB provided (i) rehabilitation of 78 kilometers (km) of route national (RN) 9 (Lao side of National Road 9) from Muang Phin to Dansavanh at the border with Viet Nam (i.e., civil works, land acquisition, resettlement and unexploded ordinance [UXO] clearance, construction supervision, and project management); and (ii) upgrading of three rural access roads connecting to RN9 (i.e., construction and improvement of small bridges, river crossing systems, pathways, rural roads, and other infrastructure). In Vietnam, the ADB financed the reconstruction of 83 km of National Highway (NH) 9 (Viet Nam side of National Road 9) from the Lao Bao border crossing to Dong Ha (on the north-south NH1). For an impact assessment of these infrastructural improvements, see ADB, "Lao People's Democratic Republic and the Socialist Republic of Viet Nam: Greater Mekong Subregion: East-West Transport Corridor Project". Manila, September 2007. According to the report, the combined effects of the Second Mekong International Bridge, Mekong Bridge Access Roads, Road 9 Rehabilitation, Highway 1 Periodic Maintenance, and Da Nang Port Improvement on Lao PDR and Viet Nam were found to reduce vehicle operating costs between 2 percent and 32 percent with a median of 16 percent, while transit times were reduced by around 25 percent. During the same period, the value of trade across the border of the two countries was found to increase by 41 percent between 2003 and 2006. As a result, the report concludes that these projects were successful in achieving their primary objectives of increasing the movement of people and goods, reducing the vehicle operating costs and travel time while increasing the level of traffic achievable in the region.

2.5.2 Stage 2: EWEC Economic Corridor

The ADB has been in the forefront of development financing in the second stage of the Corridor's development focusing on the reduction of poverty, development of rural and border areas, improvements in the earnings of low income and vulnerable groups, including the provision of employment opportunities for women, and the promotion of tourism along the Corridor. Figure 2.6 shows some of the key socio-economic projects

Figure 2.6: EWEC Transport-Related Donor Projects



being supported by international, regional and bilateral donors and development partners. Implementation of the Cross Border Trade Agreement's (CBTA) protocols and annexes is being advanced through the support given by the ADB, World Bank and JICA in a variety of institutional and customs reforms to facilitate the movement of goods and people. Technical support is currently being provided by both the ADB and Japan's ERIA for special economic zones (SEZs) along the EWEC. Japan is also funding local business promotion that includes 'one village one product' initiatives aimed at developing local traditional businesses by micro and small enterprises (MSEs) in Vietnam, Laos and Myanmar. Critical to the development of small and medium size industries (SMEs) along Road 9 in Savannakhet is the development of roadside service stations and rest areas being financed by the Japan-ASEAN Integration Fund (JAIF). An integrated EWEC tourism initiative is being promoted as part of the ADB-funded Mekong Tourism Development Project (MTDP), which combines management, capacity building, infrastructure, and socio economic and cultural activities. For the EWEC in particular, the Vientiane Plan of Action for 2008-2013 identified the East-West Economic Corridor Tourism Development project at an estimated cost of \$23.1 million, which could be supported by the MTDP or JICA. Within the EWEC specific regions like Savannakhet are being targeted for tourism development with the support of the ADB, JICA and Netherlands Development Organisation (SNV).

In the social sector, human trafficking, HIV and the potential growth of income inequalities in cross-border areas are being addressed by the ADB, JICA, World Bank, Australian Agency for International Development (AusAID), United Nations Education, Scientific and Cultural Organization (UNESCO), World Food Programme (WFP), Canadian International Development Agency (CIDA), bilateral aid such as Belgian Technical Cooperation (BTC), New Zealand Agency for International Development (NZAID), World Vision Lao PDR (WVL), and NGOs such as Concern Worldwide Lao PDR (Concern) and Norwegian



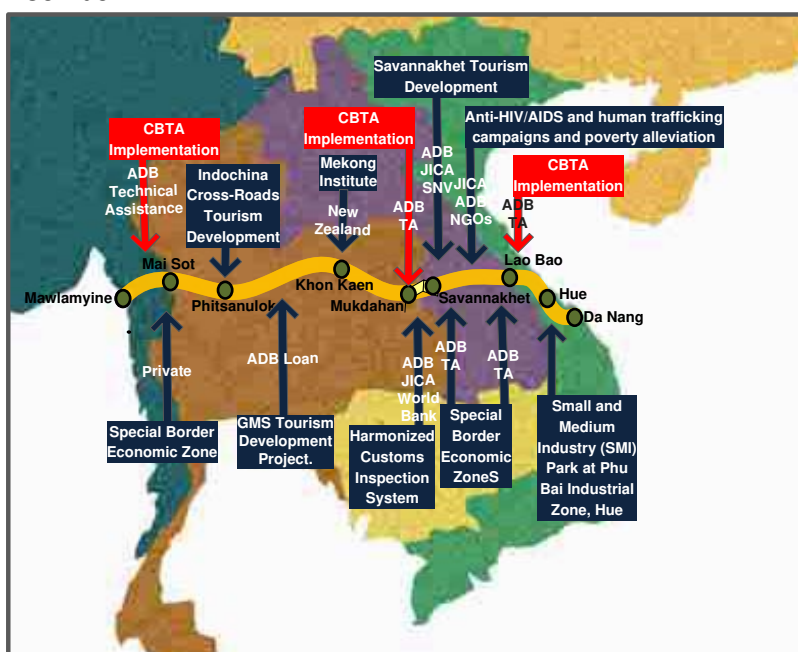
Church Aid (NCA).

2.5.3 Donor Coordination and Development Partnerships

With an increasing number of development partners and donors involved in the EWEC and area that it transverse, ADB's role as a facilitator of dialogue between agencies (a) identify and help reduce or eliminate bottlenecks and improve economic efficiency in transport infrastructure provision and service operation; (b) support the development of the private sector in the border nodes of the Corridor, as well as the province of Savannakhet in Laos and key interchange nodes like Phitsanulok in Thailand; and (c) ameliorate negative effects from cross-border trade on vulnerable segments of the population. In tourism development and logistics, there are opportunities for collaboration with JICA and JBIC; in the implementation of the CBTA and customs facilitation, there are joint development opportunities for the ADB and the World Bank.

The ADB's Regional Coordination Strategy and Program for 2004-2008 includes a response by the ADB governments to coordinate efforts that encompass programs of other donors.¹⁷ This process means that the ADB must initiate and coordinate its overall program in consultation with the GMS governments and donors. To this end, annual coordination meetings are being

Figure 2.7: Key Donor Supported Projects of EWEC Economic Corridor



held at the sector levels that reflect an overall donor coordination and, where needed, strategic partnerships with donors. The GMS Senior Officials' Meeting (SOM) has been coordinating all areas of cooperation under the GMS Program Development, and within that framework, partner collaboration is being promoted through recurrent meetings, such as that of the Development Partners Meeting that was held in conjunction with the Fourth Ministerial Conference of the GMS Economic Cooperation Program (19-21 June 2007).

An Economic Corridors Forum (ECF) Economic Corridors Forum has been established within the GMS organizational framework to complement existing mechanisms and arrangements to promote GMS economic corridor development. That process includes strengthening collaboration among GMS forums and working groups, and links among the East-West Economic Corridor and other GMS corridors. A Governors Forum has been established within the ECF to serve as a mechanism for coordination among the

¹⁷ ADB, "Regional Coordination Strategy and Program 2004-2008: The GMS – Beyond Borders". Manila, March 2004.



governors (or their equivalent) of provinces along the GMS economic corridors.

A more formal for donor coordination would entail the establishment of the permanent GMS/EWEC Integrated Development Framework to coordinate Official Development Assistance (ODA) in the Corridor. The mechanism could provide a more coherent, effective, and participatory implementation of the comprehensive plan for economic development of EWEC by synergistic increases in benefits from ODA and the reduction of transaction costs associated with stand-alone development partner assistance. In particular, it would avoid small uncoordinated projects having high transaction costs both for the GMS governments and development partners; ensure full involvement of beneficiaries and stakeholders in the design of sector interventions; align sector activities along the Corridor with each government's existing national and regional development plans; provide transparent and accountable monitoring and evaluation. The initiative could be supported by a multi-donor trust fund financed by participant donors and administered by a centralized operating unit in the region with strong networking capabilities to ensure the collaboration of the existing stakeholders operating within the region.



3. Development Vision and Goals

3.1 Development Challenges

Establishment of Economic Corridors – The economic corridor approach to subregional development was adopted by the Eighth GMS Ministerial Meeting in 1998 as one of the GMS flagship initiatives. As the first economic corridor in the subregion, the EWEC has used a holistic approach to developing a cost-effective way of instituting an efficient transport system for moving goods and people in the subregion, while simultaneously developing telecommunications and energy infrastructure, tourism, and a policy and regulatory environment that facilitates and encourages private sector development.

Development Issues: While the major infrastructure components of EWEC have now been completed, and much progress has been made in facilitating trade and promoting the private and tourism sectors, the pace of transformation from a transport corridor to a full-pledged economic corridor has been slower than originally anticipated. Among the critical remaining issues are the following:

- ✓ cross-border investment liberalization policies;
- ✓ agribusiness development;
- ✓ financial schemes to support business operations along the Corridor;
- ✓ infrastructural improvements in the gateway nodes;
- ✓ secondary roads to allow rural communities to access the main artery of the Corridor;
- ✓ business development services for micro and small size businesses along the poorer areas of the Corridor;
- ✓ coordination of tourism initiatives at both the national level and across EWEC countries;
- ✓ infrastructural services and road access to tourist destinations; and
- ✓ benchmarks to monitor the performance and progress in achieving the goals that have been established for the EWEC.

Lessons from the First Strategy and Action Plan – There are six major lessons from the 2001 Strategy and Action Plan:

- (1) *Wide ranging initiatives are less likely to be implemented than are a few targeted initiatives within well-defined areas.* The 2001 Preinvestment Study proposed 79 wide-ranging project proposals but only one-third were fully or partly implemented.
- (2) *Ownership in EWEC's pro-poor economic growth efforts is widely shared by member governments.* The EWEC development is well integrated into national and provincial development strategies of all member countries, and is viewed as a key strategic instrument of national and regional development. This ownership should form an integral part of the new strategy and action plan both in terms of the way that institutional implementing mechanisms are formed, and in terms of the establishment of benchmarks and performance measures.
- (3) *Forming partnerships can be difficult.* Opportunity gaps still exist (a) between public and private sectors, (b) in doing business across borders; (c) in value chains; and



- (d) among development partners and NGOs.
- (4) *Creating comprehensive plans is still not a mainstream practice.* There is room for improvement in holistic (master plan) approach within sectors (e.g., tourism) and across sectors (e.g., linking support sectors with leading sectors like business services along Rt. 9 in Savannakhet).
- (5) *External assistance strategies of development partners can operate at cross purposes.* This process is inevitably a result of different mandates, for example, the ADB's focus on pro-poor growth and development in EWEC and private sector interests commercial linkages between Bangkok and Hanoi, or commercial activities along Sunbelt Corridor.
- (6) *Measuring progress has been difficult.* Lack of transparency in quantifiable indicators like investment and cross-border trade flows would greatly improve M&E of achievements and help identify bottlenecks to further progress.

Key Challenges – The current agenda for the GMS, including that of the EWEC, was established at the Third Greater Mekong Subregion Summit was held on 30-31 March 2008 in Vientiane, where the GMS Leaders put forward the Vientiane Plan of Action for GMS Development for 2008-2012. It addressed four key challenges for deepening the integration of the GMS:

- (a) transforming the transport corridors into full-fledged economic corridors, for which trade and transport facilitation measures are critical drivers of the process;
- (b) putting in place effective and sustainable institutional arrangements for transport and trade facilitation;
- (c) proactively addressing the important social and environmental aspects of closer integration and connectivity;
- (d) and enabling the GMS to tap more fully into the opportunities that the current economic resurgence and dynamism in Asia offers.

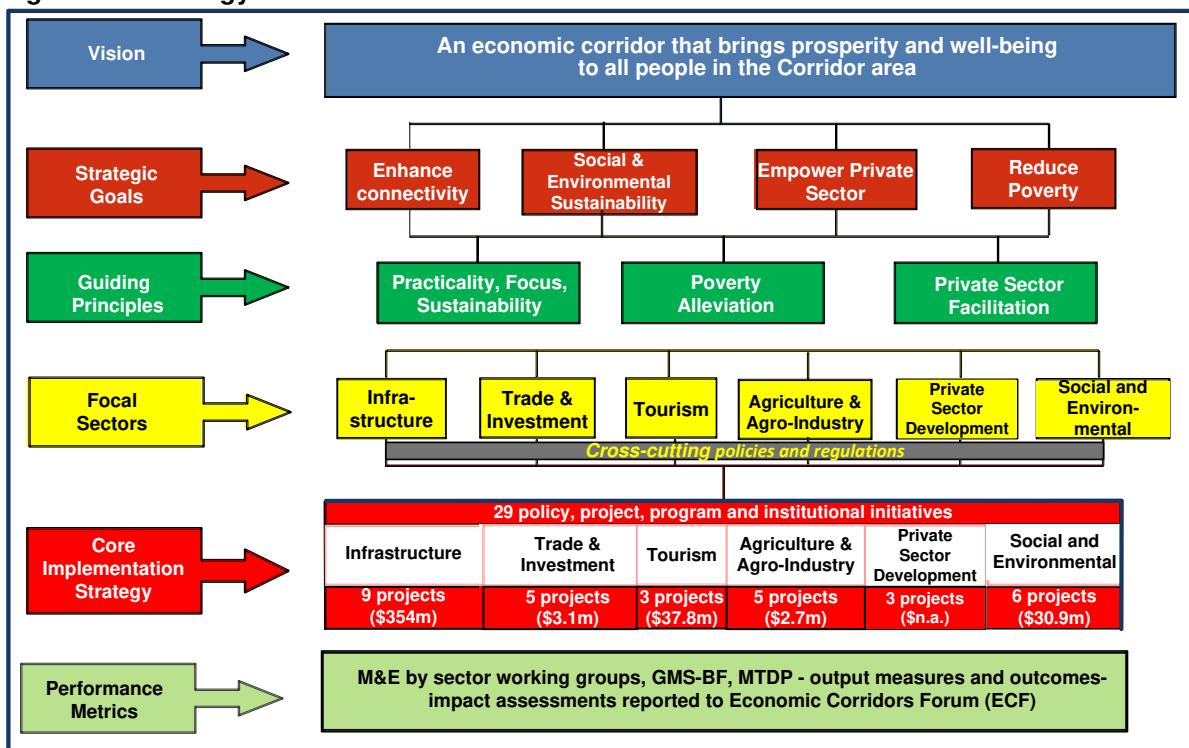
The GMS Leaders also underscored the key role of the private sector in subregional development, particularly as a source of both financial and knowledge resources, and as part of that process, they reiterated the need to deepen the skills and capacities of human resources in the subregion. They also emphasized the importance of addressing the environmental impacts of development activities, and called for an accelerated implementation of the GMS Core Environment Program to mainstream environmental issues in GMS development programs and projects. Finally, they emphasized the need to further strengthen partnerships among all stakeholders in the sustainable development of the subregion.

Vientiane Action Plan – The major areas for GMS Development in 2008-2012 are as follows:

- *transportation* - to accelerate the construction and improvement of the remaining sections of GMS corridors;
- *trade facilitation* - to harmonize and integrate procedures and systems to facilitate border crossing formalities, including customs, immigration, and quarantine, and promote the development of trade logistics;



Figure 3.1: Strategy and Action Plan 2009



- *investment* - to stimulate cross-border cooperation in investment and enhance the role of the GMS Business Forum under the GMS program;
- *agriculture* – to implement the GMS initiative on bio-fuel and rural renewable energy development, and expand trans-boundary animal disease control programs and access to agricultural information in rural areas;
- *tourism* - to strengthen the sustainable management of natural and cultural tourism sites, promote the joint marketing of tourism in the subregion;
- *human resource development* - to implement the Phnom Penh Plan for Development Management’s new strategic framework and action plan for cooperation in education, health, labor, and other social development areas;
- *energy and communications* - to establish a sustainable and efficient GMS energy supply market and develop telecommunications infrastructure linkages that promote the use of information and communications technology through the GMS Information superhighway network; and
- *environment* - to reduce environmental risks to local livelihoods.

Summary of Strategy and Action Plan – In light of the Vientiane Declaration, the challenges enunciated at the Third Greater Mekong Subregion Summit, the corridor vision set out by leaders at the Eighth GMS Ministerial Meeting, and the lessons learned from the first strategy and action plan, the following sections elaborate the revised strategy and action plan for the transformation of the EWEC into a full-fledged economic corridor. That plan is summarized in Figure 3.1 in terms of the vision, goals, guiding principles, and focal sectors, implementation strategy and performance measures. The remainder of this chapter describes the conceptual basis for the plan in terms of the vision, goals and focal sectors, while the following chapter discusses the strategy for implementation.



3.2 Vision and Goals

The Vision – In view of response to the principles established by the Vientiane Plan of Action and in recognition of the need to concentrate on development issues surrounding the subregion transversed by the Corridor, the proposed *Vision* for the EWEC is to transform it into a full-pledged economic corridor that will provide pro-poor economic growth and development and bring widespread prosperity to the EWEC area. As such, it gives explicit recognition to the interests of the governments, donors and private sector in the area surrounding the Corridor of the social and economic development focus of policies, programs and institution building initiatives in the EWEC. Underlying these initiatives is the fact that those actions will boost economic growth and supports development. Nonetheless, the needs of development can justify actions that are not normally be allowed under purely commercial interests of corridors, as for example in the case of governments and donors supporting business development services enabling micro and small enterprises to develop support tourism and transport road services along the EWEC as a means of alleviating poverty and inequality in the subregion.

Goals – The *Vision* provides the conditions necessary that, in terms of social and economic conditions, promotes the subregion's prosperity, sustainable management of resources, and partnerships with neighboring countries to develop knowledge and skills, improve communications and ensure a sustainable economic existence for all. Based on this vision, there following strategic goals would need to be achieved:

- ✚ *Empower the private sector to promote sustained private sector-led economic growth.* A distinction between the present strategy and action plan and the earlier one is that the private sector will take the initiative in identifying commercial opportunities and the role of the government and development partners will be to facilitate that process. This approach will avoid earlier difficulties that arose from efforts to identify commercial opportunities as part of the EWEC implementation process that failed to be taken up by the private sector because the conditions surrounding the projects were not addressed at the subregional, national and provincial levels. Chapter 6 elaborates on the conditions necessary to create a business enabling environment in some of the more underdeveloped areas of the Corridor, while Chapter 7 examines specific actions and project proposals for key sectors.
- ✚ *Alleviate poverty and ensure equitable distribution of the benefits of growth.* In addition to existing poverty and growing unemployment under the current global financial crisis, the development of the EWEC is introducing new social problems and in some cases aggravating the level inequality that exists in the distribution of income between households and areas across the Corridor. These include human trafficking in commercial and boarder nodes, relocation of people, loss of domestic markets as trade between countries is liberalized, and displacement of locals in the workforce by immigrants from neighboring countries. Chapter 8 analyzes these issues and sets forth specific project proposals.
- ✚ *Ensuring environmental sustainability.* Weak environmental safeguards regimes as well as relative fragile ecosystems suggest that environmental consequences of economic development along the EWEC can be particularly severe. The situation along the Corridor is complicated by the different political systems and the nature of participation. Moreover, the very nature of the GMS/EWEC, based on a relatively informal and flexible process allowing pragmatic collaboration in areas of common interest, raises sustainability issues for environmental planning at the



subregional level. Chapter 9 examines these issues and sets out the project proposals to address existing needs.

- ✚ *Complete infrastructural improvements needed for the economic transformation of the Corridor.* While much of the infrastructural backbone of the EWEC has been completed, there still remain a number of bottlenecks to the facilitation of trade along the corridor, much of which involves the implementation of the CBTA. In addition, a second phase of transport development along EWEC can be initiated that would provide for better linkages of rural areas and markets along the main EWEC road arteries. To some extent, this process is already underway in Lao PDR and Viet Nam. There is nonetheless scope for an explicit subregional program that could be designed and supported with the help of the ADB and other development partners. Chapter 10 elaborates on these issues and sets out the supporting project proposals.

3.3 Guiding Principles and Strategies to Achieve the Goals

EWEC Strategic Framework – The EWEC Vision establishes the framework for creating an economic corridor that will stimulate the type of economic growth that reduces poverty and raises the standards of living in the areas covered by the Corridor. It is guided by the overall GMS strategic framework and the Vientiane Declaration and, as such, it complements the GMS broader vision of enhancing connectivity, increasing competitiveness, and achieving a greater sense of community. As such, the guiding principles of the EWEC are (a) to focus activities on a sustainable social and economic development process that addresses the practical needs of the subregion; (b) to reduce poverty, support development of rural and border areas, increase the earnings of low-income groups, and provide employment opportunities; (c) to empower the private sector by promoting joint financial, technological, marketing, production and other collaborations in the EWEC areas; and (d) enhance connectivity of the Corridor areas by reducing cross-border transactions and transportation costs.

Focal Sectors – Selection of the priority sectors for the EWEC is based on the following set of criteria: (i) contribution to Gross Regional Domestic Product (GRDP); (ii) contribution to employment; (iii) generation of foreign exchange; (iv) contribution to rural development; (v) potential for economic growth; (v) potential for cross-border collaboration. Based on these criteria, the following key sectors have been identified for the EWEC:

Table 3.1: Selection of Focal Sectors based on Impact in Key Performance Indicators

Sector /Criteria	Trade & Investment	Agriculture and Agri-Processing	Tourism	Human Resource Development	Transport	Cross-Cutting Issues
GRDP	Substantial contribution	Substantial contribution	Substantial contribution	Substantial contribution	Substantial contribution	Substantial contribution
Employment	Substantial contribution	Substantial contribution	High potential	High potential	High potential	Substantial contribution
Foreign exchange	High potential	Substantial contribution	High potential	Moderate potential	Substantial contribution	Substantial contribution
Rural development	Substantial contribution	Substantial contribution	High potential	High potential	Substantial contribution	Substantial contribution
Growth Potential	High potential	High potential	Not applicable	Moderate potential	High potential	Substantial contribution
Cross-Border Collaboration Potential	High potential	High potential	High potential	Moderate potential	High potential	Substantial contribution



3.4 Comparison between SAP-2009 and SAP-2001.

Table 3.2 summarizes the major differences between the 2001 Strategy & Action Plan (SAP 2001) and the 2009 Strategy & Action Plan (SAP 2009). Those difference incorporate the lessons learned from the earlier SAP in terms of Targeting fewer, well-defined initiatives, ensuring country ownership of the process, promoting partnership between the public and private sectors as well as development partners, creating comprehensive programs, and ensuring that the vision and goals of the EWEC reflect those recently established in the broader context of the GMS under the Vientiane Action Plan.

Table 3.2: Comparison between 2001 and 2009 Strategy and Action Plans

	2001 Strategy & Action Plan (SAP 2001)	2009 Strategy & Action Plan (SAP 2009)	How SAP 2009 Differs from SAP 2001
Vision	Accelerate economic growth along the Corridor area through increased regional cooperation based upon exploitation of underlying complementarities and development of competitive advantages	An economic corridor that brings prosperity and well-being to all people in the Corridor area	Shift focus to broad-based development for all people in the area surrounding the Corridor
Strategic Goals	Enhance competitiveness	Empower the private sector	Government and development partner role as facilitator; greater focus on social and environmental impact; expand transport to rural areas
	Upgrade competitive advantage	Reduce poverty	
	Sustainable development	Sustainable environment Enhance connectivity	
Core Implementation Strategy	79 policy, project, program and institutional initiatives	Focused high-profile initiatives that have direct links to key strategic areas in private sector, social, environmental and multi-model transport development	Whereas the 2001 SAP initiatives were identified by the Study Team, those in the 2009 SAP are from public and private sector stakeholders and therefore have GMS country ownership and the explicit support needed to move forward the project ideas and concepts into actionable projects.
Sectoral Focus	Infrastructure	Infrastructure	Private sector development and social and environmental issues added to focal sectors, while trade and investment, agriculture and agro-industry, tourism and infrastructure retain their importance based on impact criteria used to select sectors
	Trade	Trade	
	Investment	Investment	
	Agriculture & Agro-Industry	Agriculture & Agro-Industry	
	Industry	Private Sector Development	
	Tourism	Tourism	
Performance Metrics	Human Resource Development	Social and Environmental	Whereas in the 2001 SAP it was not possible to track and follow up on the implementation of the proposed initiatives in the absence of a monitoring action plan supported by the GMS countries, the 2009 SAP....
	Significant definition inconsistencies and data comparability issues prevent measuring output success in outcomes and impacts	M&E by sector working groups, GMS-BF, MTDP - output measures and outcomes-impact assessments reported to Economic Corridors Forum (ECF)	



4. Action Plan for Implementing the Strategy

4.1 Implementing the Strategy

Results of Consultation Process – The identification of existing project needs for the Corridor is based on needs identification by stakeholders during the Third Greater Mekong Subregion Summit held on 30-31 March 2008 in Vientiane, as well as on consultations held with government officials, private sector individuals, and officials from donor agencies listed in Annex A. Consultations were also held with these groups during the Workshop on the Development Strategy for EWEC, Khon Kaen, Thailand, 24 April 2009 (see Annex A). Project identification needs were then elaborated and their mapping with the new EWEC strategy completed. The resulting operationalization of the strategic framework is discussed in this and subsequent chapters. Its implementation will take place over a five-year period (2008-2012), which coincides with the period of implementation of the Ten-Year GMS Strategic Framework set forth in the Vientiane Declaration. The EWEC Action Plan will guide policy, project and program implementation priorities during this period, including the monitoring and evaluation of progress and the identification of additional areas that need attention and follow-up action.

Much has been achieved in the last decade in terms of facilitating trade, encouraging business activity and promoting the private sector along the Corridor area. The current EWEC Action Plan 2008-2012 provides the necessary but not sufficient conditions for the transformation into an economic corridor to occur. For the success of that transformation to occur, the private sector must become the engine of growth for the Corridor; the role of the government and development partner is to act as the facilitators to that process. The current action plan focuses on a focused and targeted set of initiatives that facilitate that process in terms of the following types of initiatives:

- ✚ In transport, improve the quality of transportation through infrastructural upgrades and feeder road developments that benefit poor households, providing better opportunities to access productive resources and appropriate technology to improve their livelihood, as well as ensuring the full implementation of the CBTA aimed at facilitating trade and raising cross-border traffic to its full potential;
- ✚ In the interchange and commercial nodes, create better commercial opportunities along areas that have lagged behind the growth of other centers, especially along the western portions of the EWEC in Thailand and Myanmar and portions of Vietnam and Laos; and in port gateway nodes, improve facilities so that they are able to achieve their potential as important access points to major shipping routes.
- ✚ In investments, eliminate the current fragmentation of programs and projects by developing a comprehensive and integrated approach to catalyzing business activity along the areas surrounding the GMS economic corridors in terms of cross-border investments, special economic zones, border-area investments, fast-tracking investment approval procedures, linking MSMEs to value chains (VCs), and establishing financing mechanisms and guarantee facilities to promote private sector development along the Corridor.
- ✚ In trade of goods and services, improve access to information systems on trade flows, establishing benchmarks for measuring progress in terms of trade of both goods and services; and in the tourism sector, consolidate project activities into a roadmap or master plan for developing a comprehensive and integrated approach



to EWEC tourism;

- ✚ In social and environmental effects from transport and economic corridor developments, mitigate adverse impacts through concerted action in measures that include the implementation of specific safeguards to address issues such as the spread of sexually transmitted diseases and human immunodeficiency virus and acquired immunodeficiency syndrome (HIV/AIDS).

4.2 Implementation Activities and Costing Matrix

The EWEC Action Plan set out in this chapter and detailed in the subsequent chapters shows the specific programs and projects that are needed to operationalize each of the strategic priorities of EWEC development, based on the following information set: (i) the result or output expected; (ii) indicators of progress and performance; (iii) agency or body responsible for implementation; (iv) timeframe or target date for completion; and (v) status. It covers measures which are presently being implemented or expected to be initiated within 2008-2012. Those strategic initiatives cover the following activity areas:

Table 4.1: Project Summary and Implementation Costs

Vision	Strategic Goal	Sector Focus	Core Implementation Project	Cost	Details	
Prosperity & well-being to all people in Corridor area	Empower Private Sector	Private Sector Development	Establishment of a GMS SME Development Fund	TBD	Chapter 6	
			Training programs and workshops on SMEs' participation in global value chains	TBD	Chapter 6	
			Mapping of global value chain opportunities for SMEs in EWEC and other GMS areas	\$ 0.8	Chapter 6	
			Business Development Service Center for Micro and Small Business Development in Savannakhet	\$ 6.0	Chapter 6	
		Trade and Investment	Pilot studies for facilitating trade along border crossing points	\$ 2.0	Chapter 7	
			Establishment of GMS Freight Transport Association (FRETA)	\$ 0.1	Chapter 7	
			Investment incentives along EWEC arear	TBD	Chapter 7	
			Capacity building for special economic zones in Lao PDR	\$ 1.0	Chapter 7	
		Tourism Sector	East-West Economic Corridor tourism development	\$ 21.3	Chapter 7	
			Tourism initiative to alleviate poverty through tourism	\$ 13.5	Chapter 7	
			Promotion of small and medium enterprise development and investment in tourism-related facilities and infrastructure in EWEC	\$ 3.0	Chapter 7	
		Reduce Poverty	Agriculture & Agri-Business Development	Policies to support for cross-border contract farming in Savannakhet	\$ 0.8	Chapter 7
				Demand and supply analysis of key agricultural products and cross-border agriculture resource and market information system	\$ 1.2	Chapter 7
				Building Capacities for Agricultural Competitiveness	TBD	Chapter 7
	Improving farmers' livelihood through rice information technology in Thai and Vietnamese EWEC areas			TBD	Chapter 7	
	Synthesis and exchange of lessons on pro-poor agriculture development interventions in EWEC provinces			TBD	Chapter 7	
	Social & Environmental Sustainability	Social Sector	Integrating HIV/AIDS in transport along EWEC	\$ 9.7	Chapter 8	
			GMS Communicable Disease Control Project. Phase I	\$ 1.2	Chapter 8	
			GMS Communicable Disease Control Project. Phase I	\$ 7.1	Chapter 8	
			HIV Prevention and Infrastructure: Mitigating Risk in EWEC	\$ 3.0	Chapter 8	
Capacity Building for HIV/AIDS Prevention			\$ 6.1	Chapter 8		
Environmental		Strategic environmental assessments of EWEC	\$ 1.5	Chapter 9		



Vision	Strategic Goal	Sector Focus	Core Implementation Project	Cost	Details
		Sector	Biodiversity Conservation Corridor Initiative (BCI) pilots for biodiversity conservation and poverty reduction	\$ 2.0	Chapter 9
			CEP-private sector partnership for developing and deploying low carbon emitting and polluting freight fleets in the EWEC	\$ 0.4	Chapter 9
	Enhance Connectivity	Transport Infrastructure	Upgrade sections of the EWEC other highway projects in Vietnam	\$ 700.0	Chapter 10
			Upgrade sections of the EWEC from Mae Sot to Mukdahan in Thailand	TBD	Chapter 10
			Road improvement of EWEC from Thingannyinaung to Kawkareik (Myanmar)	TBD	Chapter 10
			Reconstruction of Tanowsri-Kawkareik (Myanmar) section of EWEC	\$ 19.0	Chapter 10
			Construction or reconstruction of Kawkareik-Mawlamyine-Thaton in Myanmar	TBD	Chapter 10
			Construction of Savannakhet railway line	TBD	Chapter 10
			Development of Lien Chieu Seaport in Vietnam	\$ 120.0	Chapter 10
			Upgrade Da Nang Port	TBD	Chapter 10
			Savannakhet Airport Improvements	\$ 17.0	Chapter 10
Total				\$ 936.7	

Implementing the Strategic Framework – Implementation will require practical implementation of sustainable pro-poor growth initiatives that are more focused and rely on private-public partnership arrangements. The EWEC operationalization of the strategic framework is based on a pro-growth area model that combines the comparative advantage and complementarities of areas within the subregion with one based on scale economies from the regionalization of production activities that are driven by a broad participation of the population. It uses a pragmatic and holistic approach to pro-poor growth in key sectors like trade and investment, agriculture, tourism and private sector development.

Ensuring a Cohesive Planning and Programming – The success of the EWEC has brought with it a variety of development initiatives, ranging from spatial planning and physical infrastructure projects to policy and procedural initiatives, sector-specific programs to enhance the capabilities, and institutional development programs to upgrade the capabilities of local and regional bodies. Bringing these initiatives together will provide a more cohesive approach to rationalizing the various EWEC initiatives. Two approaches to planning and programming should be considered:

- + **Spatial Planning** – The EWEC emphasizes development among specific geographical and commercial nodes around which economic activity will cluster and, as such, it will be useful to continue to focus on the gateway nodes in Da Nang and Mawlamyine, the interchange nodes that occur with the North-South Economic Corridor and other major interchanges, the border nodes at Myawaddy-Mae Sot, Mukdahan-Savannakhet, Lao Bao-Houeikaki, and the intermediate nodes in locations like Tak and Hue. Also, maximization of the Corridor’s benefits will emanate from the facilitation of flows of goods, services, people, and information not only along the major transport route but also from secondary and tertiary routes.
- + **Master Planning** – The multiplicity of thematic projects and programs within the sectors has created a situation where in many cases there are independent activities being carried out in some EWEC areas that are not supported by appropriate infrastructure or services, as for example in tourism development facilities in Savannakhet. In the case of the EWEC sections between Thailand and

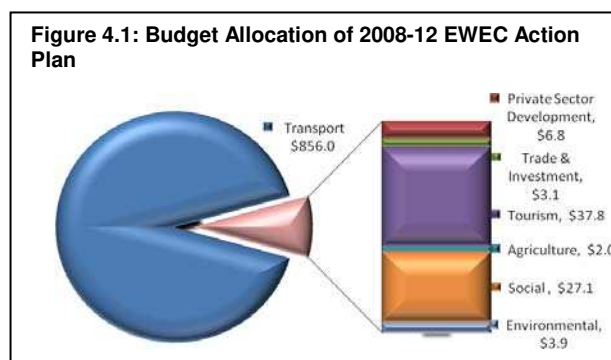


Myanmar, a master plan has been formulated to bring together key thematic and sector components.¹⁸ It provides a good illustration of how the use of a master plan can uncover areas that are not sustainable and offer appropriate solutions and guidelines for integrating the EWEC into a cohesive entity. It is therefore recommended that the design and implementation of sectoral and thematic elements of the EWEC be brought together in an EWEC Master Plan containing all the initiatives covering the policy and regulatory environment, and projects, programs and institution building initiatives for the Corridor.

4.3 Financing the Plan

Gap Analysis – All GMS/EWEC countries have funding from development partners that supports their current subregional development strategy for the Corridor within either the overall national development plan or specific provincial development plans. These countries, however, face increasing difficulties in maintaining environmentally sustainable pro-poor economic growth, particularly in light of the current international financial crisis. This situation has underscored the need for development partners to support measures that help the private sector in their efforts to accelerate the Corridor’s development. All EWEC governments are therefore taking steps to address the growing needs for development assistance supporting a comprehensive Corridor development strategy within the existing funding programs described in Chapter 2. Nonetheless, there are large funding gaps needed to move the process forward.

Financing – The implementation of the EWEC Strategy and Action Plan will require about US\$1.5 billion over the next 5 years or an average of \$300 million a year. This amount compares with US\$5.0 billion over the same period for the North-South Economic Corridor.¹⁹ Of the budgeted amount for the EWEC, about 90 percent is for transport infrastructure and the remaining 10 percent is for economic and social initiatives. Within the latter group, tourism absorbs the largest proportion (46%), followed by social and environmental projects (38%). Private sector development, including trade and investment initiatives and agricultural development, together account for 15 percent of the total budgeted amounts for economic and social projects. A number of the projects, however, remain to be costed.



¹⁸ Japan Overseas Development Corporation (JODC), “Study to formulate a Master Plan on Industrial Linkage between Thailand and Myanmar”. Bangkok, 2005.

¹⁹ ADB, “Toward Sustainable and Balanced Development: A Strategy and Action Plan for the GMS North-South Economic Corridor”. Manila, July 2008.



5. Creating a Better Implementation Modality

5.1 Existing Institutional Mechanisms

The organizational framework of the EWEC encompasses public and private stakeholders, as well as a number of development partners, which together operate through the following subregional organizations:

- **GMS Leadership** – All organizational bodies for the EWEC and the GMS in general are responsible to the GMS leaders, who meet on a regular basis: the Senior Officials' Meetings (SOMs) are held twice yearly; the Ministerial Conferences are held yearly, except on years where there is a GMS Summit of Leaders; and the GMS Summits are held once every three years.
- **Economic Corridors Forum (ECF)** – The ECF is the main advocate and promoter of the EWEC and other corridor developments in the GMS. It serves to ensure the collaboration among areas along the GMS economic corridors and among GMS forums and working groups, specifically by serving as a venue for networking and sharing of information and views among central and local officials, business people and international agencies on strategies, approaches, programs and projects to accelerate economic corridor development. That process is grounded on the joint ECF participation of (i) representatives of central government agencies; (ii) representatives of local governments and communities, particularly from the border provinces; (iii) representatives of the private sector, including those from the GMS Business Forum; and (iv) representatives of the Asian Development Bank (hereinafter referred to as the ADB) and other international organizations.
- **Governors Forum** – The Governors Forum operates within the Economic Corridors Forum (ECF) to raise awareness, increase participation and secure commitment of the governors or their equivalent in the provinces along the EWEC and other corridors with the intent of developing those areas. Among their principal tasks are the promotion of private sector participation in cross-border activities along the corridors.
- **GMS Sector Working Groups** – The sector specific working groups, which meet at least once a year, provide in-depth coverage to identify priority strategic interventions, refocus WGA's work program towards speedy implementation of priority initiatives. They include the Subregional Transport Forum (STF), Working Group on Agriculture (WGA), the Subregional Trade Facilitation Working Group (TFWG), the Tourism Working Group (TWG), the Regional Power Trade Coordination Committee (RPTCC), the Working Group on Environment (WGE), the Working Group on HRD, the Subregional Investment Working Group (SIWG), and the Subregional Telecommunications Forum (STCF).
- **GMS Business Forum (GMS-BF)** – GMS-BF is the main advocate of private sector participation in the EWEC and operates as an independent nongovernment organization through the joint initiative of key GMS chambers of commerce. Its role is critical to EWEC initiatives to foster private sector participation through the development of network of private sector institutions and promotion of investment opportunities, marketing of shared subregional products, and access to technology.
- **National Transport Facilitation Committee (NTFC)** – NTFC is charged with



liaisoning with officials at border checkpoints to implement the CBTA, monitoring and evaluation of the CBTA implementation, involving the private sector in proactively consolidating the agreements into logistics operations, and incorporating the CBTA into the national legal and regulatory framework of each country.

- **GMS Freight Transport Association (FRETA)** – FRETA will mainstream the private sector's role in the implementation of the CBTA, once it is fully established within the GSM-BF. As a non-governmental organization (NGO) representing all transport and logistics companies, it will provide practical services to facilitate the implementation of those CBTA initiative that include the provision accreditation and certification to transport and logistics companies, 'fast lanes' for its members at border points, matching investments to local firms, and assistance to matching businesses for load balancing, and information dissemination services.
- **Mekong Tourism Development Project (MTDP)** – MTDP included Lao PDR and Viet Nam with the aim of (i) facilitating the movement of tourists across the subregion; (ii) helping to provide environmental infrastructure in key fast growing destinations; and (iii) promoting pro-poor tourism in poor areas of the GSM.
- **Environment Operations Center (EOC)** – As a joint initiative of the GSM member countries, EOC was endorsed by the Second GSM Summit of Leaders in July 2005 to provide strategic environmental assessments (SEAs) of GSM economic corridors and priority sectors, as well as developing biodiversity conservation corridors and building capacity for environmental delivery, management and financing.
- **GMS Development Partners Forum** – The forum for development partners usually brings together about 60 participating development partners (DPs) covering bilateral and multilateral organizations and the private sector to provide a dialogue venue with the GSM countries and ADB on the GSM Program. The objective is to identify complementarities and potential areas of convergence and greater collaboration among the development partners in the subregion, including areas and initiatives under the GSM program where the private sector can actively participate.

At present, the ADB is providing the main support to sustain these institutional mechanisms. In the medium to long term, however, the sustainability of that support may be called into question once the EWEC is successfully transformed into an economic corridor. Other sources of financing should therefore be considered within the context of self-financing mechanisms that could be supported by the private sector.

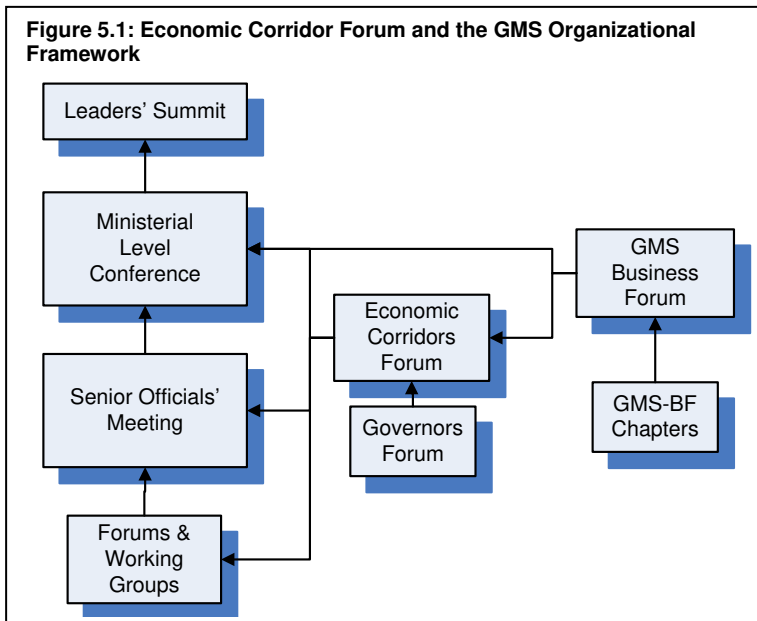
5.2 Coordinating Institutional Activities

Until recently there absence of a single authority responsible for the EWEC's development gave rise to a number of issues about the possible efforts to coordinate the existing functions of different agencies, as well as coordinate development partner projects. Under the present scheme, the Economic Corridors Forum (ECF) is charged with ensuring the collaboration among areas along the GSM economic corridors and among GSM forums and working groups.

Economic Corridors Forum (ECF) – The functions of the ECF consist of (i) providing a platform for strengthening collaboration among GSM forums and working groups, and links among the East-West Economic Corridor, North-South Economic Corridor and the



Southern Economic Corridor (hereinafter referred to as EWEC, NSEC and SEC, respectively); (ii) discussing strategies and measures to address major issues and bottlenecks in the development of economic corridors; (iii) discussing the implementation of strategies and action plans for economic corridor development and proposed actions to resolve implementation issues; (iv) increasing involvement of local authorities and communities, and expand public-private partnership in economic corridor development; and (v) helping to mobilize technical and financial resources to support economic corridor development.²⁰ The other key features of the ECF are as follows:



- **Operational Status:** The ECF is a standing body dealing with economic corridor development within the GMS organizational framework to recommend measures to the GMS Ministerial Conference to promote economic corridor development. The GMS Ministerial Conference remains the highest decision-making and coordinating body under the GMS Economic Cooperation Program, following the Leaders' Summit. Initiatives and measures discussed during ECF meetings are considered by the GMS Ministerial Meeting, Senior Officials Meeting and forums and working groups.
- **Composition:** Participants in ECF meetings consist of (i) representatives of central government agencies; (ii) representatives of local governments and communities, particularly from the border provinces; (iii) representatives of the private sector, including those from the GMS Business Forum; and (iv) representatives of the ADB and other international organizations. The leadership consists of a Chairperson from the country hosting the ECF meeting; a co-chairperson nominated by the ADB, and vice-chairperson from the host of the next ECF meeting. National participation is at the ministerial level, and a task force meeting convenes before each ECF meeting to prepare the theme, agenda, and program in line with the strategies and action plans for the economic corridors.
- **Frequency of Meetings:** The ECF meets once a year, or as required by circumstances.
- **Work Program:** The ECF prepares its own work program and schedule to achieve its objectives. The ADB provides the necessary secretariat support and works

²⁰ Joint Ministerial Statement, "Kunming Consensus: *Establishing the Economic Corridors Forum for the Sustainable and Balanced Development of Economic Corridors in the Greater Mekong Subregion*". Kunming, Yunnan Province, People's Republic of China, 6 June 2008



closely with the National Coordinators of the GMS countries to achieve this purpose as well as providing assistance in coordinating and arranging meetings. The ADB as well as other international organizations can also be requested by the host country to provide the necessary technical, administrative and logistical support to ECF meetings when local expertise and resources are limited. Otherwise, financing of ECF meetings is borne by the country or province hosting the ECF meeting.

- *Reporting:* The ECF shall report its proceedings to the Ministerial-level Conference through the Senior Officials Meeting. As secretariat of ECF, ADB will post a summary of ECF meetings and activities in its GMS webpage.

Figure 5.1 shows the organizational framework of the ECF in the context of the GMS leadership. The ECF reports to the GMS Ministerial Meeting and Senior Officials Meeting, as well as submitting its work for consideration by the forums and working groups. The GMS Business Forum (GMS-BF) reports to the ECF, as well as directly to the Ministerial Level Conference, which could cause some confusion. It would also be advisable to link the existing organizational framework with the of the CBTA and the operations of the National Transport Facilitation Committee (NTFC), GMS Freight Transport Association (FRETA), Mekong Tourism Development Project (MTDP), and the Environment Operations Center (EOC) in order to ensure collaboration among initiatives related to the EWEC and other corridors. It is important to underscore the pragmatic adaptation of the GMS and the EWEC to the needs of the subregion and emergent conditions. The role of the ECF within the GMS/EWEC organizational framework is therefore likely to be evolutionary as the existing situation gives way to increased need for collaboration and coordination among different sector initiatives in the Corridor.

5.3 Monitoring and Evaluation

Benchmarks and Performance Measures for the Economic Corridor – Without adequate statistical information, it has been difficult to gauge progress over the last ten years on the conversion of the East-West transport corridor into an economic corridor. Cross-border trade data are difficult to obtain and, where available, give limited time-series and product-specific coverage. For example, data on trade in the Lao Bao border were only provided for total trade data over four years by the Vietnamese authorities; trade data for EWEC cross border trade in Savannakhet were only provided for two years by the Laotian authorities, based on fiscal year information that is difficult to reconcile with other EWEC countries; and trade data for Mukdahan-Savannakhet cross-border trade were only provided for 4-digit product aggregates over four years by the Thai authorities.

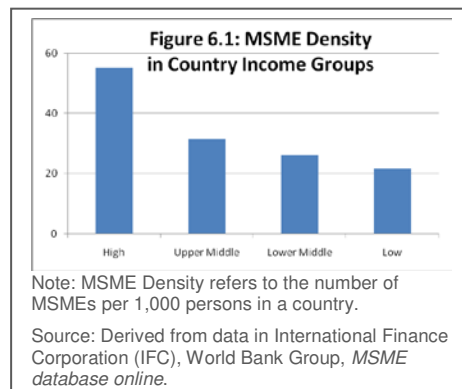
An effective monitoring and evaluation (M&E) framework for the EWEC would contain benchmarks and quantifiable targets for results indicators to be provided on an annual basis by the sector working groups and impact indicators to be provided as part of the evaluation reports to be submitted to the Economic Corridors Forum (ECF) and the GMS leadership. The Action Plan includes a proposal for the design and implementation of an M&E system for the collection of statistics covering trade, investment, tourism and other indicators that could assist the sector working groups to the measure progress and impact of the EWEC initiatives.



6. Promoting Sustained Private Sector-Lead Growth I: The Business Environment

6.1 National Context of Private Sector Corridor Development

Role of MSMEs – Development of the private sector in the EWEC member countries is largely dependent on the growth sustainability of micro, small and medium size enterprises (MSMEs). The reason is that the predominance of these enterprises in business activities generally reflects the magnitude of growth, employment, competition and poverty in countries. The evidence can be found in the relationship between a country’s MSME density, measured by the number of MSMEs per 1,000 persons, and the country’s income level: MSME density is generally greater in high-income countries like the United States and the European Union than it is in low and lower-middle income countries Laos, Thailand and Vietnam (Figure 6.1).



The same relationship exists between microenterprises and income levels: high and upper-middle income countries have a greater proportion of these types of enterprises than do low-income countries. The density of MSMEs and microenterprises in particular is therefore a good indication of positive or negative changes that are occurring in the EWEC economies in general and the area around the Corridor in particular.

MSME Characteristics in EWEC Countries –The MSME density and MSME employment rate (percent of total) of Laos and Thailand is similar to that of low and lower-middle range countries (Table 6.1), while the MSME density in Vietnam remains low notwithstanding the expansion of private sector business activity since the passage of the Enterprise Law in 2000. Thailand has a high proportion of businesses that are classified as microenterprises. In contrast, both Laos and Vietnam have much smaller proportions of businesses that are classified as microenterprises relative to any of the comparator country income groups, a situation that largely reflects the relatively recent emergence of private sector activity in those countries.

Policy Implications – From an economic policy perspective, development of MSMEs along the EWEC can be a means of promoting growth and development in the subregion, although the causal direction is not always clear: in some cases the MSME sector can be the driving force behind economic growth and poverty reduction, while in others it will need to follow the growth of large enterprises.²¹ In nearly all cases, however, large foreign and domestic enterprises have played a key central role in the economic growth process of the EWEC member countries, with MSMEs linked closely to them as downstream suppliers, and subcontracting between MSMEs providing business linkages that can enhanced sector efficiency and productivity. Increasing attention is consequently being given to the role of value chains in promoting growth, innovation and cross-border investments in the GMS countries in general and the EWEC area in particular. However, large variations in development levels across areas of the Corridor means that different approaches need to

²¹ DFID, “SME Development and Pro-poor Economic Growth: Developing Financial Service Markets in Asia”.



Table 6.1: Micro, Small and Medium Size Enterprise (MSME) Density and Employment of Selected EWEC Countries

	Selected EWEC Countries			Comparator Country Groups			
	Lao PDR	Thailand	Viet Nam	Low	Lower-Middle	Upper-Middle	High
MSME Density a/	30.4	13.7	1.1	18.8	26.9	35.6	56.4
MSME Employment (% total)	65.6	69.0	na	55.8	59.7	76.1	66.0
<i>MSME Definitions:</i>							
Micro	1-4	1-9	1-9	1-9	1-9	1-9	1-9
Small	5-29	10-49	10-49	10-49	10-49	10-49	10-49
Medium	30-99	50-199	50-299	50-199	50-199	50-299	50-299
<i>Distribution of the MSME Sector: a/</i>							
Micro	22.4	93.9	48.9	83.6	91.5	86.9	87.8
Small	60.3	5.3	35.7	18.2	6.4	11.4	9.4
Medium	17.3	1.1	12.5	5.9	1.4	2.4	2.8

a/ MSMEs per 1,000 people

b/ Number of newly registered corporations divided by the number of total registered corporations

c/ Percent of all MSMEs.

Notes: (a) Data for Laos from 2005 GTZ enterprise survey; data for Thailand from 2002; data for Vietnam from 2004; (b) MSME definitions vary greatly across countries and average ranges have been used for the comparator country groups.

Source: International Finance Corporation, MSME database. Online

be used if local businesses are to be effectively integrated in vertical production chains. Before examining cross-border value chain opportunities in the EWEC in the section that follows, we briefly characterize the private sector in the selected EWEC member countries of Laos, Thailand and Vietnam.

Lao PDR’s Private Sector – The private sector in Lao PDR is dominated by micro and small size enterprises (MSEs) that are predominantly involved in commerce. There is, however, limited information on the size and distribution of enterprises, as well as their involvement in trade for either inputs to their activities or as markets for their goods and services.²² That which exists indicates that, although medium and large size firms only account for 2 percent of the total number of firms, they employ over one-half of the recorded workforce.²³ The medium and large size garment and wood processing industries dominate employment, absorbing 80 percent of the work force in enterprises of this size. The ownership structure of manufacturing enterprises shows the predominance of foreign-owned companies or joint ventures. Of the firms that were surveyed, foreign-owned companies or joint ventures accounted for 55 percent of output and employed 51

²² The most comprehensive overview of the SMEs dates back to 1996. In that year, a country-wide survey of SMEs was conducted under the Lao-German Small Enterprise Development Project (SEPT) in a collaborative effort-between the German Agency for Technical Cooperation (GTZ) and the Ministry of Industry and Handicrafts (MIH) of Lao PDR (see Lao-German Small Enterprise Development (SED), “*Small and Medium Enterprises in the Lao PDR: The Results of a National Survey*”. 1996). The most notable recent survey is that undertaken by GTZ for the Human Resource Development for Market Economy (HRDME) Enterprise Baseline Survey (see Deutsche Gesellschaft für Technische Zusammenarbeit (German Agency for Technical Cooperation, GTZ). “HRDME Enterprise Baseline Survey Report 2005”. Human Resource Development for Market Economy (HRDME) Enterprise Baseline Survey (EBS)). Another important recent survey is that of the World Bank’s 2007 Investment Climate Survey (see World Bank, “Reducing Investment Climate Constraints to Higher Growth”. Lao People’s Democratic Republic, Private Sector and Investment Climate Assessment, Asian Development Bank and World Bank, 2007).

²³ Information about medium and large size firms can be gleaned from a survey of the manufacturing sector carried out in 1999 by the Ministry of Industry and Handicraft and United Nations Industrial Development Organization (UNIDO). See Ministry of Industry and Handicraft (MIH) and United Nations Industrial Organization (UNIDO), “Survey of Industrial Establishments and Small Scale Manufacturing Establishments”. Lao PDR, 1999. See also Ministry of Industry and Handicraft (MIH) and United Nations Industrial Organization (UNIDO), “Lao PDR: Medium-Term Strategy and Action Plan for Industrial Development”. Lao PDR, Final Report, 2003.



percent of the workers, while locally owned private enterprises accounted for 35 percent of output and 40 percent of employment. State owned enterprises (SOEs) accounted for the remaining 10 percent of output and employed 9 percent of the workers. In the small size enterprises, rice mills account for three-fourths of the establishments and employ two-thirds of the work force in this type of enterprise. The informal sector is largely composed of micro-firms, which represent as much as 70 percent of firms involved in manufacturing, and household-based enterprises (HBEs). They provide employment to 16 percent of the labor force and are largely oriented towards wholesale and retail trade.

Vietnam's Private Sector – Micro, small and medium size enterprises have emerged as a dynamic force in the development of the Vietnamese economy since the launching of the *doi moi* reform process in 1986. Since then the importance of MSMEs has increased rapidly to the extent that 99 percent of all firms were classified as MSMEs in 2004.²⁴ However, only a small fraction of microenterprises are registered and estimates indicate that nearly 90 percent of the labor force has not been registered, which explains the low MSME density ratio for Vietnam.²⁵ During the 1990s private sector growth was sluggish and, by the end of the decade, there were only 39,600 registered enterprises. The passage of the Enterprise Law in January 2000 provided a large stimulus to the private sector development and MSMEs in particular. By mid-2008 there were over 350,000 registered enterprises with a total capital of US\$86 billion.²⁶ Small and medium size enterprises (SMEs) accounted for 96.5 percent of those registered businesses and they absorbed one-half of the workforce and accounted for nearly 30 percent of the total capital. Microenterprises are largely unregistered and are estimated to account for about 13 percent of GDP.²⁷

The competitiveness of products and services produced by Vietnam's MSMEs nonetheless remains low by international standards. As a result, most enterprises are not yet integrated into large-scale business relationships. International standards and quality controls are not maintained and products are unable to meet the requirements of international markets. The range of business development services available to MSMEs is often lacking and, when available, often fails to meet the needs of businesses.²⁸ Nevertheless, the EWEC provinces in Vietnam are generally considered to be more competitive than many others in the country. In 2008 Da Nang was identified as the most competitive province in the country, while Quan Tri was classified as near the mid-point of the Provincial Competitiveness Index, an annual index issued by Vietnam Chamber of Commerce and Industry (VCCI) and supported by the United States Agency for International Development (USAID). The index reflects measures of entry costs, pro-activity of local leadership, labor training, transparency and access to information, state-sector bias, private sector development services, land access, security of business premises, legal institutions, informal charges and time spent on regulatory compliance. The global financial crisis has undermined the development of MSMEs throughout the

²⁴ N.N. Anh *et al*, "Innovation and Export of Vietnam's SME Sector". Paper presented at UNU-MERIT Conference on Micro evidence on Innovation in Developing Economies. May 2007.

²⁵ H. Hansen, J. Rand and F. Tarp, "SME Growth and Survival in Vietnam: Did Direct Government Support Matter?". Discussion Paper 04-13, Institute of Economics, University of Copenhagen (undated).

²⁶ Uni-Bros' News, "SME National Week 2008: Cooperation for Joint Development". 27 November 2008.

²⁷ World Bank, "Vietnam Business: Vietnam Development Report 2006". Report No. 34474-VN, 30 November 2005.

²⁸ Vietnam Chamber of Commerce and Industry, "Lessons for Vietnamese SMEs". 11 September 2006. See also C. Harvie, "SME Development Strategy in Vietnam", Paper presented to the the 4th SMEs in a Global Economy Conference 2007 9th – 10th July 2007.



country, especially because of plummeting demand for their products, rising material input costs, high domestic inflation, bank credit shortages, and increased exchange rate volatility. To offset these effects, the Government has set up a number of MSME supporting centers covering trade and investment promotion and business development services.

Thailand's Private Sector – Thailand is commonly cited as a successful model for MSME development in ASEAN.²⁹ There is an estimated 1.64 million registered SMEs that together account for 47 percent of GDP, with their activities fairly evenly divided across manufacturing, services and trade.³⁰ Further, SMEs account for 99.8 percent of the number of firms in the country and they absorb 76 percent of the workforce.³¹ They also account for over one-fourth of exports, mainly in the form of food products, textiles and garments, leather and plastic goods (including toys), furniture items, handicrafts, jewelry and, to a less extent, mature-technology automotive and consumer electronics parts. Microenterprises operate largely in the informal sector. Three-quarters of the country's labor force is in the informal sector, and in the agricultural sector it reaches 97 percent.³² One half of enterprises in the manufacturing, service and trade sectors are classified as informal, and together the number of informal workers in those sectors are 3.5 times that in the formal sector. The formal sector benefits from subcontracting work with large firms, particularly in clothing, wood products, plastic products, nonmetallic mineral products, and nonelectrical machinery and equipment. These firms tend to be labor intensive with low import content of raw material inputs. An important characteristics of Thailand's SME's, especially in the current global financial crisis, is that the number of small-sized firms tends to grow faster during slow real income growth period than during periods with high economic growth rates.³³ SMEs, particularly the especially small ones, are therefore viewed as mechanisms for cushioning the economy against low employment during difficult economic periods.

Medium-Size Enterprises – In Laos and Thailand, medium sized enterprises are under-represented relative to the large share of microenterprises. The 'missing middle' is an important phenomenon because medium sized firms are often a major source of growth and of international competitive advantage since they play an important role both in the supply chains of large firms as subcontractors and on their own as suppliers to international niche markets.³⁴ The successful development of an internationally competitive SME sector in Korea is reflected in the important representation of medium-size enterprises, which currently absorb over one-third of the industrial labor supply and

²⁹ T. Tambunan et al., "Development of SME in ASEAN with Reference to Indonesia and Vietnam". ERIA Related Joint Research of SME Project, IDE-JETRO, 2007-2008.

³⁰ Government of Thailand, "White Paper 2006. Chapter 3: Economic Role of Small and Medium Enterprises in 2006". Bangkok, 2007.

³¹ A. Bakiewicz, "Small and Medium Enterprises in Thailand. Following the Leader", *Asia & Pacific Studies*, 2: 131-151, 2005; and N. Kecharananta, and P. Kecharananta, "Directions on Establishment of Thailand's Small and Medium Enterprises Promotion Policy and Challenges in the Future", 2007 ABR & TLC Conference Proceedings Hawaii, USA, 2007.

³² Though dated, the most comprehensive assessment of MSMEs in Thailand is contained in M. Allai, "Micro and Small Enterprise Development & Poverty Alleviation In Thailand", Working Paper 6, Project ILO/UNDP: THA/99/003.

³³ A. Sinha, "Experience of SMEs in South and South-east Asia", South-Asia Enterprise Development Facility (SEDF), Research Paper, December 2003.

³⁴ A. Sinha, "Experience of SMEs in South and South-east Asia", South-Asia Enterprise Development Facility (SEDF), Research Paper, December 2003.



account for nearly 10 percent of Korean enterprises. Nonetheless, in Thailand the agricultural sector, which is dominated by micro and small size enterprises, has maintained a high rate of total factor productivity growth since 1999 of over 2 percent and accounting for over 80 percent of output growth, suggesting a strong response to increased competitiveness and perhaps exposure to the influences of foreign firms.³⁵ In contrast, total factor productivity growth of the larger sized enterprises in the industrial sector provided a negative contribution to output growth in the same period.

6.2 Sub-Regional Initiatives for Private Sector Development

GMS Business Forum (GMS-BF) – In 1997 the GMS ministers agreed to endorse the establishment of the GMS Business Forum. The implementation of the GMS Business Forum in October 2000 has provided support to the private sector as independent, non-government body formed by the national chambers of commerce and industry in the six GMS economies, and supported by ADB and ESCAP. It aims to promote business activities and investment in the area by building up the capacity of the local private sector, creating stronger linkages between local firms and foreign firms, and enhancing the public-private sector interface in the GMS, including the major multilateral agencies.³⁶ Its major functions are (a) to provide feedback to senior officials and leaders of the GMS countries on trade and investment; (b) to oversee the development of the GMS Freight Forwarder Association and the development of the GMS small and medium-sized enterprise pre-shipment financing; (c) to organize technical workshops and professional training to strengthen the capacity of local and provincial chambers of commerce and industry along the GMS Economic Corridors; (d) to support GMS cooperation program activities, including the implementation of the Cross-Border Trade Agreement; and (e) to develop the GMS information network for the private sector.

GMS Freight Transport Association (FRETA) – The GMS Business Forum is currently in the process of establishing a GMS Freight Transport Association (FRETA) that will mainstream the private sector's role in the implementation of the CBTA. The Association will address non-physical barriers along the GMS corridors, including administrative bottlenecks, and documentation and customs transit procedures that presently are not harmonized across GMS member countries. Differences in technical standards, transport policies and regulations across the countries will also be addressed by FRETA. Some of these constraints are being addressed under the CBTA, but FRETA will provide practical services to facilitate the implementation of those CBTA initiative, including (a) provision of accreditation and certificate of good standing; (b) provision of a 'fast lane' for its members at border points; (c) provision of matching investments to local firms; (d) assistance to matching businesses for load balancing; (e) provision of up-to-date information on all transport related issues through organizing conferences, seminars, dialogue sessions, FRETA website; (f) training programs; (g) provision of an interactive forum for all transport related issues where members can post their business issues; (h) procurement of insurance and materials handling equipment; (i) provision of a forum for networking across the region, especially for SMEs. FRETA will be a non-governmental organization (NGO) representing all transport and logistics companies including national transport associations

³⁵ P. Warr, "Productivity Growth in Thailand and Indonesia: How Agriculture Contributes to Economic Growth". Working Paper in Economics and Development Studies Center for Economics and Development Studies, Department of Economics, Padjadjaran University, Indonesia, February 2006.

³⁶ UNESCAP, "Greater Mekong Subregion Business Handbook". Bangkok, 2002. See also information contained in GMS Business Forum website: <http://www.gmsbizforum.com>.



in the GMS. Its services and representation will extend to all GMS corridors and will cover multi-modal transportation in the GMS. The proposed three-year budget for the establishment and short-term implementation of FRETA is US\$1.4 million, which would be funded by the ADB and other development partners for at least the first two years of operation.

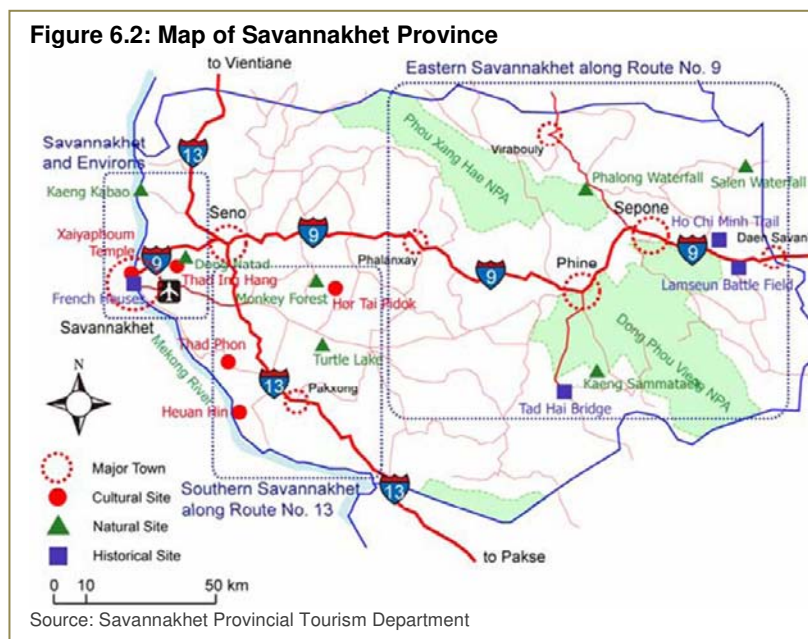
6.3 Targeting the Corridor’s Weakest Link in Lao PDR

Business operations in the Lao section of the EWEC remain considerably underdeveloped relative to that of other areas. In that sense, the Lao section is the weakest link in the Corridor as far as development of the private sector is concerned, so a major effort should be devoted to this section of the EWEC. This section analyzes some of the reasons underlying the lack of private sector utilization of the Corridor by local businesses, and the next one proposes a strategy and implementation modality to overcome existing constraints.

Much of the current activity along the Corridor is currently focused on servicing transit trade of goods and services in the form of tourism to other parts of the Corridor. As a consequence, hardly any Laotian good originating in Laos is exported to neighboring countries, and what goods are shipped along the Lao EWEC section are either imported from neighboring countries or in transit trade between Thailand and Vietnam. A similar flow occurs in tourism, where most visitors entering Lao from Thailand are on their way to Vietnam and spend only a day or less visiting sites in Savannakhet.³⁷ This chapter examines the situation in the Lao section of EWEC (Figure 6.2), and it proposes a strategy for developing the private sector as a means of transforming the EWEC from a transport corridor to an economic corridor in that section of the EWEC. Should that approach succeed, it could serve as a model for converting other sections of EWEC into economic corridors.

Capacity Limitations of Lao Private Sector

– The GTZ 2005 survey of SMEs provides important insights into trade-related capacity limitations of the private sector.³⁸ With the exception of large enterprises, the second most important problem (after lack of capital) was found to be the lack of market information. For the larger enterprises that are more exposed to competition in export



³⁷ The opening of a casino in the Lao border with Thailand in October 2008 will likely produce a large inflow of Thai tourists, but the impact is expected to be localized and have little impact on the alleviation of poverty.

³⁸ HRDME. 2006. Deutsche Gesellschaft für Technische Zusammenarbeit (German Agency for Technical Cooperation, GTZ). 2006. Human Resources Development for a Market Economy - Enterprise Baseline Survey Report 2005.



markets or from foreign competitors in domestic markets, the largest problem was reported as competition that undercut their higher unit production costs and lower product quality, among others. The GTZ 2007 contained questions about the potential benefits and risks from full implementation of the CEPT-AFTA in January 2008. Most respondents failed to answer the questions because they were unfamiliar with ASEAN and the CEPT-AFTA commitments of the Government of Lao PDR.³⁹

Table 6.2: Savannakhet Major External Problems of Businesses (Percentage distribution)

	Very Big	Big	Medium	Small	No Problem	Total
Competition with domestic competitors	9	26	21	10	34	100
Competition with foreign competitors	5	9	9	12	65	100
Too high taxes & duties	15	42	21	14	8	100
Other fees and unofficial payments	15	42	21	14	8	100
Lack of infrastructure: Roads	4	8	15	13	60	100
Electricity and Fuel Prices	13	27	13	16	31	100
Low productivity/efficiency	9	24	15	22	30	100
Telecommunication prices	0	4	12	21	63	100
Customs/foreign trade regulations	0	8	9	23	57	97
Foreign currency exchange regulations	3	9	15	19	54	100
Labor & safety regulations	3	4	14	14	65	100

Source: GTZ, Enterprise Survey 2007.

Profile of EWEC in Lao PDR: The EWEC passes through the province of Savannakhet in Lao PDR along Route 9. With a population of 850,000 it is the most populous province in Laos.⁴⁰ Its territory is generally low land with some agriculture plots in the north and east of the capital, Khanthabuly.⁴¹ In January 2007 the Second Friendship Bridge opened to traffic, linking Thailand's northeastern province of Mukdahan with Savannakhet and thereby facilitating commerce and movement of people along the EWEC and establishing the foundation to promote economic and social development in the Corridor. The bridge was funded by the Japan Bank for International Cooperation (JBIC) in the amount of 37.8 million to Lao PDR and \$38.5 million Thailand.

Profile of Enterprises in Savannakhet: With the exception of the mining and garment sectors, which have larger firms with foreign investment, nearly all businesses in Savannakhet are domestic microenterprise and small businesses.⁴²

Table 6.3: Savannakhet Major Internal Problems of Businesses (Percentage distribution)

	Very Big	Big	Medium	Small	No Problem	Total
Lack of management and accounting skill	8	12	18	20	42	100
Lack of technically skill labor	4	18	18	21	39	100
Lack of management staff	2	14	15	14	55	100
Lack of market information	6	17	24	19	33	99
Lack of capital	27	35	23	6	9	100
High labor costs	0	18	27	8	47	100
Low productivity and efficiency	9	24	15	22	30	100

Source: GTZ, Enterprise Survey 2007.

³⁹ Other more recent surveys include the World Bank's 'Investment Climate Assessment' (2006), MIH-UNIDO Surveys of 'Industrial Establishments and Small Scale Manufacturing Establishments' (1999), 'Food Processing Sector in Lao PDR' (2002), 'Woodcraft in Lao PDR' (2002), 'Artisan Craft Development' (2002), 'Composition and Evolution of Lao PDR's External Trade' (2002) and 'Prospects for further Integration of Lao PDR's Manufacturing Sector into ASEAN' (2003); Lao-German Small Enterprise Development (SED) Project, "Small and Medium Enterprises in the Lao PDR: The Results of a National Survey" (1996).

⁴⁰ The province is composed of the following 15 districts: Khanthabuly, Outhoumphone, Atsaphangthong, Phine, Sepone, Nong, Thapangthong, Songkhone, Champhon, Xonbully, Xaybully, Vilabuly, Atsaphone, Xayphouthong and Phalanxay.

⁴¹ Savannakhet province has a total area of about 2.1 million hectares, of which 690,000 is designated as permanent forest and 366,000 hectares is currently used as agricultural land, half of which is rain-fed rice paddy. Half of the remaining 1 million hectares is considered to be grazing land.

⁴² Copper and gold are produced mainly by the Australian company Oxiana Ltd through its whole-owned subsidiary Lane Xang Minerals Ltd from its Sepon gold project at the Sepon open pit and at the Khanong pit



The following features characterize small businesses in the province, based on the recently completed Enterprise Survey conducted by GTZ.

- **Predominance of small enterprises selling locally and with little knowledge about cross-border opportunities:** The average size of the enterprises in the province is around 10 workers and nearly 60 percent of them have an annual turnover of less than \$10,000 a year.⁴³ A significant proportion (over 20%) operate out of commercial centers, but most of the business are home-based (nearly 60%). The vast majority of their sales (97%) are directed to the provincial market, while a few businesses sell to neighboring countries mostly through informal border trade. They are, nevertheless, dependent on foreign inputs for an average of 30 percent of their inputs, mostly from Thailand. In fact, most of the enterprises have little, if any knowledge about trade opportunities. Only 10 percent of the surveyed firms knew about the ASEAN Free Trade Agreement (AFTA) and, of these, 70 percent said that it had no effect on their business.
- **Need for training and business support services:** About half of the enterprise owners and their technical staff have received vocational training from a technical school. But management experience has usually been gained from on-the-job experience. The most important skills needed are formulation of business plans, accounting, computer training, recording keeping, marketing and a variety of other skills. Most enterprises are members of the Chamber of Commerce and Industry (CCI), and are motivated by efforts to resolve problems and market their activities.
- **Lack of financing the largest internal problem:** Tables 6.2 and 6.3 show the main internal and external problems faced by these enterprises. Lack of capital and access to financing is the main internal problem of most businesses, with 60 percent of them saying that it is a big or very big problem. About half of the enterprises have already received loans, and most would need financing to expand their business operations. Low productivity and efficiency of their operation are the second largest problem, followed by lack of market information, lack of skilled labor and lack of management and accounting skills. The two largest external problems are taxes and unofficial payments, followed by utility costs and competition from other local producers. Since their operations are localized, they face little competition from foreign enterprises. Moreover, the Lao financial system has limited capacity to provide funds for these enterprises.⁴⁴

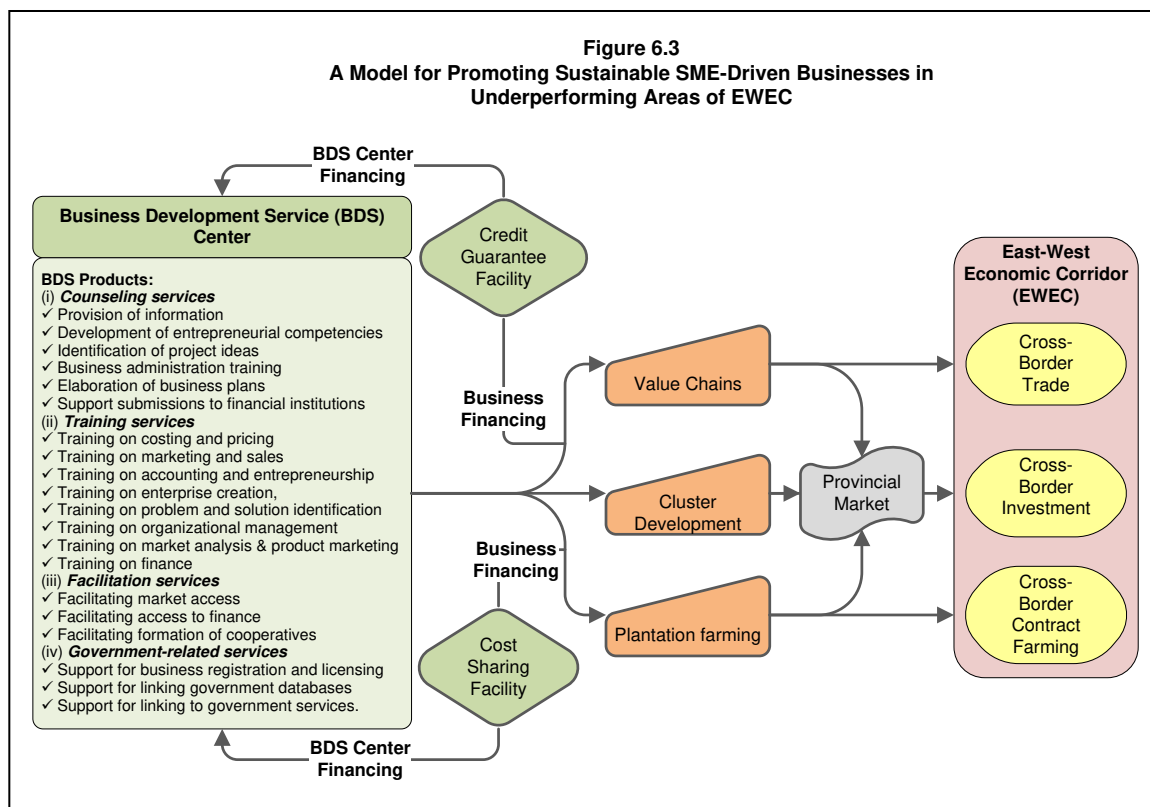
6.4 Proposed Private Sector Development Program for Savannakhet

Existing Initiatives: The underlying strategy for Savannakhet of the Government of Lao PDR and its development partners is largely based on cluster development, value chains and various types of contract farming arrangements, which in Savannakhet take the form of either cross-border contract farming arrangements (typically between Lao smallholders

near the town of Sepon in Savannakhet Province. Gypsum is produced by Gypsum Mining Co. Ltd. from the Champhone District in Savannakhet Province.

⁴³ The 2006 'Decree on the Promotion and Development of Small and Medium Sized Enterprises' merges micro enterprises with small enterprises and defined SMEs as follows: small enterprise are those having an annual average number of employees not exceeding 19 persons or total assets not exceeding two hundred and fifty million kip or an annual turnover not exceeding four hundred million kip; and medium size enterprise are those having an annual average number of employees not exceeding 99 persons or total assets not exceeding one billion two hundred million kip or an annual turnover not exceeding one billion.

⁴⁴ MFDP, "Lao PDR: Financial Sector Diagnostics". Vietiane, International Finance Corporation, June 2007.



and Thai, Chinese, or Vietnamese purchasers/traders/processors) or land concession-based plantation-type commodity production. Clusters are being promoted by the Government in the form of one-district-one-product (ODOP) initiatives, supported by JICA.⁴⁵ Several value chain studies for Laos in general and Savannakhet in particular have taken place, among the most recent being those carried out for the proposed ADB agricultural sector loan in the southern provinces.⁴⁶ Other studies have recently been carried out by the World Bank and other development partners study, as well as the National University of Lao (NUOL).⁴⁷

Support for Business Development: Implementation of SME driven development strategies based on clusters, value chains and plantation farming in Savannakhet will be unsuccessful under the present situation under which enterprises operate in the province because of their limited individual business capabilities and restricted access to financing and technical expertise. Support for businesses in the Savannakhet portion of EWEC has been fragmented, and business development services (BDS) are at an infant stage of development. What BDS products that do exist are limited to skills-related training courses

⁴⁵ The project funding is \$2 million for 2008-2011. In cooperation with the Ministry of Industry and Commerce (MOIC), the objectives of the project are to raise awareness and importance of the One District One Product (ODOP) concept, to support relevant exciting products as a pilot product, and to create good practice.

⁴⁶ TA 4843: Lao PDR Formulation of ANR Sector Loan, 2008 (ongoing).

⁴⁷ World Bank, "Integrated Value Chain Analysis of Selected Strategic Sectors in the Lao People's Democratic Republic". Prepared by Global Development Solutions LLC, September 2005; SIDA, "Regional Development in the Lao PDR"; Country Economic Report 2007:3. Programme de Capitalisation en Appui à la Politique de Développement Rural (PCADR), Coffee Value Chain Analysis in the Lao PDR; Khammoungkhoun, Somchit; Chanthanasinh, Vadsana; and Bounlavong, Sengsaden, "An Economic Analysis of Lao Coffee Export Competitiveness". AusAID Trade Analysis and Reform Project, April 2007. GTZ is also planning to finance a study for Southern Laos.



that do not necessarily induce entrepreneurial activity. Even with basic skills development, it will require considerable effort on the part of the country's development partners; with the competitiveness and easy market access from the competing neighboring countries of Thailand and Vietnam, it will demand the sort of comprehensive skills that even the most efficient business clearly lack at present. A comprehensive approach for the delivery of BDS products to microenterprises and small scale enterprises will need to encompass, as a minimum, the following components: (i) improved availability and access to production and market information; (ii) access to markets, including transport and logistics support; (iii) access to low cost finance; (iv) affordable technical consultancy and training; (v) basic management training; (vi) start-up training and consultancy; and (vii) training in entrepreneurship.

Coordination of BDS Initiatives among Stakeholders: Some preliminary work has already been undertaken by different stakeholders on BDS facilities in Savannakhet, so collaboration and coordination would be essential to the success of the initiative. GTZ has provided some support to the Chamber of Commerce and Industry (CCI) in Savannakhet for BDS development, while National Small and Medium Sized Enterprise Promotion and Development Office (SMEPDO) is currently completing a supply-side study on BDS activities covering Savannakhet, among others. The GMS Business Forum has proposed a financing scheme for business development services that is quite similar to the one proposed here.⁴⁸ It proposes a GMS Development Fund that would provide guaranteed loans to SMEs in Lao PDR. Finally, the Lao Agro-Processing Association in the Lao National Chamber of Commerce and Industry (LNCCI) supports the development of a BDS in Savannakhet and has committed its membership to supporting the initiative.⁴⁹

Promoting Sustainable SME-Driven Business –The GTZ Enterprise Survey shows that two of the major obstacles of SMEs in Savannakhet are (i) the limited access to all types of business development services (BDS) like information, marketing services, communication and training; and (ii) the inability to access finance at reasonable costs. On the supply side, there is a lack of providers of BDS in the province, and partial or targeted capacity building of enterprises by some donors and NGOs. On the demand side, SMEs are unaware of the concept of professional support for enterprise development, despite their urgent need of it. To overcome these obstacles it is proposed that a Business Development Service (BDS) Center be established in Savannakhet for the delivery of business development services to SMEs and as facilitators of Local Economic Development (LED).

Summary: Figure 6.4 brings together the key elements of the action plan to developing business activity along the Lao economic section of the Corridor. It consists of a BDS Center that would provide services ranging from counseling and training services to facilitating activities for accessing markets, finance and networking activities, and finally to dealing with government licensing procedures and obtaining information from government agencies. Financing of BDS the Center and business activities would initially occur through the Cost-Sharing Facility (CSF) and later the commercialization and partial financing through the Credit Guarantee Facility (CGF). Both of these facilities would provide significant financial support to SMEs. Together these facilities would seek to establish the business capabilities of SMEs to participate in networking systems through

⁴⁸ Apichai Boontharawara, "Proposed Financing Scheme for SME's in Greater Mekong Subregion". Business and Investment Dialogue (BID), Vientiane, Lao PDR, 30 March 2008.

⁴⁹ Based on discussion with Mr. Sisouphanh Sengsavanh, President of Lao Agro-Processing Association in LNCCI.



value chains, clusters and plantation farming, initially targeting the domestic market and then establishing the competitive basis for SMEs to compete in the regional and global marketplace using the Corridor.

Box 6.1: Case Study of an Agribusiness in Savannakhet

Bounthong Farm is a small-scale agri-business in Savannakhet that raises swine, fish and chicken and the owner is attempting to develop downstream processing and value-added activities to the business. With seven workers on the farms it is classified as a small scale enterprise by the Government of Lao PDR. It sells pigs and chickens to Vietnam and fish are sold within Savannakhet.

Mr. Bounthong, the owner, has considerable entrepreneurial know-how but lacks technical skills needed to meet the standards of neighboring countries, much less distant markets. He originally wanted to export processed pig and chicken products Thailand and Vietnam but lacked know-how. Efforts to bring in veterinarian scientists in animal husbandry to provide information failed because of poor technical support. Outside the GMS and ASEAN, Mr. Bounthong has explored the sausage market in Germany and Russia but need technical training on processing and SPS requirements in those countries.

The owner originally borrowed \$300,000 through the Mekong Private Sector Development Facility (MPDF) of the International Financial Corporation (IFC) at terms of 8 percent for 10 years. Another \$100,000 was borrowed from a commercial bank at much less favorable terms of 15 percent for 5 years. However, the Agricultural Promotion Unit of Ministry of Agriculture said it would subsidize half of the loan, but later denied the subsidy on the grounds that the numerous documents that were required to obtain the subsidy were not correct and therefore unacceptable.

He has received technical assistance from an SME expert through the Australian Volunteer Program, but still lacks knowledge about how to market his products, as well as basic accounting, management, and business skills and how to export his products within the GMS and ASEAN and distant markets. He is aware of SPS export requirements but also lacks knowledge about how to meet those requirements in his operations. For the vast majority of other SMEs operating in Savannakhet, Mr. Bounthong says that they first need to understand how to compete within the Savannakhet market before embarking on cross-border sales along EWEC. Under the

6.5 Proposed Strategy and Implementation Modality

Strategic Thrust: The strategic objective of private sector development in the EWEC reflects the overall strategic goals established by the GMS for its corridor flagships (a) a strategic investment framework that provides cohesiveness and rationale to the unilateral or bilateral border economic zones being established along the Corridor; (b) full inclusion of agricultural products in cross-border trade and investment cooperation among member countries; and (c) implementation of pro-poor measures to ensure that the Corridor benefits the poor. For the EWEC, those overarching translate into the following strategic objective:

Strategic Objective – Improve the business environment along the EWEC area to develop competitive commercialize activities for microenterprises and SMEs.

Implementation Modalities: The proposed implementation of the strategy relies on a high-profile program that initially could take the form of pilot projects intended to kick-start efforts to develop competitive commercialize activities among microenterprises and SMEs along the Corridor, with special focus on business development to take place in Savannakhet. The program would aim to develop value chains across all sections of the Corridor and, for Savannakhet in particular, it would establish Business Development Service (BDS) centers to provide the needed capacity building for small enterprises to take



part in complementary cluster programs and value chains linking producers to consumers. They could also aim to integrate these groups into the commercial system entrepreneurial smallholders producing high value in specialized products for niche markets. An important component to support these activities would be the creation of a financing mechanism to sustain entrepreneurial activities along the Corridor.

Action Plan: The action plan for the development of competitive commercial activities among microenterprises and SMEs in the EWEC is as follows:

Table 6.4: Action Plan for EWEC Development: Improving the Business Environment

Project Initiative	Expected Output	Progress Indicator	Implementation Agency	Time-frame	Status and Remarks	
Strategic Objective:		EMPOWER PRIVATE SECTOR: Improve the business environment along the EWEC area to develop competitive commercialize activities among microenterprises and SMEs.				
Action Plan:						
1.1	Business Development Service Center for Micro and Small Business Development in Savannakhet	Provide a comprehensive approach for the delivery of BDS products to microenterprises and small scale enterprises with the following outputs: (i) improved availability and access to production and market information; (ii) access to markets, including transport and logistics support; (iii) access to low cost finance; (iv) affordable technical consultancy and training; (v) basic management training; (vi) start-up training and consultancy; and (vii) training in entrepreneurship.	Establishment of BDS Center; number of participants; evaluations by participants	Not yet determined	2009-2012	Proposed by GMS Business Forum, as well as Lao Agro-Processing Association in the Lao National Chamber of Commerce and Industry (LNCCI)
1.2	Establishment of an SME Development Fund	Fund to support development of micro and small size enterprises in the lesser developed areas of the EWEC and other poor regions of the GMS.	Establishment of Fund	Not yet determined	2008-2012	Proposed by the BID participants to the GMS Leaders at the Third Summit. The proposal was reiterated at the 12th Meeting of the Subregional Transport Forum (12-14 August 2008). The Leaders at the Third Summit mandated that a study of this proposal be undertaken. ADB could assist the GMS Business Forum (BF) in undertaking the study
1.3	Training programs/workshops on SMEs' participation in global value chains	Global value chains (GVCs) awareness workshop based on case study and instructions on GVC steps and requirements for their application. Includes preparation of GVC-related technical training on technical, product and process quality standards, and IT requirements.	Number of participants; evaluation of program by participants; application by participants	Not yet determined	2008-2012	Proposed. The specific topics, learning methods, participants, and financing modalities of such programs and workshops have yet to be determined.
1.4	Mapping of global value chain opportunities for SMEs in EWEC and other GMS areas	Mapping exercises covering identification of constraints in specific industries, including trade rules and regulations and inadequacies in the logistics systems. Also, studies on the feasibility of establishing clusters of SME export suppliers along the borders of the GMS economic corridors to ease sourcing problems by foreign buyers who will not have to deal with many small suppliers in scattered locations.	Completion of mapping exercise and studies	Not yet determined	2008-2012	Financing is being sought for these activities. Under RETA 6450, a scoping exercise for global value chains in the GMS countries is planned to select sector/products, buyers, distributors, suppliers/sellers. This will be followed by a GVCs mapping exercise and brochure production.

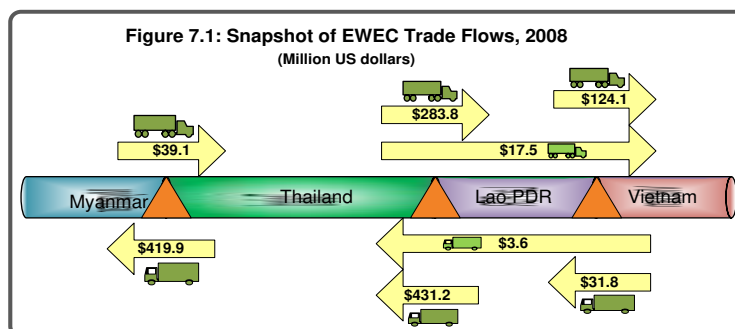


7. Promoting Sustained Private Sector-Led Growth II: Trade, Investment and Tourism

7.1 Cross-Border Trade

Snapshot of EWEC Trade – Current trade flows along the EWEC give rise to relatively large trade imbalances. In the Thai-Myanmar border, trade originating in Thailand is over ten times larger than that originating in Myanmar

(Figure 7.1). In the Lao-Vietnam border, trade flows from Lao PDR to Vietnam are nearly four times larger than those from Vietnam to Lao PDR. Similarly, exports from Thailand to Vietnam are nearly five times greater than exports from Vietnam to Thailand.



A major shift in trade flows has, however, occurred in the Lao-Thai border. Whereas Thai exports to Laos in initial years of the EWEC were as much as eight times larger than Lao exports to Thailand, the large expansion in copper shipments from Laos in the last three years has reversed that pattern.

Commodity Composition of Thai-Lao Trade Flows – Copper exports now account for 87 percent of total exports from Lao PDR to Thailand (Table 7.1). The importance of those exports only became significant in 2005 when they represented one-third of Lao PDR exports to Thailand

across the Savannakhet-Mukdahan border. Lao exports of clothes in the form of shirts, suites and blouses has risen in importance, while the share of wood and timber in total exports has declined in importance from 97 percent in 1999 to somewhat over 50 percent in 2004 to

about 1 percent in 2008. On the Thai side, the composition of exports has also changed significantly in the last decade. Today petroleum and building equipment together account for 22 percent of total exports, while other types of products ranging from processed foods and beverages to chemical and industrial equipment remain important. In contrast, a decade earlier the major exports from Thailand to Laos through the Mukdahan-Savannakhet border were consumer goods, electronics and motorcycles.

Table 7.1: Top Ten Traded Products at Mukdahan-Savannakhet Border in 2008 (Million US\$)

Thai Exports	US\$ Mil.	%	Lao Exports	US\$ Mil.	%
Petroleum (2710)	41.4	14.6%	Copper (7403)	373.8	86.7%
Building Equipment (7308)	20.8	7.3%	Clothes (6104, 6106, 6204, 6206)	16.5	3.8%
Coffee or Tea (2101)	12.4	4.4%	Wood & Lumber (4407)	5.7	1.3%
Trucks (8704)	10.5	3.7%	Luggage (4202)	2.2	0.5%
Centrifuge Dryer (8421)	8.8	3.1%	Weaving Machinery (6212)	1.9	0.4%
Sugar (1701)	8.4	2.9%	Other Machinery (8430)	1.7	0.4%
Sulfuric Acid (2807)	8.0	2.8%	Electricity Converter (8504)	1.7	0.4%
Beverage Ind. Mach (8438)	7.0	2.5%	Copper Parts (7404)	1.6	0.4%
Water & Soft Drinks (2202)	7.0	2.5%	Cathode Bulbs (8540)	1.7	0.4%
Other	159.7	56.3%	Other	24.4	5.7%
Total	283.8	100.0%	Total	431.2	100.0%

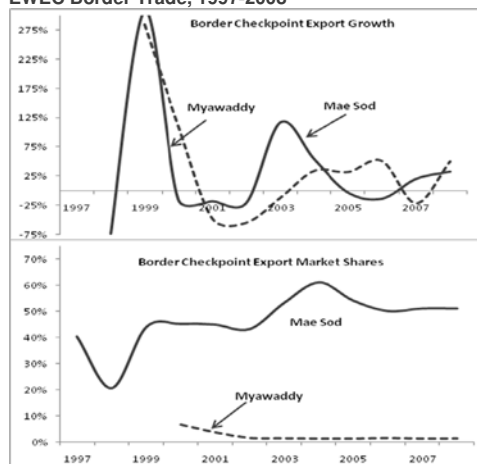
Source: National statistical offices.

Note: data for 2008 based on actual Jan-Sept data and Oct-Dec estimates.



Myanmar-Thai Border Trade – Trade at the Myawaddy-Mae Sod border checkpoint of the EWEC has generally followed the same pattern as trade along all border checkpoints between Thailand and Myanmar. Following a surge in trade in 1998-2000, trade between the two countries fell in the subsequent three years and has since averaged about 20 percent annual growth, albeit with large year-to-year variations. Myanmar’s export market share of the EWEC border checkpoint has remained small and nearly unchanged at around 2 percent relative to all Thai-Myanmar border trade (over 95 percent of Myanmar’s border commerce passes through the Payathonzu, Myanmar - Sangklaburi, Thailand checkpoint further south). In contrast, the Myawaddy-Mae Sod border checkpoint has the largest volume of goods being shipped along the Myanmar-Thailand border. In 2008 the export market share was over 50 percent up 10 percentage points from a decade earlier.

Figure 7.2: Export Performance of Myanmar-Thai EWEC Border Trade, 1997-2008



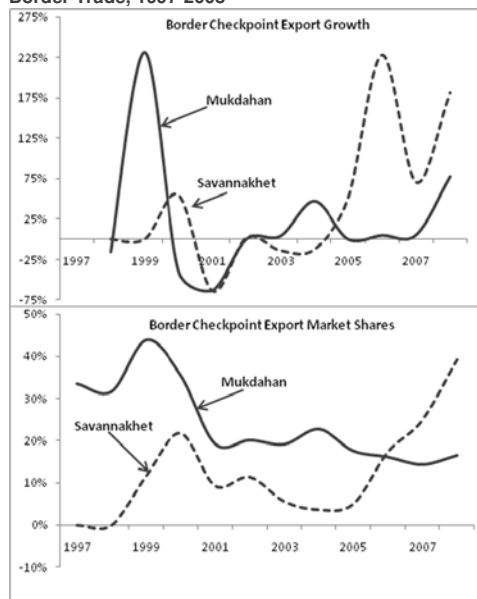
Note: Export market shares refer to the proportion of goods exported through the specified border checkpoint relative to the total value of goods exported through all border checkpoints of the destination country.

Thai-Lao Border Trade – Trade at the Mukdahan-Savannakhet border checkpoint was sluggish during the construction of the Second Friendship Bridge (December 2003 to December 2006), but it has recently experienced a large expansion in both directions. Between 2006 and 2008, Thai exports expanded by nearly 90 percent while Lao exports surged by over 350 percent as a result of increased copper shipments and the price rise of that commodity.

Movement of people has also increased from around 95,000 in 2000–2001 to an estimated 300,000 in 2008.⁵⁰ However, the present number of vehicles crossing the border, estimated at around 150 vehicles a day, is below potential and a small improvement from the 130 vehicles a day that crossed the border in 2000.

Total transit trade represents less than 5 percent of the total value of trade at the Mukdahan-Savannakhet border checkpoint. Of that amount, about 85 percent are in the form of exports from Thailand to Vietnam, and remaining 15 percent are exports of Vietnam to Thailand.

Figure 7.3: Export Performance of Thai-Lao EWEC Border Trade, 1997-2008



Note: Export market shares refer to the proportion of goods exported through the specified border checkpoint relative to the total value of goods exported through all border checkpoints of the destination country.

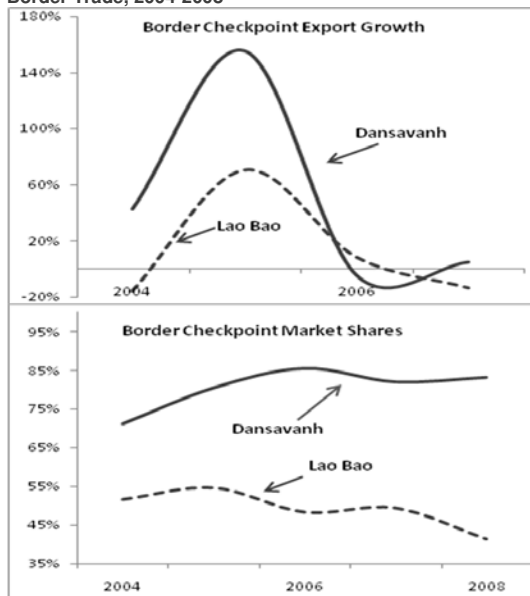
Lao-Vietnam Border Trade – Trade between Lao and Vietnam has been fairly stable in

⁵⁰ Lao People’s Democratic Republic and Socialist Republic of Viet Nam: Greater Mekong Subregion: East-West Economic Corridor Project”. Manila: ADB Performance Evaluation Report, December 2008.



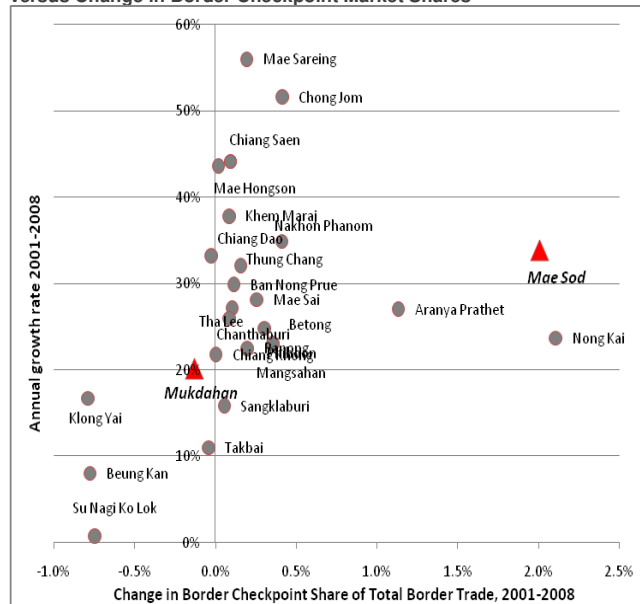
recent years. Following a surge in 2006, trade in 2007-2008 has remained nearly unchanged. The value of exports originating in Lao PDR has been four times greater than the value of exports from Vietnam.⁵¹

Figure 7.4: Export Performance of Lao-Vietnam EWEC Border Trade, 2004-2008



Note: Export market shares refer to the proportion of goods exported through the specified border checkpoint relative to the total value of goods exported through all border checkpoints of the destination country.

Figure 7.5: Thai Exports at Border Checkpoints, Annual Growth Rates versus Change in Border Checkpoint Market Shares



Informal Trade – It is the informal sector that accounts for the large volume of so-called traditional or informal trade in Lao PDR. Informal border trade consist of glutinous rice and fruit and vegetable produce from southern Lao PDR and directed to Thailand. Cattle moves between Lao PDR and Vietnam, while agricultural inputs in the form of fertilizers, pesticides, diesel engines and power tillers come from Thailand, Viet Nam and China. Estimates of the magnitude of this informal border trade vary greatly, although it is generally recognized that it is large. According to the ADB and ESCAP, Lao PDR’s informal border trade represents between one-third and one-half of formal border trade with neighboring countries.⁵² Other estimates have also placed informal trade between Thailand and Lao PDR at between one-third and one-half time the amount of formal border trade,³ and that of Thailand and Myanmar at about two times the amount of formal border trade.³ Informal border trade takes one of three forms: (a) transportation of goods by hired laborers to smuggle merchandise across the border for traders on the other side, (b) cross-border transportation of merchandise by small-scale traders, tourists and the general population, and (c) large-scale smuggling of goods across borders by professional operators.⁵³ Goods smuggled into Lao PDR from neighboring countries consist largely of consumer goods, while those smuggled into neighboring countries are made up of teak, cattle and agricultural products.

⁵¹ Based on customs data from Vietnam. Commodity-based trade data was unavailable from the customs authorities.

⁵² ADB, “Pre-Investment Study for the Greater Mekong Subregion East-West Economic Corridor: Annex on Trade and Investment”. Manila: Asian Development Bank, 2000; and Economic and Social Commission for Asia and Pacific (ESCAP), “Border Trade and Cross-Border Transactions of Selected Asian Countries”, New York: United Nations, 1997.

⁵³ The distinction in types of border trade transactions is made by the Bank of Thailand and the Bank of Lao PDR and reported in Thailand Development Research Institute Foundation (1997).



Comparative Performance of Thai EWEC Trade – Notwithstanding large year-to-year variations in Thailand’s EWEC trade with Myanmar and Lao PDR, it is possible to assess the medium to long-term growth of exports relative to the performance of all other border checkpoints. Figure 7.5 shows that the comparative performances between Thailand’s two EWEC border checkpoints have differed. On the one hand, exports to Lao PDR at the EWEC border checkpoint have grown at about the same rate as overall exports from Thailand’s borders, with the result that the market share of the Mukdahan-Savannakhet border checkpoint has remained unchanged in 2001-2008. On the other, exports to Myanmar at the EWEC border checkpoint have grown at an above-average rate, resulting in a considerable gain in the border checkpoint’s market share relative to all Thai border checkpoints. The comparative analysis helps to assess the EWEC trade performance in the context of overall trade across national borders. In this case, the results underscore the underperformance of Thailand’s EWEC trade with Lao PDR along the EWEC.

Tariffs and Rules of Origin on Cross-Border Trade under CEPT-AFTA – Trade between Lao PDR, Myanmar, Thailand and Viet Nam are subject to commitments made under the

Table 7.2: Exports at EWEC Border Checkpoints, 2002-2008 (Million US dollars)

	Exports								Trade Balances				
	Myanmar to:		Thailand to:			Laos to:		Vietnam to:		Myanmar - Thailand	Thailand - Laos	Thailand - Vietnam	Laos - Vietnam
	Thailand	Myanmar	Laos	Vietnam	Thailand	Vietnam	Laos	Thailand					
2002	12.4	72.1	75.6	0.1	19.0	na	na	-	(60)	57	na	na	
2003	11.3	162.5	81.6	0.9	16.9	na	na	-	(151)	65	na	na	
2004	15.7	258.2	124.2	1.8	15.2	34.2	23.8	0.1	(243)	109	2	10	
2005	20.7	251.6	124.7	4.2	22.9	48.7	20.0	0.1	(231)	102	4	29	
2006	33.2	232.0	138.9	18.9	80.0	124.5	34.1	0.7	(199)	59	18	90	
2007	28.6	307.6	160.9	12.8	149.7	118.6	36.9	0.8	(279)	11	12	82	
2008	39.1	419.9	283.8	17.5	431.2	124.1	31.8	3.6	(381)	(147)	14	92	

Source: National statistical offices.

Note: data for 2008 based on actual Jan-Sept data and Oct-Dec estimates.

ASEAN Free Trade Area (AFTA). Under the Common Effective Preferential Tariff (CEPT), over 99 percent of the products in the CEPT Inclusion List (IL) of member countries that include Thailand have been brought down to the 0-5 percent tariff range. Newer ASEAN members that include Laos, Myanmar and Viet Nam have also completed implementation of their CEPT. Vietnam brought down its tariff of IL to no more than 5 percent in 2006, and Lao PDR and Myanmar brought theirs down in 2008. Products that remain out of the CEPT-AFTA Scheme are those in the General Exception List and the Highly Sensitive List that includes unprocessed agricultural products like rice, sugar, garlic, meat that were not initially considered for inclusion. Additionally, the CEPT Rules of Origin and its Operational Certification Procedures were revised in January 2004 to include the following features: (a) standardized method of calculating local and ASEAN content; (b) a set of principles for determining the cost of ASEAN origin and the guidelines for costing methodologies; (c) treatment of locally-procured materials; and (d) improved verification process, including on-site verification.

7.2 Investment and Special Economic Zones

Motivation for Cross-Border Investments – The driving force behind cross-border EWEC investment today remains the same as it was when it was first elaborated a decade ago in the Asian Development Bank’s 2001 study *Pre-Investment Study*. In the context of medium and long-term framework, the EWEC trade and investment model is one that not only determines the growth potential of intra-regional trade resulting from differences in factor endowments, but also one that builds on the growing world-wide trend towards the globalization of production and lower production costs from economies of scale and expanding extra-regional trade. The EWEC provides an opportunity to obtain economies of



scale in the production of cross-border industries, and this larger production area, in turn, provides the basis with which to develop intra-firm trade, implement marketing processes that take advantage of vertical and horizontal product differentiation in markets outside the region, expand the volume of intra-industry trade within the EWEC, and bring in much needed domestic and foreign investment and financial capital to the subregion.

SME Driven Investment Growth – The EWEC is generally composed of fairly heterogeneous districts with subsistence-oriented patterns of production in many areas, limited access to financial capital and, for the most part, a small proportion of foreign direct investment (FDI) relative to the national average of each EWEC country. Cross-border production opportunities are limited to SMEs that take advantage of complementarities associated with factor price differentials and technological disparities among member countries in the Corridor. Over the last ten years, the EWEC has adapted to these conditions through a variety of mechanisms like economic zones to reduce production costs by exploiting subregional economies of scale and expanding extra-regional trade. The spatial distribution of these production processes continue to offer opportunities for intra-industry trade and intra-firm trade, both domestic and foreign investment, and the development of marketing processes that take advantage of vertical and horizontal product differentiation in the markets for goods and services. For the more developed EWEC areas there are local or cross-border opportunities in value chains linking SMEs to markets, while in lesser developed areas viable opportunities are focused on business development services (BDS) for micro and MSEs.

Table 7.3: Lao Bao Free Trade Area Zone

NO.	Name of Project	Investor	Products	Investment (VN dong)	Capacity	State	Date of Est.
1	Tunnel brick factory	Bach Dang JS. Company.	Tunnel brick	7,000,000	10 mill units/year	Vietnam	15/12/2000
2	Pep drinking factory	Viet- Thai Chaichareon limited company	Canned & bottled drinking; bottled juice drinking	51,712,000	9 mil units/yr; 15 mil bottle/yr; 3 mil units/yr	Thailand	10/3/2001
3	Cafe processing	N. road No. 9 Coffee Services Investment Company	Coffee	19,036,000		Vietnam	10/10/2002
4	Bao S. hotel	Quang Tri Construction Limited Company No.1	Hotel, travel, service.	5,467,000	24 rooms	Vietnam	31/12/2005
5	Engineering and Electrical Factory Lao Bao	Lao Bao Engineering Electrical Limited Company	Electrical equipment	10,000,000	2200 units/year	Vietnam	20/05/2002
6	Sepol hotel	Quang Tri Trade Limited Company	Trade, services	8,537,000	24 rooms	Vietnam	9/6/2003
7	HB Hotel	Quang Tri Import – Export JS. Company	Trade, services	7,010,000	20 rooms	Vietnam	5/1/2006
8	Lao Bao oil and petrol shop	Quang Tri petrol Company	Petroleum, construction material	2,400,000	-	Vietnam	4/4/2002

Cross-Border Investment Promotion – In December 2008 the EWEC member countries and other ASEAN members signed the ASEAN Comprehensive Investment Agreement (ACIA) to liberalize, facilitate, protect and promote trade ASEAN and foreign investors in their countries. It expands on the earlier the ASEAN Investment Area (AIA) Agreement and the ASEAN Investment Guarantee Agreement (IGA), which eliminated investment barriers, liberalize investment rules and policies, grant national treatment and open up industries in the manufacturing and non-manufacturing sectors, including mining, agriculture, fishery and forestry. Under the ACIA the procedures for investors to register their investment to benefit from protection under the agreement is clearly outlined so that the procedures are transparent to those investors. It also requires that a country gives



compensation to any investor when modifications to the country's commitments negatively affect the investor. Finally, it contains Investor-to-State Dispute Settlement (ISDS) provisions to address disputes. The agreement could help to stimulate cross-border investments in the EWEC by providing investment incentives, transparency and a dispute settlement mechanism.⁵⁴

Da Nang (Vietnam) SEZs – Da Nang has five main industrial zones: Hoa Khanh Industrial Zone, the Expanded phases of Hoa Khanh Industrial Zone, Lien Chieu Industrial zone, Hoa Cam Industrial Zone and Massda Industrial Park. The latter is located in the city center and is operated by a Malaysian-Vietnamese joint venture. The total land area of these five zones is over 1,300 hectares, and other 300 hectares are planned at Hoa Khuong. The industrial parks in Quang Nam and Danang are increasingly taking advantage of the EWEC to take advantage of the transport and logistics facilities, as well as industries aiming to increase their competitiveness by taking advantage of central Vietnam's greater labor supplies and lower wages, and pro-industry policies of the provincial governments.⁵⁵

Quang Tri (Vietnam) SEZs – In Quang Tri province the major industrial estates are located in Lao Bao and Dong Ha. Others are planned in Cam Lo and Dak Rong districts and Cua Viet port of Quang Tri province. According to local officials, most of these industrial units began around 2002–2003 in response to EWEC-based improvement of Road Number 9.⁵⁶ The Lao Bao Free Trade Area Zone (FTAZ) was established a decade ago and now occupies an area of 15,800 hectares. Of the 50 projects currently operating in the FTZA, Table 7.3 summarized the major ones. The Government of Vietnam also established a strategic economic zone called the Lao Bao Commercial Area that allows businesses to operate under conditions of an export processing zone, industrial zone, border gate economic zone, and tax-suspension warehouse. The effects have been impressive, with the area attracting 35,000 people and estimated to increase to 90,000 people in 2020.⁵⁷ There are also hotels, restaurants, bars, and a large duty free shopping center selling a wide range of goods.

Savannakhet (Lao PDR) SEZs – In Savannakhet, the Government of Lao PDR created Savan-Seno Special Economic Zone in 2002.⁵⁸ It has three sites. Site A has 305 hectares and focuses on service sector activities like hotels, restaurants, shopping centers and leisure activities. It will become part of what is being called Savan City (Paradise City), an initiative of Thai Airport Ground Services (TAGS) with whom the Government signed a

⁵⁴ Prior to the full implementation of the CEPT-AFTA, ASEAN member countries also created the ASEAN Industrial Cooperation Scheme (AICO) Agreement to provide cross-border joint investment opportunities for agro-industrial products and manufactures of higher-value-added. It involves a co-operative arrangement between at least two participating companies from two different ASEAN countries. Once the arrangement is approved, the output of the participating companies enjoy the preferential tariff rate of zero to five percent, which is the final CEPT rate already reached by EWEC member countries. Now that those rates are being applied as part of the CEPT-AFTA, AICO has become redundant.

⁵⁵ Lao People's Democratic Republic and Socialist Republic of Viet Nam: Greater Mekong Subregion: East-West Economic Corridor Project". Manila: ADB Performance Evaluation Report, December 2008.

⁵⁶ ADB, "Lao People's Democratic Republic and Socialist Republic of Viet Nam: Greater Mekong Subregion: East-West Corridor Project". Performance Evaluation Report. Manila, December 2008.

⁵⁷ ADB, "Lao People's Democratic Republic and Socialist Republic of Viet Nam: Greater Mekong Subregion: East-West Corridor Project". Performance Evaluation Report. Manila, December 2008.

⁵⁸ Decree No. 02/PM (21/01/02) creating the Savan-Seno Special Economic Zone was later replaced by No. 148/PM (29/09/03) and decree No. 177/PM (13/11/03) on Management Regulations and Incentive Policies related to special economic zone act (SEZA).



Memorandum of Understanding (MoU) to develop the site that is close to the Second Friendship Bridge.⁵⁹ Work has however been delayed after change occurred in the development partners.⁶⁰ Site B has 20 hectares and focuses on logistic activities. Its promoters are a joint-venture between Japan Logistic System (Japanese), Global Logistic (Lao) and KP (Lao), and the AA Paper Company from Thailand. Site C has 10 hectares allocated for an industrial estate and is being developed by a Malaysian company called Pacifica Streams Development under a MoU signed with the Government in June 2007. A new ADB technical assistance project has been approved to provide capacity building for the SEZ development since investment flows into the area have been minimal.⁶¹ A assessment attributes the sluggish development to the following factors: (i) the lack of a national strategic road map for guiding the country to pursue SEZ development; (ii) an unclear institutional framework among central agencies and between central and provincial authorities; (iii) a weak legal framework and the absence of regulatory guidelines; (iv) insufficient technically-qualified officials for SEZ management, investment analyses, and negotiations with investors; and (v) the absence of information dissemination and SEZ promotion targeting potential investors and beneficiaries.⁶²

Mukdahan (Thailand) SEZ –The Industrial Estate Authority of Thailand (IEAT) plans to establish a logistics center and a small-scale industrial estate in Mukdahan. That decision followed a 2006 feasibility study that proposed a distribution center of 8 hectares for container yards, warehouses and services companies, as well as industrial estate of 8 hectares with an economic processing zone (EPZ) near the Second Friendship Bridge and a small-scale distribution center.⁶³ There is also a US\$20 million proposal to develop a special border zone (SBZ) consisting of 30 hectares for ready-built warehouses to lease and warehouses and factory units to sell.⁶⁴ Possible activities to be encouraged would be agricultural and food processing, as well as household consumer items, automotive parts and motorcycles and agricultural machinery and equipment for export to Lao PDR and Viet Nam. A welcome center for the institutionalization of informal trade would be located in the SBZ as a key supporting initiative for the promotion of cross-border trade and investment.

Mae Sot (Thailand) SEZs – A border economic zone (BEZ) was established in 2004 in

⁵⁹ The project was to consist of three phases: The first one would include the construction of a hotel and integrated entertainment complex, a duty-free shopping mall and a lake for recreational purposes; the second phase would provide residential units, a sports complex, shops and office space; the final phase would expand the residential units and create a golf course and an international education complex. According to the project director, the entire project would employ 50,000 people and substantially Laos' tourism revenue over a five-year period, with tourist arrivals expected to reach 2 million by the end of the project. (Source:

⁶⁰ Bangkok Post, "Trouble in paradise". January 4, 2009.

⁶¹ The main outputs of the technical assistance will include (i) improved policy, legal and regulatory framework for SEZ; (ii) improved SEZ management and institutional capacity; and (iii) target production-chain business opportunities identified; and (iv) an investment promotion network established and promotional activities conducted. (For details, see ADB, "Lao People's Democratic Republic: Building Lao PDR's Capacity to Develop Special Economic Zones". Technical Assistance Report. Project number: TA 7188, Capacity Development Technical Assistance (CDTA), November 2008.

⁶² Industrial Estate Authority of Thailand. 2006. The Feasibility Study on the Establishment of Savan-Seno Special Economic Zone in PDR. Bangkok: Industrial Estate Authority of Thailand; and Ministry of Economy, Trade and Industry of Japan, and the Japan Development Institute. 2007. The Study for Special Economic Zone Development in CLMV (Cambodia, Lao People's Democratic Republic, Myanmar, Viet Nam) Countries. Tokyo: Japan Development Institute.

⁶³ Takao Tsuneishi, "Development of Border Economic Zones in Thailand: Expansion of Border Trade and Formation of Border Economic Zones". IDE Discussion Paper No.153, Institute Of Developing Economies, May 2008.

⁶⁴ ADB, GMS Development Matrix. Available: <http://www.adb.org/GMS/Projects/devmatrix.asp?fl=2&sc=5>.



Tak Province, which included the Mae Sot region along the EWEC bordering Myanmar. Following a 2005 request by Based on the Cabinet decision, the National Economic and Social Development Board (NESDB) Northern Region Office that the Tak provincial government conduct a survey and feasibility study for establishment an industrial estate, an environmental impact survey in the region, and agricultural restructuring so as to being to implement the activities in 2007. Based on the results of the survey, a 400 hectare industrial estate is planned and targeted for Mae Sot. At the same time, the Department of Land Transport in the Ministry of Transport conducted A feasibility study for establishing a truck terminal in Mae Sot was also conducted in 2006. About 300 existing factories in Mae Sot are also expected to relocate to the estate, as well as new industries for garments, textiles, ceramics, and furniture.⁶⁵

Myawaddy (Myanmar) SEZs – The Industrial Estate Authority of Thailand (IEAT) has supported the creation of a 384 hectare industrial estate in Myawaddy. Two-thirds of that area would be designated as an export processing zone (EPZ), and electricity would be supplied from Mae Sod since local sources are unreliable. In support of these efforts, a trade center is in the process of construction.⁶⁶ Myawaddy has abundant and cheap labor, and the relocation of garment industries from Mae Sot to that area would help to alleviate large-scale unemployment. The major constraint, however, appears to be the Government of Myanmar’s restrictive policies on businesses, especially foreign-owned ones.⁶⁷

7.3 Tourism

Original EWEC Strategy – The GMS tourism cooperation program dates back to 1993, when the GMS Tourism Working Group (TWG) was establishment with senior representatives of the national tourism organizations of each GMS member country. The focus during the first decade was subregional cooperation initiatives in the tourism sector based on on marketing the GMS as a single destination, developing tourism-related infrastructure, improving the quality of human resources, promoting the dialogue between private and public sectors, and facilitating the movement of tourists in the subregion.

For the EWEC, the overall goal of tourism development, as defined in the *Preinvestment Study* consisted of making tourism a significant and sustainable contributor to economic growth, employment, and foreign exchange earnings in the EWEC areas.⁶⁸ To that end, 12 initiatives were recommended to promote the development of tourism in the Corridor: (a) increase awareness of the EWEC as a tourist destination through well-targeted destination marketing activities, (b) create a Marketing Task Force to sustain the process, (c) prepare feasibility studies of high-priority tourism infrastructure facilities in the EWEC, (d) identify specific training needs for tourism training personnel, (e) prepare appropriate measures to preserve the EWEC's natural, cultural, and historical tourism resources, (f)-

⁶⁵ This information is based on information contained in Takao Tsuneishi, “Development of Border Economic Zones in Thailand: Expansion of Border Trade and Formation of Border Economic Zones”. IDE Discussion Paper No.153, Institute Of Developing Economies, May 2008.

⁶⁶ This information is based on information contained in Takao Tsuneishi, “Development of Border Economic Zones in Thailand: Expansion of Border Trade and Formation of Border Economic Zones”. IDE Discussion Paper No.153, Institute Of Developing Economies, May 2008.

⁶⁷ Toshihiro Kudo, “Border Industry in Myanmar: Turning the Periphery into the Center of Growth”. IDE Discussion Paper No.122, Institute Of Developing Economies, October 2007. See also Takao Tsuneishi, “Thailand’s Economic Cooperation with Neighboring Countries and Its Effects on Economic Development within Thailand”. IDE Discussion Paper No.115, Institute Of Developing Economies, August 2007.

⁶⁸ ADB, “Preinvestment Study for the Greater Mekong Subregion East-West Economic Corridor: Tourism”. Manila, 2001.



(k) aim to develop six types of tourism products that can take advantage of the EWEC's unique tourism resources and that can be promoted in specific niche markets, and (l) establish a single-country program of tourism initiatives for Lao PDR.

Table 7.4: EWEC Tourism Products

Province	Tourist Attraction	Type	Province	Tourist Attraction	Type				
Thailand	Tak(Mae Sot)	Nam Tok Mae Sa (Water fall)	Natural	Thailand	Mukdahan	Kaeng Krabao Islet	Natural		
		Thai-Myanmar Friedship Bridge	Historical			Nam Tok Tad Ton Waterfall	Natural		
		Mysterious Hill	Natural			Chao Pho Chao Fa Mung Mueang Shrine	Cultural		
		Hilltribe Market	Cultural			Mukdahan National Park	Natural		
		Doi Muser Crops Research Station	Modern			Ho Kaeo Mukdahan(Tower)	Modern		
	Phitsanulok	Phra Si Mahathat Temple	Cultural			Phu Sa Dok Bua National Park	Natural		
		Phu Hin Rongkla National Park	Natural			Mahorathuk drum	Cultural		
		Thung Salaeng Luang National Park	Natural			Lao PDR	Savannakhet	Savan Vegas Casino	Modern
		Phu Soi Dao National Park	Natural					That Ing Hang Stupa	Cultural
		Textile Museum and Life Museum	Cultural					Wat Xayaphoum (Temple)	Cultural
		Shrine of King Naresuan the Great	Cultural					Heuan Hinh (Stone House)	Historical
		Whitewater Rafting	Natural					Dinosaur Museum	Historical
		Nan Riverside Park and Boathouse Museum	Natural	That Phone Stupa	Cultural				
		Buranathai Buddha Casting Foundry	Cultural	Hor Tai Pitok Ancient Library	Historical				
		City Walls and Moats of Phitsanulok	Cultural	Vietnam	Da Nang			Tomb of Khai Dinh	Historical
		Art & Culture Gallery, Naresuan University	Cultural					Tunnels of Vinh Moc	Historical
		Khon Kaen	Ubolratana dam					Modern	Lang Co Beach
	Bang Saen II and Hat Chom Thong		Natural					Hai Van Pass	Natural
	Prasat Pueai Noi		Cultural					Cham Museum	Cultural
	Phu Wiang National Park(dinosaurs)		Historical			Marble Moutain	Natural		
	Buffalo conservation Village		Natural			My Khe Beach	Natural		
	Phu Pha Man National Park		Natural			China Beach	Natural		
	Nam Pong National Park		Natural			My Son Sanctuary	Natural		
	Phrathat Kham Kaen		Cultural			Cua Dai Beach	Natural		
	Khon Kaen city Museum		Cultural			Thau Thien Hue	Hue Citadel	Historical	
	Tortoise Village		Natural				Imperial city	Historical	
	Non Mueang Ancient Town		Historical	Forbidden city	Historical				
	Sala Mai Thai (Thai Silk)		Cultural	Thien Mu Pagoda	Cultural				
	Hat Sawan scenic lake	Natural	The Imperial Tombs	Historical					
	Kalasin	Phu Thai Nong Hang Handicraft Center	Cultural	Tomb of Tu Duc	Historical				
		Namtok Tat Thong (Waterfall)	Natural	Tomb of Minh Mang	Historical				
		Mueang Pha Daeng Song Yang ancient town	Historical	Quang Tri	DanSaVanh Casino		Modern		
		Lam Pao Dam	Modern		Quang Tri Citadel		Historical		
		Sirindhorn Museum and Phu Kum Khao Dinosaurs	Historical		Vinh Moc Tunnels		Historical		
		Myanmar	Phu Faek Forest Park (Dinosaur Footprints)	Historical	Mawmyathine		Kyaikthanlan Pagoda	Cultural	
			Kalasin Museum	Cultural			Thanlwin or Salween River	Natural	
			Phraya Chai Sunthon Monument	Cultural		Temples of Kawgaun Cave	Cultural		
			Phrathat Yakhu (Chedi)	Cultural		Payon Cave	Natural		
			Ban Phon Phrae Wa Silk	Cultural		Kawgaun Cave(Cave of Ten Thousand Buddha's houses)	Cultural		
		Myawaddy	Thai-Burmese Friendship Bridge	Historical					

New GMS Strategy for Tourism –The GMS tourism strategy derives from a set of goals and objectives, guiding principles, indicative targets, and strategic directions.⁶⁹ The overall strategy aims to make the Mekong a single destination, offering a diversity of good quality and high-yielding subregional products that help to distribute the benefits of tourism more widely; add to the tourism development efforts of each GMS country; and contribute primarily to poverty reduction, gender equity and sustainable development, while minimizing any adverse social impacts. It promotes the distribution of tourism benefits

⁶⁹ Joint Summit Declaration, “Enhancing Competitiveness through Greater Connectivity”. The Third GMS Summit, Vientiane, Lao PDR, 30-31 March 2008.

throughout the subregion by encouraging and facilitating transnational travel around the GMS. Specifically, the strategy aims to direct increased tourism flows to key tourism zones within the subregion, involving natural, cultural and historical resources shared by neighboring countries, where many residents reside in communities of extreme poverty. There are seven strategic thrusts for tourism⁷⁰:

- Foster the development of multi-country tourism in the subregion by stimulating demand from appropriate high-yield markets and products through joint promotional activities
- Upgrade the skills of tourism leaders and tourism trainers of the subregion
- Promote higher standards in managing natural and cultural resources for conservation and tourism purposes, and enhance measures to manage the negative social impact of tourism
- Help reduce the incidence of poverty and increase rural incomes in poor areas
- Encourage private sector participation and partnerships in planning, investment, and marketing of the tourism sector
- Identify and address impediments to travel to and within the subregion
- Jointly plan and develop tourism infrastructure to ensure a wider distribution of tourism benefits and support pro-poor tourism development in designated priority zones

Implementation of the Strategy – The GMS tourism sector strategy (TSS) was completed in 2005. Although there has been some progress in the implementation of its specific objectives overall progress has been slower than expected. There were 29 priority projects that were to be implemented through the Mekong Tourism Coordinating Office (MTCO), headquartered in Bangkok. The projects focus on efforts to ensure that the member countries are equipped with the skills, capabilities, systems and infrastructure necessary for sustainable development of their shared natural, cultural and historical resources. The approach builds on the brand recognition of the gateways and tourist hubs to link the GMS countries into themed tourist circuits



and loops, and to drive traffic from the popular tourism hubs to the less-developed rural areas of each country. Priority has been given to the development of transnational tourism zones involving two or more GMS member countries, and located in areas where tourism development has the potential to significantly contribute to local poverty alleviation. Targeted marketing and product development approaches has been employed to effectively reach market segments interested in the kinds of transnational and pro-poor tourism products offered by the Corridor (see Table 7.4)

East West Tourism Corridor Zone Initiatives – A recent workshop on GMS economic corridors focused much of its attention on the EWEC.⁷¹ Half of the workshop applied the general principles and practices for the GMS corridors to a detailed consideration of the development of tourism in the East-West Economic Corridor segments of Viet Nam and Lao PDR. It covered pro-poor sustainable tourism constraints and how to overcome these constraints with market based solutions with the specific providers and facilitators. The

⁷⁰ Greater Mekong Subregion, "Vientiane Plan of Action for GMS Development: 2008-2012".

⁷¹ GMS Tourism Workshop on Transforming GMS economic corridors into tourism roads fostering local development. 27-28 November 2008, Hué, Viet Nam



findings of the workshop emphasized the progress made with tourist services following the opening of the Second Friendship Bridge, for example, a ten day package tour from Japan visiting UNESCO World Heritage sites in Hue Hoi an, My Son Phan na Ke Bnag, and Thai bus tours along the EWEC, which are nonetheless having minimal impact on local development in Savannakhet since they go quickly from their starting point to their final destination.⁷² A major challenge for Lao PDR in Savannakhet will be developing attractions that will induce tourist traffic to stop or make the province a main destination point, as well as the providing proper accommodation along the Savannakhet portion of the Corridor.

The overall GMS tourism strategy includes a priority focus on 13 zones, one of which is the East West Economic Corridor.⁷³ For that zone, the scope of activities covers (a) tourism centers in Lao, between Thailand and Vietnam (see Figure 7.6); (b) tourism infrastructure development requirements; (c) marketing tourism in the Corridor within the overall GMS context; (d) training in basic skills for EWEC tourism officials; (e) a program to promote overland EWEC tours; (f) program to promote Buddhist pilgrimage tourism in the EWEC; (g) program to promote war memorial tourism in the EWEC; (h) a feasibility study for cruise tourism at the ends of the EWEC; (i) a program to promote ecotourism in the EWEC; and (j) a program to promote agro-tourism. Outputs would include a zonal tourism development covering infrastructure and priority initiatives, with outcomes related to the visitor targets, economic impacts, poverty alleviation and support to the other Millennium Development Goals (MDGs).

EWEC Area of Vietnam: Sustainable Tourism Development – The ADB has recently approved the Greater Mekong Subregion Sustainable Tourism Development Project that will provide US\$10.0 million to carry out a tourism development project that will benefit five provinces in Vietnam, including Bac Kan, Cao Bang, Quang Binh, Quang Tri and Thua Thien Hue which are seen as having high tourism potential.⁷⁴ The project will support the construction of handicraft markets, viewing points, small access roads, walking trails, tourism signs, information and visitation centers, parking areas, small river piers, community lodges, and sanitary facilities. It will also support preparation of plans for tourism site development and management, training for local communities and private tourism operators, development of marketing strategies and products, and production of tourism manuals. Finally, the project will enhance governance in the tourism sector by further building on and strengthening the institutional and regulatory framework already initiated as a result of the Mekong Tourism Development Project (MTDP), as well as the initiatives of the countries themselves and other development partners such as UNESCAP

⁷² “EWEC Tourism Promotion Project covering activities to promote the EWEC”. Presentation by Mr. Tetsuo Isono Chief Advisor/Tourism Development, JICA, at GMS Tourism Workshop on Transforming GMS economic corridors into tourism roads fostering local development. 27-28 November 2008, Hué, Viet Nam. JICA’s project framework for promoting the tourism industry in Savannakhet province include the following expected outputs: (i) a tourism promotion plan, (ii) development of a collaboration system, (iii) development of a tourism information system, and (iv) development of a mechanism to prevent negative environmental and social impacts. Sixteen activities have been introduced to achieve these outputs, including: information maps/brochures for five circuits, thematic brochures (food and handicrafts), road signage, and joint promotion activities, website development, training, community-based activities, surveys and information gathering.

⁷³ For details, see ADB, “Greater Mekong Subregion: Tourism Sector Strategy”. Technical Assistance Consultant’s Report, TA Number: 6179, October 2005.

⁷⁴ Dakrong District of Quang Tri fall along the East West Economic Corridor.



and UNESCO.⁷⁵

EWEC Area of Lao PDR: Sustainable Tourism Development – The ADB has also recently approved \$10.0 million for develop demonstration subprojects in the Lao PDR that improve the environment at urban and natural tourism sites, benefit ethnic groups/minorities and the poor, and protect vulnerable people from potential negative impacts.⁷⁶ The project will contribute to transforming the EWEC, as well as the North-South Economic Corridor (NSEC) into economic corridors by developing tourism opportunities along the roads and improving the human resource capacity of tourism small and medium-sized enterprises (SMEs) and public sector tourism organizations. The project area covers nine provinces in Laos, including Savannakhet and have the following outputs: (i) model sustainable tourism development projects protecting the environment and cultural heritage developed, (ii) pro-poor, community-based, supply-chain tourism projects operational, (iii) GMS tourism corridors developed, (iv) human resource capacity of public and private tourism stakeholders improved, and (v) efficient project management services.

7.4 Proposed Strategy and Implementation Modality

Strategic Thrust: The strategic objective of trade and investment in goods and services is based on the expansion of cross-border activities due to factor endowment differentials, as well as lower production costs from scale economies, which in turn provides the basis with which to deepen intra-firm trade, implement marketing processes that take advantage of vertical and horizontal product differentiation in markets outside the region, expand the volume of intra-industry trade within the EWEC, and bring in much needed domestic and foreign investment and financial capital to the Corridor. Additionally, for tourism, it involves the creation of a single destination for the GMS that focuses on the attractions offered by the area surrounding the EWEC. Together these objectives form the basis for the EWEC strategic objective related to these sectors:

Strategic Objective – Facilitate conditions leading to the expansion of cross-border activities to enhance the competitiveness of the privates sector, both in the production of goods and in the promotion of tourism along the Corridor.

Implementation Modalities: The proposed implementation strategy relies a broad-based set of activities to facilitate trade through the implementation of the CBTA and the establishment of FRETA; development of SEZs; cross-border agricultural activities; pro-poor production activities; support for supply chains linking micro and small enterprises to large companies or niche markets, including those involved in tourism; and support for tourism activities that target the poorer areas of the EWEC.

Action Plan: The action plan for trade and investment in goods and services, including tourism, is as follows:

⁷⁵ ADB, “Greater Mekong Subregion Sustainable Tourism Development Project : Regional”. Available: <http://pid.adb.org:8040/pid/LoanView.htm?projNo=38015&seqNo=01&typeCd=3>.

⁷⁶ ADB, “Proposed Grant to the Lao People’s Democratic Republic and Loan to the Socialist Republic of Viet Nam: Greater Mekong Subregion Sustainable Tourism Development Project”, Project Number: 38015, September 2008.



Table 7.5: Action Plan for EWEC Development: Trade, Investment and Tourism

Project Initiative	Expected Output	Progress Indicator	Implementation Agency	Time-frame	Status and Remarks	
Strategic Objective: EMPOWER PRIVATE SECTOR: Facilitate conditions leading to the expansion of cross-border activities to enhance the competitiveness of the privates sector, both in the production of goods and in the promotion of tourism along the Corridor.						
Action Plan:						
2.1	Preparation of CBTA Implementation Manuals for the pilot border crossing points	ADB assistance to Vietnam, Lao PDR and Thailand to draft manual for Lao Bao-Dansavanh, and Mukdahan and Savannakhet; translation into national languages.	Completion of draft manual, translated into national languages		2008-2012	Ongoing.
2.2	Establishment of GMS Freight Transport Association (FRETA)	Study on the establishment of the GMS Freight Transport Association (FRETA), as proposed by the Business and Investment Dialogue (BID) participants to the GMS Leaders at the Third Summit and further reiterated at the 12th Meeting of the Subregional Transport Forum (12-14 August 2008).	Completion of FRETA study	GMS-BF with assistance from ADB	2008-2012	Ongoing. Consultant for the ADB-assisted study on GMS Freight Transport Association recruited and study started in October 2008. The study is to examine the feasibility of establishing (FRETA), its modality and best practice in the regional and international context, and its role in the implementation of CBTA such as accreditation and certification of GMS transport operators. Although the establishment of the proposed association can be carried out under the GMS BF umbrella, ADB is assisting in undertaking the study.
2.3	Special Economic Zones Capacity Building in Lao PDR	Capacity building for Lao PDR to develop, manage, negotiate, and promote special economic zone (SEZs)	SEZ operational; FDI baseline target; incentives in legislation	Special Economic Zone Authority of the Office of the Prime Minister of Lao PDR	2008-2012	Ongoing. By end of 2011, first SEZ for Lao PDR developed and operational; FDI baseline of \$200 million in investments in SEZ attained; legislation providing incentives to potential SEZ financiers
2.4	Policy Support for Cross-Border Contract Farming in Savannakhet	Assessment study, workshops and dialogues, and the development of a regional strategy to address specific cross-agricultural trade issues.	Completion of study, workshops and regional strategy	Not yet determined	2008-2012	Proposed. WGA Secretariat to expedite processing of new proposed umbrella RETA, for co-financing by ADB and PRC.
2.5	Joint Study on Demand and Supply of Key Agricultural Products and Cross-border Agriculture Resource & Market Information System	Application of pilot project to the case of Savannakhet, showing supply potential and market demand at local, national, regional and global market levels, mapping product potential with high market growth products.	Completion of study	Not yet determined	2008-2012	WGA/ADB to explore financing possibilities. Proposed for all GMS countries, it would be applied as a pilot project in Savannakhet
2.6	Pre-Investment Pilot Projects for Cross-Border Agricultural Supply Chain Management and Small and Medium Enterprise Development	Pilot study on some case studies of cross-border value chains for small and medium size enterprises (SMEs).	Completion of study	Not yet determined	2008-2012	Proposed. Concept note to be prepared
2.7	Review of investment incentives regimes in GMS countries	Review of investment incentives in EWEC and other GMS countries to determine whether they are creating distortions in the	Completion of study	Not yet determined	2008-2012	Financing is being sought for these activities



Project Initiative		Expected Output	Progress Indicator	Implementation Agency	Time-frame	Status and Remarks
		production cost structure of foreign invested enterprises and whether there are any adverse impacts resulting from competing FDI incentives packages across the GMS countries.				
2.8	Improving Farmers' Livelihood through Rice Information Technology in Thai and Vietnamese EWEC areas	Improvement of food security and livelihood of poor farmers in the EWEC and other GMS areas through increased application of existing agricultural information & communication technology (ICT) to manage and share information at the national and regional levels, based on the Rice Knowledge Bank of IRRI.	Creation of Rice Knowledge Bank System.	Relevant agricultural research institutions of participating countries	2008	Ongoing. Co-financed by ADB and International Rice Research Institute (IRRI). Relevant institutions in Thailand and Viet Nam will serve as ICT sites for localizing the Rice Knowledge Bank System to address farmers' information needs and collate/develop extension materials.
2.9	Synthesis and Exchange of Lessons on Pro-poor Agriculture Development Interventions in EWEC provinces	Report on good practices for agricultural development in EWEC provinces on production and marketing methods to promote the participation of the poor in commercial activities.	Completion of study	Not yet determined	2008-2012	Proposed. Concept note to be prepared
2.1	Building Capacities for Agricultural Competitiveness	Study on channels to promote modernization of the agricultural sector in the EWEC and other GMS areas expanding competitive advantage of small scale producers and promoting pro-poor involvement in commercial activities.	Completion of study	Not yet determined	2008-2012	WGA/ADB to explore funding possibilities
2.11	East-West Economic Corridor Tourism Development	Support to the development of tourist attractions using value chains, and improvement of border facilities and services for tourists along the EWEC.	Completion of tourist attractions; improvement of border tourist facilities	Tourism authorities of EWEC countries and MTCO	2009-2011	Ongoing. Presentation of proposal to donors' conference organized jointly by MTCO and ADB in March 2009. Phase I TA will be implemented over 24 months from March 2009 to March 2011
2.12	Tourism Initiative to Alleviate Poverty through Tourism	Development of pro-poor community-based tourism products based on recommendations of task force that will develop a detailed project proposal.	Presentation of lessons derived from the project to stakeholders	Tourism authorities of EWEC countries and MTCO	2008-2012	Ongoing. MTCO will follow-up with AFD regarding a planned project that will support pro-poor tourism activities along the southern coastal corridor.
2.13	Promotion of SME Development & Investment in EWEC Tourism-Related Facilities and Infrastructure	Help improve the small enterprise investment environment for tourism and facilitate investment in SMEs.	Results presented to stakeholders	Tourism authorities of EWEC countries; MTCO	2008-2012	Ongoing. Task Force established to develop detailed project to help design outputs of the Tourism SMEs Forum.
2.14	ADB GMS Sustainable Tourism Project: EWEC	Upgrade tourism infrastructure along the corridors with links to nearby tourism points. Upgrade village roads, cultural house, market sites; PPT: work with local mass organizations and authorities to increase skills and marketing abilities for poverty reduction; and training for local SME beneficiaries.	Establishment of facilities and completion of training	Tourism authorities of EWEC countries and MTCO	2009-2012	Ongoing. ADB funded project.

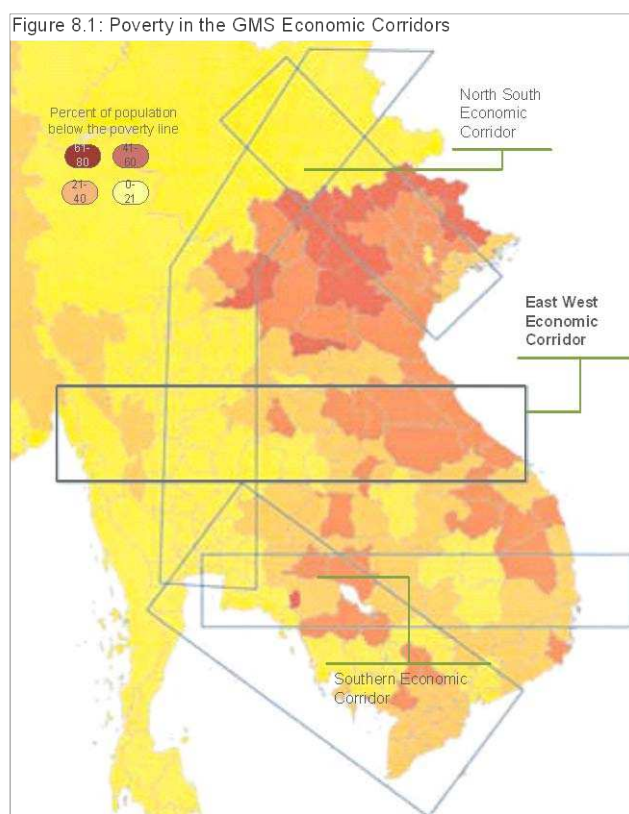
8. Improving Equity and Alleviating Poverty

8.1 Poverty and Inequality

Population Distribution – The populations of the provinces along the EWEC cover a significant proportion of each country’s total population, especially in the case of Laos and Thailand. In Laos the EWEC provinces account for 15 percent of the country’s population, while in Thailand they represent 12 percent. The proportions are significantly lower in Viet Nam (3%) and, to a lesser extent, in Myanmar (8%). Across the Corridor’s members, Thailand’s EWEC provinces account for 60 percent of the provincial total of all countries, while Myanmar represents 32 percent. The proportions are lower in Viet Nam (5 percent of the EWEC provincial total), as well as in Laos (3%).

Poverty – The Corridor contains a significant number of people living below the poverty line. When the EWEC was first established a decade ago, 42 percent of the population that lived in Lao’s Savannakhet province was classified as poor. That proportion has now been reduced to 37 percent.⁷⁷ In Thailand, 28 percent of the population in the northwest was classified as poor at the start of the EWEC and that number has fallen dramatically to less than 10 percent in recent years.⁷⁸ In Viet Nam, the central highlands are one of the three poorest regions in the country, with over half of the population in Quang Tri living in poverty, while in Thua Thien Hue and Da Nang over one-third of the population are classified as poor (see poverty mapping in Figure 8.1).

Poverty Alleviation – Alleviation of poverty is closely related to economic growth and, for that reason, the three key objectives of EWEC directly support efforts to reduce poverty in the subregion⁷⁹:



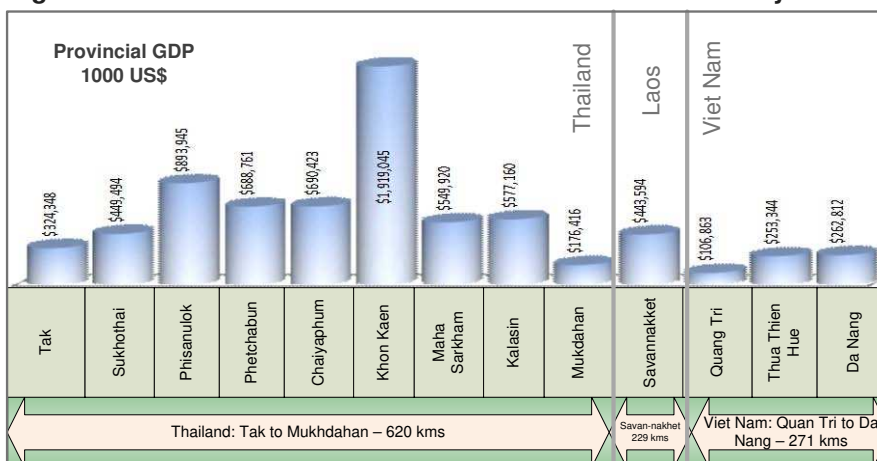
⁷⁷ Based on the head-count ratio measure for 1997/98 and calculated by Kakwani et al., “Poverty in Lao PDR during the 1990s”. Committee for Planning and Cooperation, National Statistical Center, Lao PDR, 2002.

⁷⁸ Based on the head-count ratio in 2000 and using the official poverty line, as reported in National Economic and Social Development Board, “Thailand’s Official Poverty Lines” (undated). Using revised spatial price indices and other revisions, the calculated poverty head-count ratio in 2000 for the Northeast provinces is 36 percent (see Jitsuchon, S., “A Framework for Revised Official Lines in Thailand”. Paper presented to UNDP and NESDB on Review of Official Poverty Line Project, 2004.

⁷⁹ The EWEC’s emphasis on economic growth and development of the Corridor as a strategy to alleviate poverty is well founded on the large and growing empirical evidence that sustainable economic growth rates successfully lower poverty levels. See, for example, Lundberg, M., and L. Squire, “Inequality and Growth:



Figure 8.2: Eastern Part of EWEC Provincial GDP and Poverty Incidence



- ✦ Reduce poverty, support development of rural and border areas, increase the earnings of low-income groups, and provide employment;
- ✦ Strengthen economic cooperation and facilitate trade, investment, and development among the member states; and
- ✦ Lower transport costs and make the movement of goods and passengers more efficient.

8.2 Pro-Poor Policies

Social Impact: Increased mobility along the EWEC and across borders enables rural communities that include ethnic groups and women to gain access to markets, employment opportunities, and social services.⁸⁰ Despite these potentially favorable outcomes for the Corridor, the magnitude of the impact has to date been low.⁸¹ For some farmers there is better access to training in rice plantation in the district, but for others the geographic limitations and lack of water means the continued use of slash-and-burn methods; some activities like transporting livestock into Vietnam, and selling vegetables, bamboo shoots, and other non-timber food products (NTFPs) provide income for villagers, though product prices are not significantly different from the local market; for traders at the border village, the open border policies have negatively affected livelihood because of increased competition from Vietnamese traders; in contrast, hotel and restaurant operators have done very well since the opening up of the borders, though there are few such facilities in the area. Moreover, the EWEC has also given rise to increased potential for trafficking of both people and wildlife, although cross-border movements through secondary roads have always existed.⁸² In a related area, a recent study has found a link

Lessons for Policy”. Washington, DC: The World Bank, Global Development Network, 2000; and Dollar, D., and A. Kraay, “Growth is Good for the Poor”. *Foreign Affairs*, July/August 2002. Nevertheless, poverty alleviation that relies on economic growth alone is ineffective, since it needs to be accompanied by falling inequality to be effective. See Ravallion, M., “Growth, Inequality and Poverty: Looking Beyond Averages”. Washington, DC: The World Bank, Development Research Group, 2000.

⁸⁰ ADB, Project Completion Report on the Greater Mekong Subregion: East–West Corridor Project (Lao PDR and Viet Nam). Manila, 2008.

⁸¹ ADB, Lao People’s Democratic Republic and Socialist Republic of Viet Nam: Greater Mekong Subregion: East–West Economic Corridor Project”. Manila: ADB Performance Evaluation Report, December 2008.

⁸² See, for example, Annex B photos of cross-border movements of animals through secondary roads.



between economic development in rural areas, mobility, and HIV/AIDS along the EWEC.⁸³ The ADB has continued to study this problem in the EWEC and other corridors in order to establish recommendations and action programs for the alleviation.⁸⁴ There is also continued work being carried out on the impact of cross-border trade and investment on poverty alleviation.⁸⁵

Economic Growth for Poverty Alleviation – Growth as an engine of poverty alleviation has been more effective in some areas of the Corridor than others. The overall levels of income in the EWEC provinces are closely related to their corresponding incidence of poverty (Figure 8.2).⁸⁶ As such, the Thai provinces along the Corridor generally have lower poverty incidences than do the provinces in Laos and Viet Nam.

8.3 Proposed Strategy and Implementation Modality

Strategic Thrust: The strategic objective for the alleviation of poverty and inequality in the EWEC is the reduction in poverty through support to rural and border area development in such a manner as to provide employment and increase the earnings of low-income groups. It also seeks to increase mobility along the EWEC, especially across borders, so as to enable rural communities that include ethnic groups and women to gain access to markets, employment opportunities, and social services. These considerations lead to the following strategic objective:

Strategic Objective – Enhance social welfare to ameliorate existing poverty and inequality and possible negative impacts from the development of the EWEC.

Implementation Modalities: Since growth as an engine of poverty alleviation has been more effective in some areas of the Corridor than others, it is important that direct interventions in social welfare improvements take place along the Corridor. The interventions proposed in the present action plan include integrating HIV/AIDS programs into transport projects along the EWEC; strengthen the response capabilities to epidemics and disease outbreaks that could have a major impact on the subregion's public health, and improving the coverage of prevention and care of selected communicable diseases in vulnerable populations; improving environmental health and reducing the burden of communicable diseases; improving management of HIV resources and programs; and targeting HIV preventions associated with the implementation of infrastructural projects.

Action Plan: The resulting action plan to alleviate poverty and inequality is as follows:

⁸³ Handicap International, "Development, Mobility, and HIV in South East Asia: A Preliminary Study for the Implementation of a Development-Based HIV Prevention Programme along the East-West Corridor/Highway 9 in Laos and Vietnam". Paris, 2006

⁸⁴ ADB, "HIV and Infrastructure: ADB Experience in the Greater Mekong Subregion ADB Synthesis Paper". Manila, 2007.

⁸⁵ See for example, S. Paitoonpong, "Thailand's Cross-Border Trade in the Greater Mekong Subregion: Selected Social Issues". CCAS Working Paper Series, undated.

⁸⁶ The correlation coefficient is .89 for the EWEC provinces in Thailand, Laos and Vietnam.



Table 8.1: Action Plan for EWEC Development: Alleviate Poverty and Inequality

Project Initiative	Expected Output	Progress Indicator	Implementation Agency	Time-frame	Status and Remarks
Strategic Objective: REDUCE POVERTY & INEQUALITY:					
Action Plan:					
3.1 Integrating HIV/AIDS in Transport along EWEC and Other Corridors	Improvement of knowledge base, practices, and institutional mechanisms for the effective implementation of HIV/AIDS prevention interventions in association with infrastructure projects. Case studies on structural and operational factors that facilitate success of HIV interventions.	Identification of key lessons and recommendations	Ministries of health and education in respective countries.	2008-2012	Ongoing. The activity is being implemented as part of the GMS HIV/AIDS Strategy. It is supported by the Cooperation Fund for Fighting HIV/AIDS in Asia and the Pacific established at ADB with support from the Government of Sweden.
3.2 GMS Communicable Disease Control Project (Phase 1)	Strengthen response capabilities to epidemics and disease outbreaks likely to have a major impact on the region's public health; improve coverage of prevention and care of selected communicable diseases in vulnerable populations, in particular poor women and children living in border areas; and improve know-how, policies, standards and coordination among Lao PDR and Viet Nam, as well as Cambodia to improve communicable disease control, including HIV/AIDS.		Ministries of health and education in respective countries.	2008-2010	Ongoing. Project to be completed in 2010.
3.3 GMS Communicable Disease Control Project (Phase 2)	Improve environmental health and reduce the burden of communicable diseases in Lao PDR and Viet Nam, as well as Cambodia. Vulnerable provinces in these countries will be high-priority provinces in terms of their neglected communicable disease control, regional relevance, and synergies with investments in other sectors.	Improved prevention and containment of diseases in vulnerable populations	Ministries of health and education in respective countries.	2009-2012	Proposed. Conduct the project preparatory technical assistance in 2009. The project is included in ADB's indicative technical assistance pipeline for 2010.
3.4 Capacity Building for HIV/AIDS Prevention	Support specialized human resource capacity development for the improved management of HIV resources and programs in Lao PDR and Viet Nam, particularly in relation to large infrastructure projects and the development of economic growth centers.	improved management of HIV resources and programs in Lao PDR and Viet Nam,	Ministries of health and education in respective countries.	2010 onward	Proposed. Pending consultations with countries. Included in ADB indicative pipeline investment for 2010.
3.5 HIV Prevention and Infrastructure: Mitigating Risk in EWEC and other GMS Areas	HIV prevention subprojects associated with ADB-financed infrastructure projects in the EWEC and other GMS areas, including post-construction HIV interventions in association with EWEC areas in Viet Nam and Lao PDR, as well as NSEC in Lao PDR. Also assessment of HIV risks associated with enhanced border-crossing formalities under the GMS Cross Border Transport Agreement.	Subproject completion for EWEC and other areas; assessment of CBTA completed	Ministries of health and education in respective countries.	2009 onward	The new RETA is being funded by the Government of Australia.



9. Ensuring Environmental Sustainability

9.1 EWEC Environmental Impact

EWEC Environmental Impact: A recent assessment found that infrastructural development of the EWEC has not created any serious adverse impacts.⁸⁷ In Laos there were some construction-related issues that were satisfactorily addressed, for example, noise and dust near quarry sites during construction, and oil seepage from at least one contractor camp. Others of more long-term significances in Laos related to (i) the conversion of agricultural lands to residential and industrial lands, which has reduced productive land in the area; and (ii) forest conservation. To address these issues, the Government of Lao PDR has adopted conservation measures in protected areas from forest protection to forest conservation and production. In Vietnam, some contractors did not satisfactorily fulfill obligations to implement environmental protection measures, but those obligations have since been addressed. In Thailand, studies have been conducted on methods for assessing the medium to long term environmental impact of the EWEC, as well as that of the NSEC, on interchange nodes like Phitsanulok and Khon Kaen using transportation models that incorporate social and environmental effects, and an enhanced sustainable impact assessments (SIAs) within the Strategic Environmental Impact Assessment (SEIA) analytical framework.⁸⁸

9.2 Core Environmental Program

Core Environmental Program: The long term vision of the GMS Core Environment Program (CEP) is that by 2015 the GMS countries will have established environmental programs for maintaining the quality of ecosystems, ensuring sustainable use of shared natural resources, and improving the livelihoods of people in the economic corridors.⁸⁹ The CEP began its first three-year phase in 2005 within the context of a ten-year program implementation period. During this first phase, the CEP established the Environment Operations Center (EOC). The three main components of the CEP are (i) securing critical ecosystems and environmental quality in the economic corridors of the GMS and ensuring that investments in key sectors such as hydropower, transport, tourism proceed in a sustainable manner; (ii) conserving biodiversity within protected areas and corridors linking them; and (iii) establishment of integrated environmental planning with effective performance assessments and mechanisms for sustainable environmental financing, coordination and information flows.

9.3 Proposed Strategy and Implementation Modality

Strategic Thrust: The strategic objective for environmental conservation in the EWEC is the maintenance of the quality of ecosystems in such as was as to ensure the sustainable use of shared natural resources, and to improve the livelihoods of people in the Corridor. Following the long term vision of the CEP, the strategic objective for the Corridor is:

⁸⁷ ADB, Lao People's Democratic Republic and Socialist Republic of Viet Nam: Greater Mekong Subregion: East-West Economic Corridor Project". Manila: ADB Performance Evaluation Report, December 2008.

⁸⁸ See, for example, D. W. Yingchroen "The Environmental Impact Assessment of Distribution Centers in Phitsanulok". Presentation at the Conference on Social and Environmental Impacts of Economic Corridors, Mekong Institute, Khon Kaen, Thailand, 18-20 September, 2006.

⁸⁹ Details available at <http://www.gms-eoc.org/CEP/CEPDocument.aspx>



Strategic Objective – Secure critical ecosystems and environmental quality in the EWEC.

Implementation Modalities: The resulting action plan to alleviate poverty and inequality is as follows:

Table 9.1: Action Plan for EWEC Development: Environmental Conservation

Project Initiative	Expected Output	Progress Indicator	Implementation Agency	Time-frame	Status and Remarks	
Strategic Objective: ENVIRONMENTAL IMPACT ASSESSMENTS AND CONSERVATION						
Action Plan:						
4.1	Strategic Environmental Assessments of EWEC and Other Economic Corridors	Study of impacts on social and environmental aspects of logistics improvements along EWEC and other corridors and impact mitigation measures on the rights of the local community and social capital from the change in social input.	Completion of SEA	Environment Operations Center (EOC)	2008-2012	Ongoing. Specific linkages identified with the GMS Energy Sector Strategy and for institutional anchoring of ecotourism investments will provide the model for SEAs all corridors.
4.2	Biodiversity Conservation Corridor Initiative (BCI) Pilots for Biodiversity Conservation and Poverty Reduction	For BCI pilot sites, improved livelihoods and reduced poverty; land management regimes; ecosystem restoration; capacity building; and sustainable financing.	Application to selected BCI pilot sites	Environment Operations Center (EOC)	2008-2009	Ongoing. All pilot sites face pressures such as planned migration and land encroachment, hydropower projects, mining ventures and agricultural expansion. Regulatory framework is needed by the end of 2009 to deal with land titling and community-based forestry practices including financial incentives.
4.3	Exploring CEP-Private Sector Partnership for Developing and Deploying Low Carbon Emitting and Polluting Freight Fleets in the EWEC	Assessment of how reduced-carbon economic corridors could be achieved through government promotion of biofuels and energy efficient freight fleets plying the GMS transport corridors.	Assessment completion and recommendations	Environment Operations Center (EOC)	2008-2012	Ongoing. Findings of ongoing WGE/EOC study to guide subsequent studies/ activities to further achieving reduced-carbon economic corridors



10. Enhancing Connectivity

10.1 EWEC Transport System

Overview: A number of important improvements have occurred in the development of the EWEC highway during the last ten years.⁹⁰

- **Myanmar** (200 km): Part of the road between Thingannyinaug and Myawady on the border with Thailand was completed in June 2006 with grant aid from the Government of Thailand. A further section of the road extending from Thinganyinaung to Kawrakeik was surveyed and designed in mid-2007. There is still the need to develop another 40 km road section and two suspension bridges between Eindu and Mawlamyaing, as well as to deepen and enhance the port facilities in Mawlamyaing.
- **Thailand** (619 km): The highway extends from Mae Sot on the Myanmar boarder to Mukdahan on the Laos boards. About 280 km have a four-lane divided highway, while another 100 km are being expanded to a four-lane highway with financing by the Government of Thailand. Over the next five years an additional 420 km are earmarked for improvement. Most of the remaining road network is a two-lane paved all-weather highway in good condition. The exception is a 70 km section from Kalasin to Na Krai that is in need of improvement.
- **Second Friendship Bridge and New Border Checkpoints.** The Second Friendship Bridge between Mukdahan and Savannakhet on the Thai-Lao PDR border was opened to traffic in January 2007. The Japan Bank for International Cooperation (JBIC) funded over 6 km of the project, of which 1.6 km was for the bridge itself. New border checkpoints at Mukdahan and Savannakhet were also included as part of the Second Mekong International Bridge Project.
- **Laos** (229 km): The Asian Development Bank (ADB) and the Japanese government provided financial assistance for the construction and paving of the 229 km two-lane highway across Savannakhet. Feeder roads were also developed as part of the ADB loan to Laos, as well as Vietnam, under ADB loans 1727 and 1728. There are plans by the Government of Japan to assist with upgrading the checkpoint at Dansavanh, opposite Lao Bao in Vietnam. One other issue relates to the permissible axle load

Figure 10.1: EWEC Road Network

Mawlamyine		Myawaddy		Thailand – 807 kms						Lao PDR 208 kms		Vietnam – 161 kms	
Route 2	Route A-12	Route A-12	Route A-12	Route 209	Route 213/2042	Route 2042	Route 212	Route 9	Route 9	Route 1			
200kms	140kms	241kms	82kms	80kms	129kms	35kms	8kms	208kms	78kms	83kms			
2 Lanes	2-4 Lanes	2 Lanes	2-4 Lanes	4-6 Lanes	2 Lanes	4 Lanes	2 Lanes	2 Lanes	2 Lanes	2-4 Lanes			
	Tak	Pitsanulok	Chumpae	Khon Kaen	Kalasin	Kamchae	Mukdahan	2 nd Friendship Bridge	Lao Bao	Dong Ha	Da Nang		

⁹⁰ This section draws from the recent study by the Centre for Logistics Research and Supply Chain and Engineering Management, “The GMS East West Economic Corridor Logistics Benchmark Study”. Draft. Prepared for the Asian Development Bank, 28 August 2008.



limits on RN9 and enforcing weight limits. The pavement was designed for a legal axle limit of 9.1 tons, but Thailand and Viet Nam have higher road standards, and persuaded the Lao PDR to increase its limit to 11.0 tons.

- **Viet Nam** (271 km). At Lao Bao a new border checkpoints was built as part of the ADB loan for the East-West transport corridor. Also, the 83.5 km long road between Lao Bao on the Lao – Viet Nam boarder and Dong Ha was upgraded to a Class III highway at the end of 2006. The EWEC network in Viet Nam includes the Hai Van tunnel in Danang, and it terminates in Da Nang's port, which has a capacity of 5 million tons a year and includes freight yards and warehouses.

Da Nang Gateway: Da Nang is the gateway node for road linkages to Hanoi and Ho Chi Minh City and shipping to numerous seaports. The port itself consisting of two area, Tien Sa Seaport and Han River port. Tien Sa Seaport is the third largest commercial port in Vietnam after those in Saigon and Haiphong. Tien Sa Seaport has a navigation depth of 11m and can receive 35,000 dead weight ton (DWT) ships and other kinds of vessels such as container ships and large cruise ships. The annual capacity for handling cargo through Tien Sa Seaport is about 3-4 million tons. The total yard area is 125,350 m² and the total warehouse area is 22,764m². The length of berths is 1,647m² and total area of berths is 27,633m².

Da Nang Port: Da Nang port's throughput is 3-4 million tons per year.⁹¹ Plans for development of the port include upgrading Tien Sa sea port and building Lien Chieu port to receive larger freight amounts from EWEC to serve Lien Chieu, Hoa Khanh, and Danang Industrial Zones and the key economic areas of central Viet Nam and the western highlands. There are plans to expand Tien Sa's handling capacity from 2.2-2.4 million tons per year by 3.6-3.9 million tons in 2010. For Lien Chieu Port, it is estimated that by 2010 the port will handle 8-8.5 million tons per year and accommodate 50,000 DWT vessels to Lien Chieu, Hoa Khanh industrial zones and other industrial parks. It could provide an important stimulus for increased circulation of goods around Laos and Northeast Thailand via Road No 14B and Road No 9 linking routes along the EWEC. However, there is currently a large underutilization of port facilities, estimated at 50 percent of capacity. As a result, plans for expansion are being delayed.⁹²

Hai Van Tunnel – With a length of 6.3 km, the tunnel is the longest one in Southeast Asia. It was opened in June 2005 and links Da Nang and Hue on Highway No. 1. The project also included the construction of a new 12.2km two-lane segment. Eventually the tunnel will be widened to four-lanes by using the current evacuation section to the east of the tunnel.

Second Friendship Bridge – The bridge is 1.6km long and 12 meters wide with two lanes. Construction began on March 2004 and the bridge only opened to the public on January 2007. The total cost was US\$70,000,000 funded largely by a Japanese loan.

Road Network – The EWEC road network is distributed among member countries is as

⁹¹ The Danang port has sufficient modern facilities to satisfy customers' demands including 7 tugboats from 305HP to 1750 HP; 16 mobile cranes from 5 to 8 tons; 19 forklifts from 1.5 tons to 42 tons, including two reach stackers of 42 tons; 6 tractors; 11 excavators and 25 trucks of all kinds. With its favorable location, modern equipment and highly skilled staff, Da Nang port is involved in: handling, delivering, receiving and storing cargo; piloting vessels in and out of the port; trading in land and marine transportation; cargo transporting; trading in port yards and warehouses; repairing vessels and vehicles; shipping cargo to some foreign countries; goods service and others.

⁹² Reported in <http://search.japantimes.co.jp/cgi-bin/nb20070503a1.html>.



follows: Myanmar, 11%; Thailand, 54%; Lao PDR, 16%; and Vietnam, 19%. Although most of the EWEC transport infrastructure has been completed, the road quality and number of lanes vary. Figure 10.1 shows the various distances and number of lanes along the EWEC. The Lao PDR component of the EWEC was funded by an ADB loan in the amount of \$40.2 million, which was approved in 1999 and completed in February 2007.⁹³

Railway Network – There are plans to establish a rail link in Laos along the EWEC borders. The proposed electrified line would run through Atsaphangthong, Phalarn, Phin and Sepone to Lao Bao on the Vietnamese border, with a link onward to the port of Da Nang. There would be three main and seven minor stations on the route, with immigration and customs facilities at the two international frontiers. The government plans to develop the project on a Build-Own-Operate-Transfer (BOOT) basis.⁹⁴ The construction period has been estimated at eight years at a cost of \$3 billion.

10.2 Secondary Road Improvement Program

Feeder Roads and Supporting Infrastructure— As part of the ADB loan to Laos and Vietnam, feeder roads were constructed to link the Corridor to the hinterlands as a means of ensuring that the poor benefit from the EWEC. The project scope included civil works to upgrade three rural access roads connecting to National Road 9 (NR9), expansion of the rural access program to nine roads with a total length 190km, construction of a bridge at Xe Namkok, and various emergency flood repairs to roads in five provinces. It addressed the government’s national priority of poverty reduction and provided economic benefits into the hinterlands of Kaysone Phomvihane Province.

Impact on Local Communities: With an orientation toward reducing rural poverty, the feeder roads aimed to improve rural communities’ access to road improvement works on RN9 and they thereby affected about 101 villages with a population of about 45,513. In Viet Nam the project included the Dong Ha Southern Bypass of 10.7km to accommodate through-traffic between Road 9 and Highway 1, road widening and construction of sidewalks, curbs and longitudinal drains through Cam Lo, Khe Sanh and Lao Bao towns, and frontage roads on Dong Ha Northern Bypass to preserve road access for dwellings following grade separation between road and railway. These rural roads have enhanced mobility and enabled rural communities including ethnic groups and women to gain access to markets, employment opportunities, and social services.

⁹³ ADB Loan Numbers: 1727-LAO(SF) and 1728-VIE(SF), which formed part of an overall East–West Corridor Project originally estimated at about \$340 million and comprising (i) Second Mekong International Bridge (Lao PDR/Thailand), (ii) Mekong Bridge Access Roads (Thailand), (iii) Road 9 Rehabilitation (Lao PDR), (iv) Highway 1 Periodic Maintenance (Viet Nam), and (v) Da Nang Port Improvement. For a recent evaluation of the loan, see Lao People’s Democratic Republic and Socialist Republic of Viet Nam: Greater Mekong Subregion: East-West Economic Corridor Project”. Manila: ADB Performance Evaluation Report, December 2008. The Project was rated as “highly relevant” to development needs at the regional and national levels. From a purely infrastructural viewpoint, the project was considered “effective” in improving road transport efficiency at the national level in Lao PDR and Viet Nam. However, the trade facilitation component was rated “less effective” in achieving its intended outcome of mitigating nonphysical barriers to cross-border movement. Cross-border movements are expected to increase once the Cross-Border Transport Agreement (CBTA) has been fully implemented. Moreover, the efficiency of the project was marred by the delays in completion partly caused by implementation issues related to the construction of the main corridor as well as the inclusion of additional works. Overall completion was delayed in Lao PDR by four years and in Viet Nam by three years. The completion of the main corridor in Lao PDR was delayed by 15 months, while that in Viet Nam took 18 months longer than expected.

⁹⁴ The Giant Group investment company will undertake surveys for the railway. A memorandum of understanding for the project was signed with the Ministry of Public Works and Transport on November 10, 2008.



Positive Effects: According to the recent performance evaluation for the Lao PDR and Vietnam sections of the EWEC, the socio-economic impact of the Corridor and its feeder roads have been positive.⁹⁵ The rural road component enhanced mobility and enabled rural communities including ethnic groups and women to gain access to markets, employment opportunities, and social services. Economic activity, as measured by growth in the services sector, has increased and improved road access has opened up markets and enhanced consumer choices by lowering prices and enhancing product availability and diversity. Furthermore, improved connectivity along the corridor has helped form surplus areas of production, which has resulted in changes in the livelihood and living standards of local residents, though that impact has varied according to household access to productive resources and adoption of appropriate technologies.

10.3 Proposed Strategy and Implementation Modality

Strategic Thrust: The strategic objective for enhancing connectivity in the EWEC is the completion of the main artery of the Corridor through multi-modal transportation systems and developing secondary road systems to link rural communities to markets. Infrastructural improvements on the EWEC aim to improve linkages to gateway and interchange nodes by saving time, reducing risks and lowering transportation costs; encouraging trade along the Corridor, as well as promoting production and employment opportunities, and improving the livelihood of people in the Corridor area. The program to improve secondary roads will support the latter objective by helping to link rural areas to markets, with the following strategic objective for improving connectivity:

Strategic Objective – Enhance connectivity within the EWEC area through secondary and feeder roads, and with other corridors and transport arteries through interchange and gateway nodes.

Implementation Modalities: The resulting action plan to enhance connectivity is as follows:

Table 10.1: Action Plan for EWEC Development: Enhancing Connectivity

Project Initiative	Expected Output	Progress Indicator	Implementation Agency	Time-frame	Status and Remarks
Strategic Objective: Enhance connectivity within the EWEC area through secondary and feeder roads, and with other corridors and transport arteries through interchange and gateway nodes					
Action Plan:					
5.1	Upgrade sections of the EWEC Other Highway Projects in Vietnam	Upgrade to class 3 following sections: Highway 8 Cau Treo border-Hong Linh 80km, VND700 billion; Highway 217 Na Meo-Do Len check point 154-194km, (upgrading to class 4) VND160 billion; Highway 49 in Hue 80km; Highway 19 Quy Nhon port-Binh Dinh province 250km, VND2000 billion; Highway 24 Dung Quat port-Kon Tum 168km, VND1360 billion; Highway 9 phase 3, 83km VND3000 billion; Highway 26 Cam Ranh port-Buon Ma Thuot 151km, VND1208 billion; Highway 14 Nam Giang-Giang Bridge 76km, VND760 billion, and; Highways 20/28 Phan Thiet-Da Lat 140km, VND1120 billion.	Completion of road upgrading.	Ministry of Transport of Viet Nam,	2008-2012 Ongoing
5.2	Upgrade sections of the	Upgrade road sections for the following sections of the EWEC: Tak –	Completion of transport	Ministry of Transport and	2008-2016 Ongoing. Cost estimate is for the first 220km. Total

⁹⁵ ADB, Lao People’s Democratic Republic and Socialist Republic of Viet Nam: Greater Mekong Subregion: East-West Economic Corridor Project”. Manila: ADB Performance Evaluation Report, December 2008.



Project Initiative	Expected Output	Progress Indicator	Implementation Agency	Time-frame	Status and Remarks
EWEC from Mae Sot to Mukdahhan in Thailand	Sukhothai section 2 (26km); Nong Rua – Chumpae – Konsarn section 1 (24km); and Tak – Mae Sot section 1 (12km).	projects; reduction in cost and time of travel, and operating costs.	Communications of Thailand		length to be upgraded is 465km. Thailand is financing the upgrading of 62km, costing \$35M. The remaining 403km is included in Thailand's 3-year plan (2009-2011) and 11th Highway Development Plan (2012-2016).
5.3 Expansion Program for EWEC and Southern Corridors Highways	Upgrade 217km of existing highway in Thailand that is part of the EWEC and Southern Corridors from 2-lanes to 4-lane divided highway standard.	Completion of road upgrading.	Ministry of Transport and Communications of Thailand	2008-2012	Loan fact-finding was completed in August 2008; appraisal held in November 2008; submission of project for approval by ADB Board programmed for first quarter 2009. To be financed by ADB (loan of \$110M included in the 2009 pipeline) and Government of Thailand (\$125M); other sections to be financed by World Bank.
5.4 Road improvement of EWEC from Thingannyinaung to Kawkareik (Myanmar)	Improve EWEC road in Myanmar from Thingannyinaung to Kawkareik.	Completion of road upgrading.	Ministry of Rail Transport, Road Transport Administration Department; Ministry of Transport and Communications of Thailand	2008-2012	With financial assistance from Thailand. Cost to be determined.
5.5 Reconstruction of Tanowsri-Kawkareik (Myanmar) section of EWEC	Reconstruction of Tanowsri-Kawkareik 40km mountainous section of EWEC, which is currently operating one-direction per day.	Completion of onstruction	Ministry of Rail, Transportation, Road Transport Administration Department, Myanmar	2008-2012	With financial assistance from Thailand. Cost to be determined.
5.6 Construction or reconstruction of Kawkareik-Mawlamyine-Thaton in Myanmar	Construction or reconstruction of 189-km Kawkareik-Mawlamyine-Thaton road, as part of Phase 2 of the Thailand-Myanmar-India Transport Linkages Project	Completion of road, including upgrading.	Ministry of Rail, Transportation, Road Transport Administration Department, Myanmar	2008-2012	With financial assistance from Thailand. Cost to be determined.
5.7 Construction of Savannakhet Railway Line	Construction of a 210km electrified railway line across Savannakhet linking Thailand to Vietnam.	Completion of construction	Ministry of Transportation of Lao PDR and Malaysian-based company	2008-2012	Proposed. Cost to be determined.
5.8 Development of Lien Chieu Seaport in Vietnam	Development of Lien Chieu Seaport, which is part of the Da Nang Seaport System, in the following areas: (i) construction of a 250 m long container pier at the area of natural depth (9 m) for 30,000 DWT container ships to berth, load, and unload cargo; (ii) construction of a 320 m long combined pier at the area of natural depth (7.5 m) for 10,000 DWT combined ships to berth, load, and unload cargo; (iii) provision of specialized facilities for loading and unloading; and (iv) construction of breakwater with an estimated length	Completion of seaport construction	Planning and Investment Department, Ministry of Transport, Viet Nam	2008-2012	Proposed. The Lien Chieu seaport could serve as an eastern terminus/gateway of the EWEC and provide a deepwater port to handle imports/exports, serving both domestic traffic in Viet Nam, in particular economic zones in the central highlands of Viet Nam, as well as transit traffic from neighboring EWEC areas.



Project Initiative		Expected Output	Progress Indicator	Implementation Agency	Time-frame	Status and Remarks
		of 850 m to prevent waves and wind from the north and northeast.				
5.9	Upgrade Da Nang Port (Phase 2)	Upgrade port under phase 2 of a JBIC-financed project.	Completion of port upgrading.	Ministry of Transport, Viet Nam	2008-2012	Proposed. Cost to be determined.
5.10	Savannakhet Airport Improvement (Lao PDR and Thailand)	Improvements to Savannakhet airport.	Expansion of the airport	Department of Civil Aviation Branch Office in Savannakhet	2008-2012	Ongoing. The airport is now operational for domestic and international flights to Bangkok.



ANNEX A: CONSULTATIONS AND WORKSHOP

A. Stakeholder Consultations

Date	Name	Position & Institution	Contact Details
Savannakhet, Lao PDR			
23 September	Mr. Sithon	Director of Planning and Investment Department	Planning and Investment Department Office
23 September	Dr Souphan Keomixay and Mr. Boungnou Thammavong	Vice Governor , Director of Governor Office	Governor Office
23 September		Management (Director or Deputy Director)	Industry and Commerce Department
23 September		Management of Tourism Department	Various
23 September		Savan-Zeno Special Economic Authority	Various
23 September		Lao Chamber of Commerce and Industry in Savannakhet	Various
24 September		Private sector	Various
24 September		Agro-processing firm or agribusiness firm	Various
24 September		Import-export firm	Various
24 September		Services sector	Various
Vientiane, Lao PDR			
13 October	Mr. Oudet Souvannavong	Secretary General, GMS BF	Vatchantha Village No 74 Inpeng Str. Tel: 021 264330 Fax: 021 264 331
13 October	Mr. Serge Verniau	Resident Representative, FAO	Phone-Xay Road Tel: 413 205 Fax: 414 500
13 October	Mr. Charles Schneider	Head of Office, MPDF (IFC)	Tel: 450 017-9 Fax: 450 020 (Office in WB)
13 October	Mr. Hiroaki Takashima	Resident Representative, JICA	Sihom Commerce Center Building, 3rd Floor Tel: 241 100, 414 387 Fax: 241101
14 October	Mr. Santiphab Phomvihane	Director General of Customs Department, MOF	Tel: 223 52 Fax: 217 452
14 October	Dr. Samaychanh Boupha	Director General of National Statistics Center, NSC	Luangprabang Road Tel: 214 740; 242 023 Fax: 219 129; 242 022; 216 659
14 October	Ms. Sonam Yangchen Rana	Resident Representative, UNDP	Kaysone Phomvihane Avenue Tel: 267 777; 213 394-7; 214 227 Fax: (856-21) 212 029 (856-21) 214 819
Phitsanulok, Thailand			
27 October	Dr. Mondhon Sanguansermisri and Dr. Supak Pounbangpho	President, Naresuan University, Vice President for Academic Affairs	Conference Room, 2 nd Floor, Office of the President Tel. 055-261172 Fax. 055-261172
27 October	Mr. Montri Taworn	Chief of Agriculture and Cooperative Phitsanulok Provincial Office	Meeting Room of Agriculture and Cooperative Phitsanulok Provincial Office, 5 th Floor Provincial Hall Tel.055-253023-4 Fax. 055-253023-4



Date	Name	Position & Institution	Contact Details
27 October	Ms. Pimol Pongkongkaew	Director of Commercial Affairs, Phitsanulok	Office of Commercial Affairs, Phitsanulok Tel. 055-242909 Fax. 055-252051
28 October	Mr. Wiset Wachirasirikul, Mr. Wirote Jirattigalachote, Mr. Thiti Wasawachaiyawat, Mr. Singha Pongsutt	Chairman of Phitsanulok Chamber of Commerce, Board of Phitsanulok Chamber of Commerce, Board of Phitsanulok Chamber of Commerce, Board of Phitsanulok Chamber of Commerce	The Phitsanulok Chamber of Commerce Tel. 055-212103 Fax. 055-212103
28 October	Mr. Vanchai Chittamanonkul	Industries Prolocutor, The Federation of Thai Industries	The Federation of Thai Industries, Phitsanulok Chapter, Tel. 055-378353 Fax. 055-378353
28 October	Mrs. Jirapa Wasuwat	Director, Tourism Authority of Thailand, Phitsanulok Office	Tourism Authority of Thailand, Phitsanulok Office Tel. 055-252742-3 Fax. 055-231063
Khon Kaen, Thailand			
29 October	Assoc. Lampang Manmart, Ph.D., Mr. Kreangsak Bhoosrisom, Mr. Phumsiri Kheawsod, Mr. Ruethaichanok Otton, Mr. Rangsana Maneeraj	Dean of Graduate School & Strategic consultant, Project Co-Ordinator, Project Co-Ordinator Project Co-Ordinator, Representative of the Ministry of Foreign	Regional Operation Center (ROC) Northeastern Khon Kaen University Tel. 043-203496 Fax. 043-203496 e-mail : weerapat@kku.ac.th
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29 October	Mr.Nuan Sansarn	Director, Tourism Authority of Thailand, Khon Kaen Office	Tourism Authority of Thailand, Khon Kaen Office Tel. 043-244498-9 Fax 043-244497
30 October	Mr. Sukrip Pipithkul	Policy and Plan Analyst	Khon Kaen Provincial Office of Agriculture and Co-Operatives Tel. 043-261359 Fax. 043-261359, 261088 e-mail : moac_kkn@yahoo.com
30 October	Mr. Surapol Thaveesangsakulthai	President The Khonkaen Chamber of Commerce	The Khonkaen Chamber of Commerce Meeting Room Tel. 043-324990-1, 043-325948-9 Fax. 043-324990 e-mail : info@kkchamber.com
30 October	Mr. Samart Angwarawong, Mr. Channarong Buristrakul, Mr. Thana Sirtanachai, Mr. Nipon Thaboonyathiphon,	Chairman, The Federation of Thai Industries, Khonkaen Chapter, Vice Chairman, Vice Chairman, President, Association for The Promotion of Thai Small and Medium Entrepreneurs	The Federation of Thai Industries, Khonkaen Chapter Tel. 043-227832-3 Fax. 043-227883 e-mail : pharlatron@yahoo.com
Bangkok, Thailand			
3 November	Mr. Pichit Dejneerarat	Senior Investment promotion Officer, Office of the Board of Investment (BOI)	BOI, 555 Vibhavadi-Rangsit Road, Chatuchak, BKK Tel. 02-537-8111 ext. 1119 Fax. 02-537-8188 e-mail : pichit@boi.go.th
3 November	Dr.Sasithara Pichaichannarong and Ms. Prapa Tantasuparuk	Permanent Secretary, Ministry of Tourism	International Cooperation Section, Office of Tourism Development, ministry of Tourism and Sports Tel. 02-219-4024 Fax. 02-216-6658 Mobile : 089-303-1556 e-mail : prapa_t@tourism.go.th



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3 November	Mr. Jingjai Hanchanlash, Ms. Supranee Termrungruanglert, Mr. Phurisit Changsiripun	Program Coordinator, GMS-BF, and Thai Chamber of Commerce	Thai Chamber of Commerce Place : Loxley Building, 16th floor 102 Na Ranong Road, Klongtoey, Klongtoey, Bangkok, Thailand
4 November	Ms. Wannapha Yongchareon	Director of Bureau of Agricultural Development Policy and Planning, Office of Agricultural Economics	Bureau of Agricultural Development Policy and Planning, 5 th Floor, Office of Agricultural Economics Tel. 02-940-6484 Fax. 02-940-6484 e-mail : wannapa@oae.go.th
4 November	Mr. Siriruj Chulakaratana	Senior Expert (International Industrial Economics), Ministry of Industry	Meeting Room, (International Industrial Economics Bureau, 5 th Office of Industrial Economics, RAMA 6 Rd. BKK. Tel. 02-202-3922 Fax. 02-644-8951 e-mail : siriruj@oie.go.th
11 November	Mr Somkid Tanwattanakul	Deputy Governor Corporate Strategy, Industrial Estate Authority of Thailand (IEAT)	IEAT, 618 Nikom Makkasan Road, Ratcha-thewi, Bangkok Tel. 02-650-0212
12 November	Mr. Thanit Sorat	Vice-President, Federation of Thai Industries	The Federation of Thai Industries Queen Sirikit National Convention Center Zone C 4th Floor, 60 New Rachadapisek RD., Klongtoey Bangkok
7 November	Mr Izuru Kobayashi and Mr Miyazaki	AMEICC	kobayashi@jodcbkk.com +66818415001
7 November	Mr Takao "TED" Furukawa	Mitsui O.S.K. Lines (Thailand) Co., Ltd. Representative of Chamber of Commerce (GMS group)	JBIC Bangkok Office furukawa@moltha.infonet.com 14th Floor, Nantawan Bldg., 161 Rajdamri Road, Bangkok, 10330, Thailand, (66-2-252-5050)
7 November	Mr Omi and Mr Nakatani	Chief Representative and Representative of JBIC Bangkok office	JBIC Bangkok Office y-omi@jbic.go.jp
7 November	Mr Hitoshi Tojima	Senior Representative, JICA Thailand Office	JICA Office, 31st floor, Exchange Tower, 388 Sukhumvit Road, Bangkok 10110, Thailand Tel: +66-2-261-5250 (Ext. 104), Fax: +66-2-663-7172
Ha Noi, Vietnam			
6 October			Vietnam Chamber of Commerce and Industry No 9, Dao Duy Anh Street, Hanoi Tel: 84908246060 Fax: 84-4-5742622
6 October	Ms. Hoa and Ms. Chau	DDG, International Cooperation Department, Officer	Ministry of Agriculture and Rural Development Room: 106B, A10 Building, 2 – Ngoc Ha, Ba Şinh, Ha Noi. Tel: 84-4-7332205
6 October	Mr. Ba	Vice president	The Central Institute for Economic Management Studies 68 – Phan Şinh Phung, Ba Şinh, Ha Noi
6 October	Ms. Nga	Expert	Ministry of Finance (Customs) International Cooperation Department Room: 202, 162 – Nguyen Van Cu, Gia Lam, Ha Noi



Date	Name	Position & Institution	Contact Details
			Tel: 84- 4- 8731503/ 0983 454 998
7 October	Mr. Chu Thang Chung	Expert, ICD, MOT.	Ministry of Industry and Trade 54 – Hai Ba Trung, Hoan Kiem, Hù Néi Tel: 0982 581 159
7 October	Mr. Pham Quang Hung,	Director General, ICD	Ministry of Culture, Sports, and Tourism 2 nd Floor, 80 Quan Su, Ha Noi Tel: 84-4-9421071
7 October	Mr. Khang	DDG, GMS Coordinator, FERD, MPI	Ministry of Planning and Investment Room: 308, Building D, 2 – Hoang Van Thu, Ha Noi Tel: 84-4-0804402
Da Nang, Vietnam			
9 October	Mr. Dieu	Chief Department of Industry and Trade of Da Nang	Department of Industry and Trade of Da Nang. No. 6, Tran Quy Cap Street, Da Nang Tel:05113822525/090515150
9 October	Mr. Dung	Officer	Department of Agriculture and Rural Development of Da Nang No. 140, Nguyen Thi Minh Khai, Da Nang Tel:0511322425/0935799071
9 October	Mr. Quang	Officer	Department of Culture, Sports, and Tourism No. 102 Le Loi, Da Nang Tel:05113487272/ 01222575897
10 October	Ms. Phuong	Representatives from private sector	Planning & Investment Department Tel: 05113 822 759/0905140999

B. Workshop on the Development Strategy for EWEC, Khon Kaen, Thailand, 24 April 2009

0830-0900 Registration

0900-0930 Session 1: Opening Session

Welcome and Opening Remarks

- Chair: Mr. Pairote Potivong, Executive Director of Public Policy Strategy Division, National Economic and Social Development Board, GMS National Coordinator, Kingdom of Thailand
- Co-Chair: Mr. Jean-Pierre Verbiest, Country Director, Thailand Resident Mission, Asian Development Bank (ADB)

Overview of GMS Economic Corridors: Cross-Cutting Issues and Concerns (*Mr. Filologo Pante, Jr., Consultant (Senior Advisor)*),

0930-1000 Session 2: EWEC Development: Stocktaking

- Presentation
(*Mr. Montague Lord, Consultant for the EWEC Development Strategy, ADB RETA 6310*)
- Open Discussion



- 1015-1215** **Session 3: EWEC Development: The Way Forward**
- *Advances in the Transport Corridor Components – Transport and Trade Facilitation, and Logistics*
 - Issues, Accomplishments and Implementation
(Mr. Ruth. Banomyong, Associate Professor, Faculty of Commerce and Accountancy, Thammasat University)
 - Using the EWEC: A Practitioner’s Experience
(Mr. Paul Apthorp, Strategic Development, TNT Express Worldwide N.V.)
 - EWEC Logistics across the Thai Corridor Area
(Mr. Sataporn Amornsawadwatana, Dean, Department of Industry, School of Engineering, University of the Thai Chamber of Commerce)
 - Open Discussion
- 1315-1515** **Session 3: [Continued]**
- *Advances in the Economic Corridor Components*
 - Environmental Mainstreaming within the EWEC
(Mr. Pavit Ramachandran, Environment Operations Center)
 - Pro-Poor Private Sector Development and Value Chain Applications
(Mr. Montague Lord, Consultant for the EWEC Development Strategy, ADB)
 - Using SEZ to Stimulate Private Sector Clusters along the EWEC
(Mr. Sayavongkhamdy Thongsay, Vice Governor, Special Economic Zone Authority, Lao PDR and Mr. Christopher Hnanguie, Country Economist, Lao PDR Resident Mission, ADB)
 - Developing the EWEC as a Tourism Corridor
(Mr. Ludwig Rieder, Chairman, Asia-Pacific Projects, Inc.)
 - Open Discussion
- 1530-1700** **Session 3: [Continued]**
- 1530-1615
- *Japan’s Role in EWEC Development*
(Mr. Hiroto Sugano, First Secretary, Embassy of Japan in Thailand and Mr. Yoji Shibata, Senior Adviser, JETRO Bangkok Center)
 - Open Discussion
- 1615-1700
- *Strategy and Action Plan/Next Steps*
 - Presentation
(Mr. Ronald Butiong, Senior Regional Cooperation Specialist, Regional Cooperation and Integration Group, Southeast Asia Department, ADB and Mr. Montague Lord, Consultant for the EWEC Development Strategy, ADB)
 - Open Discussion
- 1700-1715** **Session 4: Wrap Up and Conclusion**



B. List of Participants to the Workshop on the Development Strategy for EWEC, Khon Kaen, Thailand, 24 April 2009

Lao PDR

- | | | | |
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20. Mrs. Pracha Mehmeny
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21. Mr. Theerasak Suwantarn
Address : The Federation of Thai Industries - Bangkok



Vice President

22. Boonlert Buranasakda Address : The Khonkaen Chamber of Commerce
23. Mr. Thana Sirithanachai Address : The Federation of Industries – Khon Kaen
Vice Chairman

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| Asian Development Bank (ADB) | | | |
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Annex B: EWEC Logistics and Trade Facilitation

1. Logistics

Coverage – Logistics cover all costs incurred to take a given good from the producer to the consumer and, as such, it plays an important part in supply chain management. For the EWEC the focus of logistics is the management and implementation of all activities needed to move goods and services between their point of origin and their point of consumption to meet customer requirements.⁹⁶ Following the logistics benchmarks discussed in Chapter 2.1.2 above, the logistics performance of the EWEC can be measured by the time required for delivery, the cost, efficiency of customs clearance, quality of transport and logistics information infrastructure, ease of transporting cargos, and ability to track shipments.

Table B.1: EWEC vs. Maritime Route between Bangkok and Hanoi

	EWEC	Maritime
Distance (km)	1,649	2,742
Time (hrs)	74	213
Cost (TEU)	\$ 5,500	\$ 2,500

Notation: TEU - twenty-foot equivalent unit (intermodal shipping container)

Source: Japan External Trade Organization (JETRO), “Economic Development in GMS through Facilitation of Logistics Environment”. Workshop for the Project on Practical Realization of Mekong Region Land Route, February 2008.

Time Required for Delivery: The EWEC has a large and growing strategic advantage over other transportation networks in terms of time for delivery between large commercial hubs. Since the opening of the Second Friendship Bridge, travel time from Bangkok to Da Nang has been reduced to between three and three-and-a-half days.⁹⁷ In contrast, shipping from Bangkok to Viet Nam takes between five and ten days since there are few direct cargo lines from Bangkok to, say, Hanoi. For example, a ship loaded in Laem Chabang, near Bangkok and

Thailand’s largest port, is usually unloaded in Hong Kong, then another ship from a feeder line conveys the cargo to Hai Phong after reloading it in Hong Kong.⁹⁸ Road shipments from Bangkok to Da Nang consists of a distance of approximately 500km from Bangkok to Kuchi Narai, plus the 405km section of the EWEC from Kuchi Narai in Thailand to Da Nang.

Bangkok-Hanoi Delivery Costs: Notwithstanding its advantage in travel time, the Bangkok-Hanoi route through the EWEC is less competitive in terms of cost of delivery than the traditional sea route. The ASEAN Logistics Network Map project of JETRO estimates that total transport cost for the land route is more than twice as high as the maritime, despite being nearly three times faster than the maritime route (see Table B.1).⁹⁹ According to that study, the total land route between Bangkok and Hanoi is 1,649 km and takes 74 hours; in contrast, the maritime route is 2,742 km and takes nearly 9 days. In terms of costs, the study reports a figure of US\$5,500 per twenty-foot equivalent unit (TEU), compared with US\$2,500/TEU for maritime transport. Sea transport including

⁹⁶ Adopted from the definitions of the Asian Council of Logistics Management and the Council of Supply Chain Management.

⁹⁷ Based on services provided by Nippon Express under their Hanoi-Bangkok “Mekong Land Bridge Express” services. See: http://www.nittsu.co.th/news/apr_news2008_Hanoi-Bangkok.aspx.

⁹⁸ Ishida, M., “Evaluating the Effectiveness of GMS Economic Corridors: Why is There More Focus on the Bangkok-Hanoi Road than the East-West Corridor?”. IDE Discussion Paper No. 123. Institute of Developing Economies. October 2007.

⁹⁹ Japan External Trade Organization (JETRO), “Economic Development in GMS through Facilitation of Logistics Environment”. Workshop for the Project on Practical Realization of Mekong Region Land Route, February 2008.



transshipment cost represents about 30 percent of the transport cost but represent more than 70 percent of transit time. Trucking cost represents around 15 percent of the total transport cost. Administrative formalities take up to 36 percent of total transport cost from Bangkok to Hanoi via the maritime route.

Bangkok-Hanoi Customs Charges – Costs of clearing customs are relatively high in the EWEC. Figure B.1 shows an approximation of the distribution of logistics costs based on available information.¹⁰⁰ Logistics costs related to international transportation represents nearly two-fifths of total costs. Of those international transport costs, customs processing costs absorb 16 percent of total costs. In contrast, the share of customs costs in other Southeast Asia routes average 12.5 percent. While these costs are rough estimates and should not be taken as final, then underscore the need to reduce customs processing costs in the EWEC.

In general, the main reasons for the costly customs clearance procedures involve the time absorption associated with the classification of goods based on the Harmonized System (HS) codes and the processing of certificates of origin. In 2005 the ASEAN countries agreed to the 8 digit HS classification system under the ASEAN harmonized tariff nomenclature (AHTN), which extends the 6-digit international system of the World Trade Organization (WTO) to unique local codes of the ASEAN member states. However, implementation of the AHTN has been slow, especially in Lao PDR and the World Bank is currently supporting technical assistance to help implement the system in border checkpoints. For certificates of origin, preferential tariff rates are provided under CEPT-AFTA but the costs of issuing those certificates are high, especially in Lao PDR where the certificate is only issued in Vientiane. In many cases where exporting companies have good compliance records, self issuance of certificates could simplify and reduced the processing times.

Savannakhet - Da Nang Delivery Costs – A UNESCAP assessment of transportation costs from Savannakhet to Da Nang shows non-transport related costs at the Lao PDR-Vietnam border of the EWEC that are in line with other Southeast Asia routes (Table B.2 and Figure B.1).¹⁰¹ Customs clearance at

Figure B.1: Distribution of Logistics Costs in EWEC

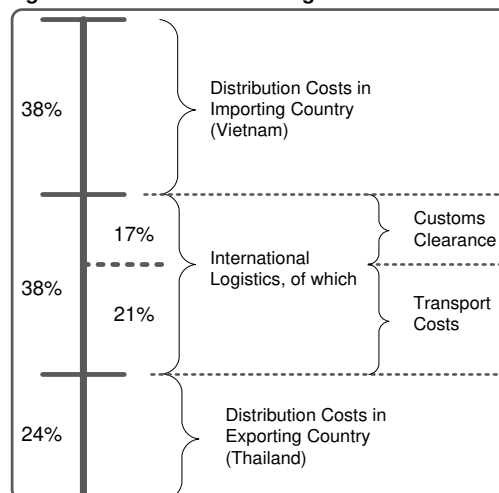


Table B.2: Estimated Time and Costs for Export by Road from Savannakhet to Da Nang

	Cost per TEU (US\$)	Share
Savannakhet-Dansavanh	370	38%
Dansavanh-Lao Bao	min	0%
Document charges	100	10%
Lao Bao-Danang Port	460	47%
Danang Port charges a/	53	5%
Total	983	100%

a/ Handling and storage
 Source: UNESCAP, "Transit Transport Issues in Landlocked and Transit Developing Countries". Landlocked Developing Countries Series, No. 1, 2003.

¹⁰⁰ The estimates are based on the distribution of logistics costs among exporting countries, international transportation and importing countries for the broadly defined EWEC in Japan External Trade Organization (JETRO), "ASEAN Logistics Network Map". February 2008; and the distribution of transport and non-transport costs for the EWEC taken from Centre for Logistics Research and Supply Chain and Engineering Management, "The GMS East West Economic Corridor Logistics Benchmark Study" (draft). Thammasat University and Chiang Mai University, August 2008.

¹⁰¹ UNESCAP, "Transit Transport Issues in Landlocked and Transit Developing Countries". Landlocked Developing Countries Series, No. 1, 2003.



Lao Bao represents 10 percent of the total transport charges, which is close to the average of 12 percent for other routes.¹⁰²

Dansavanh - La Bao Customs Processing Time – The time taken to cross the Lao PDR-Vietnam border has improved following the implementation of the CBTA.¹⁰³ For shipments from Vietnam to Lao PDR, the current time taken to cross the border at Lao Bao is 70 minutes at Dansavanh (inbound) and 81 minutes at Lao Bao (outbound). This time represents a major improvement from 228 minutes in processing time and 259 minutes in queuing time in 2003. For shipments from Lao PDR to Viet Nam, the average time taken to cross the border is 20 minutes at Lao Bao (inbound) and 28 minutes at Dansavanh (outbound), whereas in 2003 it took 39 minutes to exit from the Lao PDR and 32 minutes to enter into Viet Nam.

Table B.3: Country-Level Costs of Trading across Borders in 2008 (US dollars)

	EWEC Countries			Comparator Countries				
	Vietnam	Lao PDR	Thailand	Singapore	Malaysia	Indonesia	Philippines	Cambodia
International Ranking in Costs of Trading across Borders	67	165	10	1	29	37	58	122
Export Procedures (US\$)								
Documents preparation	115	120	270	105	85	210	189	220
Customs clearance and technical control	100	10	50	31	65	169	187	262
Ports and terminal handling	369	130	85	180	135	165	270	100
Total	584	260	405	316	285	544	646	582
Import Procedures (US\$)								
Documents preparation	70	120	300	88	85	210	187	210
Customs clearance and technical control	100	20	75	31	65	125	187	265
Ports and terminal handling	431	300	200	180	135	165	270	217
Total	601	440	575	299	285	500	644	692

Source: International Finance Corporation (IFC), "Doing Business 2008" database.

Note: data for Myanmar is not available.

Benchmarking Logistics Costs – In addition to comparing the EWEC logistics costs to alternative (sea and air) routes, we can use country-based logistics cost estimates for the customs processing costs of transporting goods to markets. Table B.3 shows the cost breakdown of exporting and importing goods in each of the EWEC member countries, as well as comparator countries in Southeast Asia.¹⁰⁴ Lao PDR has low official customs clearance costs, while the corresponding dollar costs per TEU in Thailand and Vietnam are in line with other Southeast Asian countries based on the country rankings. Thailand, which ranks number 10 worldwide, nonetheless has higher transportation, handling, and document preparation charges than most other Southeast Asian countries, excepting Cambodia and Laos, while Vietnam's soft transport costs are generally lower than its hard transport costs relative to other Southeast Asian countries. These cost figures could serve as benchmarks for EWEC costs since they are compiled on an annual basis. Similar cost figures compiled for the EWEC could then be used to measure progress in logistics and trade facilitation measures.

Transport and Information Infrastructure – The major constraints affecting the quality of transport are (a) the lack of logistics facilities at the border to support trans-loading at the border; (b) poor road conditions due to depressions and damages from rain, lack of

¹⁰² Estimates based on field visits in 2003.

¹⁰³ See Lao People's Democratic Republic and Socialist Republic of Viet Nam: Greater Mekong Subregion: East-West Economic Corridor Project". Manila: ADB Performance Evaluation Report, December 2008.

¹⁰⁴ Based on information compiled for the Doing Business 2008 database of the International Finance Corporation (IFC). Cost measures the fees levied on a 20-foot container (TEU) in U.S. dollars. All the fees associated with completing the procedures to export or import the goods are included. These include costs for documents, administrative fees for customs clearance and technical control, terminal handling charges and inland transport. The cost measure does not include tariffs or trade taxes. Only official costs are recorded.



alternative routes in case of accident or natural disasters, and the slowdown of trucks caused by mixed traffic that includes motorcycles and animal-drawn carts; and (c) lack of service facilities along Route 9 in Savannakhet.¹⁰⁵

Transporting Cargo – At present the movement of transit goods along the EWEC is only in the direction of Vietnam for goods originating in Thailand; there is little or no movement of goods originating in Vietnam and destined to Thailand. In addition, right-hand-drive vehicles are used in Thailand, and left-hand-drive vehicles are used in Lao PDR and Vietnam. At present, right-hand-drive trucks carrying goods along the EWEC from Thailand must transload those goods at the Mukdahan-Savannakhet border to left-hand-driven trucks. The Thai trucks must then return to their origin without cargo, while those that arrive from Vietnam must return empty to the Mukdahan-Savannakhet border after delivery of the goods to their destination.¹⁰⁶ Mutual entry is permitted into Lao PDR for Thai and Vietnamese trucks, but truck entry is prohibited between Thailand and Vietnam.

A Memorandum of Understanding (MoU) signed on 23 April 2007 by the governments of Lao PDR, Thailand and Vietnam allows for the operation of cross-border transport of goods and people along the EWEC at the Dansavanh-Lao Bao and Savannakhet-Mukdahan border crossing. Much of the focus of the MoU and a meeting of the parties on 25-26 February 2009 is on the implementation of the this provision, as well as others related to a single-window inspection and single-stop inspection at those border crossings.

Consolidated cargo shipments along the EWEC would also reduce transportation costs by utilizing trucks for cargo transportation in both directions. However, transporting a loaded container in both directions means that cargo must be available to load into the container within a few days of when it has been unloaded and, as mentioned above, there is little or no movement of goods from Vietnam to Thailand. Additionally, when suitable cargo is unavailable, the shipping line should, in principle, move the empty container to the nearest container storage depot. Because of the absence of inland container depots in Mukdahan-Savannakhet, goods are brought to the border as loose cargo, then transferred to trucks from the bordering country and, if destined for ports, transported to them and then loaded into containers. For Thai goods transiting through Lao PDR to Viet Nam, goods are taken to the border in Thai trucks and load by Lao or Vietnamese trucks to be transported to their final destination or a port for shipment. The situation becomes even more difficult when the shipment involves an export-oriented good, and it makes the cost for moving non-consolidated cargo the most costly logistics factor affecting SME competitiveness.¹⁰⁷

Tracking Shipments – As part of the movements of consolidated shipments, efficient logistics requires secure transport and supporting information systems. In logistics information infrastructure the major impediment to using RFID tags are the different frequencies and procedures applied in each country.¹⁰⁸ Standardization of frequencies

¹⁰⁵ Ministry of Economy, Trade and Industry of Japan, “Project for Practical Realization of Mekong Region Land Routes 2008: Summary Report”. February 2008.

¹⁰⁶ The delivery patterns was examined during several trips by 11 shippers, which included the participation of four forwarders and three vendors coordinated by the Mitsubishi Research Institute. The results published by Ministry of Economy, Trade and Industry of Japan under the title of ‘Project for Practical Realization of Mekong Region Land Routes 2008 : Summary Report, February 2008.

¹⁰⁷ World Bank, “Building Export Competitiveness in Laos: Background Report”. Washington, DC: East Asia PREM, World Bank, November 2006.

¹⁰⁸ RFID refers to radio-frequency identification, an automatic identification method that relies on storing and remotely retrieving data using devices called RFID tags or transponders. The RFID tag is applied to an object



would help trucking companies operating under the recently signed transit agreement to move consolidated loads directly from the factory or bonded consolidation warehouse to their final destination. Although GPS transmissions can be received through the Corridor route, real-time communication is sometimes impeded by limited reception for mobile phones in Lao PDR and Vietnam.¹⁰⁹

2. Trade Facilitation

Coverage – The coverage of trade facilitation has expanded from simply addressing the logistics of moving goods from one point to another to a broader definition that includes the environment in which trade transactions take place.¹¹⁰ It encompasses transparency and the customs and regulatory environments, as well as harmonization of standards and conformance to international or regional regulations. The trade facilitation strategy for the EWEC and the GMS as a whole initially formulated by Joint Declaration of the first GMS Summit endorsed the formulation of an action plan to promote trade and investment to further enhance the competitiveness of the subregion. That action eventually led to the Strategic Framework for Action on Trade Facilitation and Investment in the GMS (SFA-TFI) that was endorsed by the second GMS Summit, in Kunming, in July 2005. The most significant trade facilitation initiative in the GMS program is nonetheless the Framework Agreement on Facilitating Cross-Border Transport of Goods and People, otherwise known as the Cross-Border Transport Agreement (CBTA), which is a comprehensive multilateral instrument covering all of the relevant aspects of cross-border transport facilitation.

Cross Border Trade Agreement – The focal areas of the Cross Border Trade Agreement (CBTA) are (a) facilitation of border crossing formalities covering single window and single stop customs inspection, coordinating of hours of operation; (b) facilitation of cross-border movement of people covering multi-entry visa, recognition of driver license; (c) facilitation of cross-border movement of goods covering regional transit regime; (d) exchange of traffic rights; and (e) establishment of

Table B.4: CBTA Annex and Protocols

List of Annexes and Protocols	Date Signed
Annex 1: Carriage of Dangerous Goods	16-Dec-04
Annex 2: Registration of Vehicles in International Traffic	30-Apr-04
Annex 3: Carriage of Perishable Goods	5-Jul-05
Annex 4: Facilitation of Frontier Crossing Formalities	30-Apr-04
Annex 5: Cross-Border Movement of People	5-Jul-05
Annex 6: Transit and Inland Clearance Customs Regime	20-Mar-07
Annex 7: Road Regulation and Signage	30-Apr-04
Annex 8: Temporary Importation of Motor Vehicles	20-Mar-07
Annex 9: Criteria for Licensing of Transport Operators for Cross-Border Transport Operations	16-Dec-04
Annex 10: Conditions of Transport	5-Jul-05
Annex 11: Road and Bridge Design and Construction Standards and Specifications	30-Apr-04
Annex 12: Border Crossing and Transit Facilities and Services	30-Apr-04
Annex 13a: Multimodal Carrier Liability Regime	30-Apr-04
Annex 13b: Criteria for Licensing of Multimodal Transport Operators for Cross-Border Transport Operations	16-Dec-04
Annex 14: Container Customs Regime	20-Mar-07
Annex 15: Commodity Classification System	30-Apr-04
Annex 16: Criteria for Driving Licenses	16-Dec-04
Protocol 1 : Designation of Corridors, Routes, and Points of Entry and Exit (Border Crossings)	30-Apr-04
Protocol 2: Charges Concerning Transit Traffic	5-Jul-05
Protocol 3: Frequency and Capacity of Services (Quotas) and Issuance of Permits	20-Mar-07

for the purpose of identification and tracking using radio waves. RFID is used extensively in enterprise supply chain management to improve the efficiency of inventory tracking and management.

¹⁰⁹ Ministry of Economy, Trade and Industry of Japan, “Project for Practical Realization of Mekong Region Land Routes 2008: Summary Report”. February 2008.

¹¹⁰ J. Wilson, “Trade Facilitation Lending by the World Bank: Recent Experience, Research, and Capacity Building Initiatives”. Washington, DC: The World Bank. Draft Paper prepared for The World Trade Organization, Workshop on Technical Assistance and Capacity Building in Trade Facilitation, Geneva, 10-11 May 2001.



requirements for admittance of road vehicles. Table B.4 shows the various annexes and protocols and the associated dates in which they were signed by the GMS member states. Notwithstanding the commitments made by each country, the extent of actual implementation of each of the annexes and protocols remains unclear. In large part, the problem lies in lack of information dissemination about the agreement to customs officials located in the GMS border checkpoints. For example, Part V of the CBTA's Main Agreement specifically states that, "the Contracting Parties shall admit to their territory Vehicles, whether left hand or right hand drive, (operated either commercially for reward or for own account or privately) registered by another Contracting Party." Yet, as noted earlier, prohibitions still exist along the EWEC that create large and unwarranted logistics costs.

Transit Trade – While the CBTA covers transit trade, bilateral transit trade agreements signed before the CBTA have precedence. For movements of goods in transit between Thailand and Lao PDR, there is an Agreement on Transit Trade signed in June 1978. It aims to facilitate the movement of exports and imports of either country in transit to and from a third country based on the 1921 Convention and Statute of Freedom of Transit. The agreement also allows cargo in transit to be transferred to a dedicated warehouse following its arrival at the Bangkok port, following clearance of import procedures. A new transit agreement was negotiated in 1999 and the Subsidiary Agreement was signed in 2001. It eliminated the need for transshipment at Nong Khai or Mukdahan, and it allowed certified trucks from each country to deliver to or pick up cargo from the other. For movements of goods between Lao PDR and Vietnam, the 1991 agreement provides that all transit traffic must go through these official border crossings and no restrictions are applied to the choice of ports in Vietnam, namely Da Nang, Haiphong, Ho Chi Minh and Vinh. An Agreement on the use of the port near Vinh to handle Lao transit cargo was signed in July 2001. The bilateral protocol relates to the issue of transit permits or authorization for each shipment, but does not cover the issue of the movement of vehicles. Vietnamese vehicles are permitted to enter Lao PDR provided that an international transport permit is granted to that vehicle by a Vietnamese authority.

Transit Trade Improvement Needs – A recent survey of freight forwarders produced the following recommendations for transit trade across Lao PDR:¹¹¹ (i) reduce trucking costs caused by imbalance in the direction of trade; (ii) use an electronic data interchange system in Lao PDR is already being done in Thailand to promote a paperless or electronic data interchange system; (iii) maximize benefits from transit traffic by service, custom clearance and handling income sources; (iv) upgrade Lao PDR truck fleet through low-cost financial sources that are currently unavailable; (v) reduce unofficial costs associated with expediting processing by customs officials; (vi) simplify documents currently required for Thai cargo to expedite services.

Strategic Framework on Trade Facilitation and Investment – The Strategic Framework for Action on Trade Facilitation and Investment in the GMS (SFA-TFI) serves as a blueprint for GMS action to achieve (a) significant reductions in transaction costs and time by improving administrative efficiency and simplifying, standardizing and harmonizing trade procedures and forms; (b) encouragement of free movement of goods and business people; and (c) enhancement of transparency of laws, regulations, procedures and forms, and sharing information on these and other trade issues. The SFA-TFI covers 4 priority areas: (i) customs procedures; (ii) inspection and quarantine measures; (iii) trade logistics;

¹¹¹ Lao People's Democratic Republic and Socialist Republic of Viet Nam: Greater Mekong Subregion: East-West Economic Corridor Project". Manila: ADB Performance Evaluation Report, December 2008.



and (iv) mobility of business people. Given the divergent progress of trade facilitation measures in each of the GMS countries, the SPF-TFI provides a means for (i) coordinating and rationalizing further trade facilitation efforts; (ii) supporting member countries in acceding to the various international conventions or agreements that they have signed; and (iii) guiding GMS countries in the further identification, prioritization and planning of specific measures.

Unofficial Payments – Corruption in public service along the logistics highway is a major concern of logistics companies. According to discussions held with various agents during the course of the EWEC field trips, the primary concern of logistics companies is the uncertainty of the size of those payments rather than their general existence. If the magnitude of the unofficial payments were known in advance, then the cost could be transferred to customers. But without stability in the size of the payments, those costs are necessarily being absorbed by transport and logistics companies. A recent study recommends that research and capacity-building efforts for technical standardization, as well as harmonization with respect to specifications, charges, would yield significant benefits. International cooperation could have a large impact through strong institutional arrangements embedded in agreements for facilitating trade and investment.¹¹²

ADB Support – Recent support for the implementation of these trade facilitation provisions of the SFA-TFI and CBTA has been provided by the ADB, which has recommended a series of initiatives to address existing limitations in the following areas: (a) expand the use of information and communications technology to improve communication among those involved in trade facilitation and to automate the processes involved in clearing cargo; (b) enhance cooperation and coordination between the public and private sector for customs procedures and SPS regulation, including trader compliance programs, and closer monitoring of supply activities and tracking of goods moving through the supply chain; (c) increase integration through cross-border cooperation between customs and other regulatory agencies, coordination of the activities of customs and other regulatory agencies operating on the border, and the integration of logistics services in order to improve supply chain management; and (d) improve use of resources through application of risk management for customs and SPS regulation and through greater variety of logistics services and supply chain configurations.¹¹³

Benchmarking CBTA/SFA-TFI Implementation – While broad-based support to the CBTA and SFA-TFI process continues, considerable work remains to be done on their implementation of the CBTA and SFA-TFI along the EWEC. That work should include a strategic review of the CBTA/SFA-TFI and a roadmap for implementation that would consolidate the work of the ADB with that of the World Bank and other development partners currently implementing joint trade and logistics projects and programs through trust funds in Lao PDR, Cambodia and Vietnam. It should also encompass training and dissemination through the National Transport Facilitation Committee (NTFC) of each EWEC member country, engaging customs officials at border checkpoints to implement the CBTA, monitoring and evaluation of the CBTA implementation, involving the private sector in proactively consolidating the agreements into logistics operations, and incorporating the CBTA into the national legal and regulatory framework of each country.

¹¹² UNESCAP, “Future Trade Research Areas that Matter to Developing Country Policymakers: A Regional Perspective on the Doha Development Agenda and Beyond”. Studies in Trade and Investment No. 61, 2007.

¹¹³ TSG, “Support to Trade Facilitation and Capacity Building in the Greater Mekong Subregion”. Draft Final Report. TA No. 6328-REG, December 2007.



Box B.1: Implementation of the CBTA in the EWEC Context

The Third GMS Summit of Leaders held in Vientiane, Lao PDR in March 2008 called for the expedient implementation of the GMS Cross-Border Transport Agreement (CBTA), including harmonizing and integrating procedures and systems to facilitate border crossing formalities, and promoting the development of trade logistics. When the CBTA is fully implemented, the GMS countries will enjoy lower transport costs, increased tourism, and expanded opportunities for cross-border trade and investment. Full implementation will contribute to the realization of the GMS strategic objective of enhancing connectivity, competitiveness, and community among the six Mekong countries.

Major Challenges: The major challenges remaining for implementation of the CBTA include (i) establishment of efficient management systems (including ICT) and associated capacity building; (ii) streamlining and harmonization of border control documents; (iii) preparation of revised manuals of operation at the border checkpoints and associated training; (iv) establishment of required infrastructure, and, in some cases, relocation and/or modification of layouts of border checkpoints as well as provision of common control areas to allow single-stop inspection and single-window inspection; and (v) mitigation of negative externalities associated with increased cross-border movement.

Pilot Projects: During the 12th GMS Ministerial Meeting held in Dali, Yunnan Province, PRC, in 2003, the GMS countries agreed to undertake the initial implementation of the CBTA on a pilot basis at 5 of the 16 border-crossing points defined in Protocol 1 of the CBTA, which includes Dansavanh (Lao PDR)-Lao Bao (Vietnam) and Mukdahan (Thailand)-Savannakhet (Lao PDR). Implementation in these pilot border crossings could provide a demonstration effect of the efficacy of the CBTA and also identify key issues that are essential to the successful implementation of the Agreement.

The CBTA at Dansavanh-Lao Bao: Activities for initial implementation of the CBTA at the Dansavanh-Lao Bao border crossing along the East-West Economic Corridor (EWEC) started in 2005 based on an Initial Implementation of the CBTA (IICBTA) signed between Lao PDR and Vietnam in June 2005. Under the IICBTA at the Dansavanh-Lao Bao border crossing points, customs officials of Lao PDR and Vietnam are carrying out single-stop customs inspection (i.e., joint and near-simultaneous physical inspection by customs authorities of the two countries at the 'country of entry'). This process has reduced border crossing clearance times from 4 hours to 40 minutes.

The CBTA at Mukdahan-Savannakhet: The MOU on the Initial Implementation of the CBTA (IICBTA) at Mukdahan-Savannakhet between Thailand and Lao PDR along the EWEC was signed during the Second GMS Summit last July 2005. The IICBTA at that border crossing points so far only involves limited single-window inspection at the respective checkpoints (i.e., streamlining of formalities, such as document processing through the application of ICT, among the various border agencies that are located "under the same roof"). Other important provisions of the IICBTA are still to be implemented, especially single-stop inspection where all inspections and formalities are carried out only at the Country of Entry (modality of performance in foreign territory). To date, Thailand's laws do not allow the practice of this modality.

Interim Measures along the EWEC: Under the IICBTA MOUs existing bilateral road transport agreements between Laos and Thailand and between Laos and Vietnam provide interim measures for the exchange of traffic rights (i.e., ability to operate a vehicle registered in one country in the territory of another country). They include the rights of Lao and Thai vehicles to enter each other national territories. The same is true for Lao and Vietnamese vehicles. Under the current arrangements, though, Thai vehicles cannot be operated in Vietnam, and Vietnamese vehicles cannot be operated in Thailand. Mutual entry will occur when the CBTA is fully implemented. Nonetheless, in August 2007 Lao PDR, Thailand, and Vietnam signed a tripartite MOU to consolidate the two IICBTA MOUs for the EWEC that would allow for three-country exchange of traffic rights' arrangements as an interim measure prior to the full implementation of the CBTA.



Annex C: EWEC Economic Corridor Stocktaking

1. National and Regional Context

National Comparative Indicators – National level comparisons of the EWEC member countries serve to underscore important differences and similarities in their level of socio-economic development. This section briefly highlights comparative measures in the following key focal areas of the EWEC’s integrated development framework:

macroeconomic indicators, trade exposure to EWEC countries, infrastructural indicators, and logistics performance measures.

Macroeconomic Indicators – Per capita income in the EWEC countries is positively correlated with openness to trade and negatively correlated with the incidence of poverty. Thus, Myanmar and Lao PDR, which are less open to trade than Thailand and Vietnam, have much lower incomes per capita and higher proportions of poverty. The same pattern occurs in the comparator countries, where Cambodia and the Philippines follow the same pattern as Laos and Myanmar.

Trade Indicators – Trade between EWEC countries has grown faster than their overall trade in all countries except Vietnam. In the last ten years the proportion of intra-EWEC trade has grown fastest for Myanmar and Thailand, followed by Lao PDR, with the result that the trade exposure to EWEC countries has expanded greatly, especially in the case of Myanmar and Laos, which now export around half of their good to neighboring EWEC countries. Despite Thailand’s export penetration into EWEC countries, its exposure to these countries remains small.

Infrastructural Development

Indicators – Transport-based activities related to the EWEC’s development are dependent on not only the road infrastructure but also the quality of that infrastructure, communications facilities, information systems and energy availability. The Infrastructural Index in Table C.3 is based on six indicators capturing transport infrastructure, communication and information infrastructure and

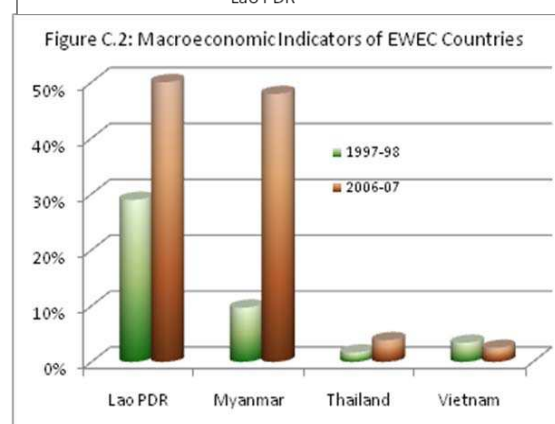
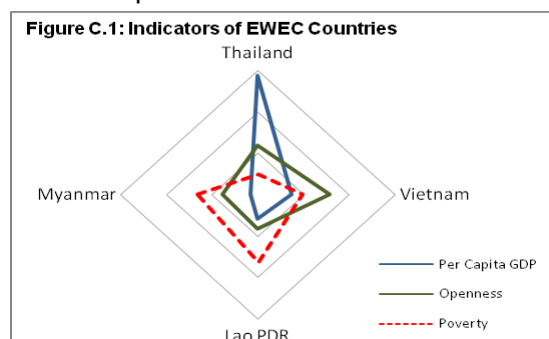


Table C.1: Macroeconomic Indicators of EWEC Countries

	Per Capita GDP 2008	Openness 2007 a/	% below Poverty Line
Thailand	4,099	1.20	9.8
Vietnam	1,047	1.57	19.5
Lao PDR	829	0.83	32.7
Myanmar	233	0.76	26.6
<i>Comparator Countries:</i>			
Malaysia	7,866	1.73	5.1
China	3,180	0.66	2.0
Indonesia	2,181	0.44	16.6
Philippines	1,908	0.74	33.0
Cambodia	742	0.66	34.7

Sources:

GDP data from IMF, World Economic Outlook (WEO) database.

Openness data from IMF, DOT and IMF, WEO databases.

Poverty line data from ADB, Basic Statistics 2008.

a/ Openness calculated as imports + exports relative to GDP.



energy availability using principal component analysis.¹¹⁴ The results for the EWEC countries show that Thailand ranks near that of China but below Malaysia, while Vietnam’s ranking is similar to that of Indonesia and the Philippines. Lao PDR and Myanmar have similar rankings to that of Cambodia.

Logistics Performance Indicators: Table C.4 provides a country-level comparison of trade logistics performance indicators for the EWEC member countries, based on the World Bank’s Logistics Performance Index and associated indicators, as well as comparator countries in the region.¹¹⁵ The comparator countries have been selected on the basis of the ‘ideal’ logistics model of Singapore, which ranks first in overall logistics performance, and the neighboring countries of Cambodia, China and Malaysia. There are large divergences between Thailand’s logistics services and those of Myanmar, Laos and, to a lesser extent,

Table C.2: Trade Exposure to EWEC Countries

	Export Growth to EWEC Countries Relative to Total Export Growth	Export Market Share of EWEC Countries	
		1997-98	2006-07
Lao PDR	1.58	29.0%	50.1%
Myanmar	2.59	0.1%	47.9%
Thailand	1.94	1.7%	3.9%
Vietnam	0.25	3.4%	2.5%

Source: IMF, Direction of Trade (DOT) database

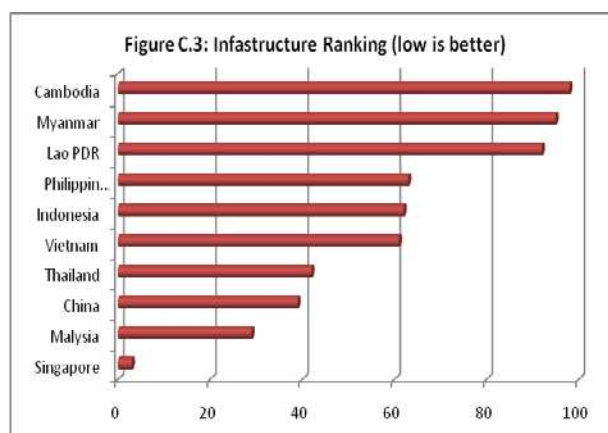


Table C.3: Infrastructure Index and Rank, 2005

	Index	Rank
Lao PDR	0.87	92
Myanmar	0.76	95
Thailand	5.89	42
Vietnam	3.27	61
<i>Comparator Countries:</i>		
Cambodia	0.55	98
China	6.33	39
Indonesia	3.21	62
Malaysia	9.21	29
Philippines	2.95	63
Singapore	17.66	3

Source: N. Kumar and P. De, "East Asian Infrastructure Development in a Comparative Global Perspective: An Analysis of RIS Infrastructure Index". In N. Kumar (ed), *International Infrastructure Development in East Asia: Towards Balanced Regional Development and Integration*. ERIA Research Project Report 2007. No. 2. March 2008.

and, more specifically, the need to upgrade performance measures in Lao PDR, Myanmar, and Vietnam in the areas of customs procedures, infrastructure, transport and information technology infrastructure for

logistics, local competencies of logistics companies, tracking and timeliness.

¹¹⁴ Kumar, Nagesh, *Globalization and the Quality of Foreign Direct Investment*, New Delhi: Oxford University Press, 2002.

¹¹⁵ The indicators have been constructed from a worldwide survey of multinational freight forwarders and express carriers in the following areas: (a) efficiency of the clearance process by customs and other border agencies; (b) quality of transport and information technology infrastructure for logistics; (c) ease and affordability of arranging international shipments; (d) competence of the local logistics industry; (e) ability to track and trace international shipments; (f) domestic logistics costs; and (g) timeliness of shipments in reaching destination.



Table C.4: Logistics Performance Indices for EWEC and Comparator Countries

		EWEC Member States				Comparator Countries			
		Thailand	Vietnam	Laos	Myanmar	Singapore	Cambodia	Malaysia	China
Overall LPI	score	3.3	2.9	2.3	1.9	4.2	2.5	3.5	3.3
	rank	31	53	117	147	1	81	27	30
Customs	score	3.0	2.9	2.1	2.1	3.9	0.1	3.4	3.0
	rank	32	37	120	124	3	104	23	35
Infrastructure	score	3.2	2.5	2.0	1.7	4.3	2.2	3.3	3.2
	rank	31	60	120	145	2	81	28	30
International shipments	score	3.2	3.0	2.4	1.7	4.0	2.3	3.4	3.3
	rank	32	47	103	146	2	95	26	28
Logistics competence	score	3.3	2.8	2.3	2.0	4.2	2.5	3.4	3.4
	rank	29	56	106	135	2	82	26	27
Tracking & tracing	score	3.3	2.9	1.9	1.6	4.3	2.5	3.5	3.4
	rank	36	53	139	149	1	80	28	31
Domestic logistics costs	score	3.2	3.3	2.1	2.9	2.7	3.2	3.1	3.0
	rank	28	17	146	76	113	27	36	72
Timeliness	score	3.9	3.2	2.8	2.1	4.5	3.1	4.0	3.7
	rank	28	65	102	147	1	74	26	36

Source: World Bank, *Connecting to Compete: Trade Logistics in the Global Economy: The Logistics Performance Index and Its Indicators*. Washington, DC, 2007.

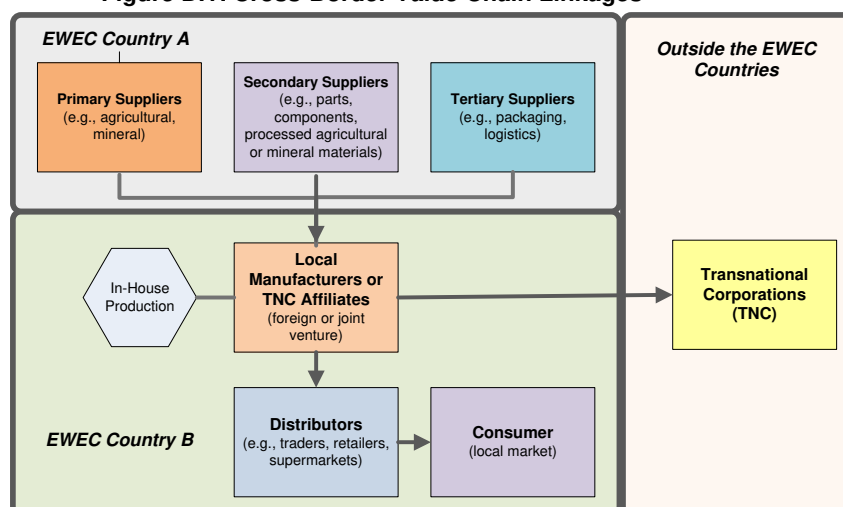
Annex D: Value Chains in EWEC

The Role of MSMEs in Value Chains – Value chains refer to the value-adding activities of an organization, which are classified into (a) primary activities like inbound logistics, production operations, outbound logistics, marketing and sales, and service maintenance; and (b) support activities that include administrative infrastructure management, human resource management, information technology and procurement. MSMEs can provide all of these value-adding activities for large enterprises. The focus of value chain analysis is on backward linkages that occur when large companies in the form of either domestic or transnational companies outsource activities to buy parts, components, materials and services from MSME suppliers, forming either arm's-length transactions or close inter-firm cooperation (Figure D.1).

Value Chains in the GMS – Value chains have been promoted as the main engine for private sector development in the GMS. The argument usually advanced is that value chains can provide MSMEs with access to markets and technology, encourage business linkages, and facilitate the upgrading of skills and create links with international companies. Many MSMEs are hampered from full participation in the globalization process by numerous internal and external obstacles. By integrating their activities into international chains of production at various stages of added value, MSMEs can reap the potential

benefits of global trade. For the GMS corridor initiatives there are additional advantages to cross-border supply chains that take advantage of the geographic proximity of MSME linkages to large companies in neighboring countries, since distance is one of the most stable determinants of successful value chain relationships.¹¹⁶ In that sense, buyer-supplier relationships in cross-border value chains are replacing cross-border trade based on market determined transactions. The reduction of tariffs by EWEC member countries under the Common Effective Preferential Tariff (CEPT) ASEAN Free Trade Area (AFTA) to between 0 and 5 percent has made those cross-border buyer-seller relationships all the more attractive.¹¹⁷

Figure D.1: Cross-Border Value Chain Linkages



¹¹⁶ Distance, economic size and capital abundance have been found to be the three key determining factors for most value-chain relationships in the work of C. Canals and M. Noguera, "The Determinants of Cross-Border Investment: A Value-Chain Analysis". La Caixa. Working Paper Series No. 05/2006, December 2006.

¹¹⁷ Thailand has eliminated duties under the CEPT-AFTA, while Lao PDR, Myanmar and Vietnam have reduced their tariffs to 0-5 percent and will eliminate them in 2010.



The changing regional and international context and the growing role of value chains in production and trade suggests that much of the potential growth for MSMEs will be situated in or around integrated cross-border production systems in the EWEC.

Important Caveats – Experience in the GMS countries and global markets in general shows that value chains are not, in and of themselves, a panacea for MSME development:

- First, MSME-related value chain activities in countries like Thailand have flourished during periods of rapid national and international market growth, but linkages to large companies have been broken during periods of sluggish growth and market contractions. During periods of cyclical or structural downturns, large companies cut costs by downsizing business activities through cuts in personnel and elimination of suppliers, a process that is often unplanned and unorganized.¹¹⁸ The role of MSMEs is to then become a buffer for absorbing unemployed workers from large firms and offer the added benefit of preparing new entrepreneurs for eventual graduation into large firms when the economy recovers.
- Secondly, under the current global financial crisis, many companies are tightening up supply chains. Countries are adopting strategies to mitigate supply chain risk by adopting performance-based contracts with suppliers or service providers, closer collaborative relations with trading partners, and multi-sourcing strategies and using redundant suppliers. According to a recent survey of global companies, closer collaborative relations are being reflected in increased near-shore sourcing and manufacturing activities, as companies favor regions like Eastern and Central Europe over China and other East Asian countries.¹¹⁹ The situation in the GMS countries is compounded by weakening export growth and softening industrial production, as well as falling prices for high value added products like coffee and other agricultural products.
- Finally, the fact that MSME activities in countries like Vietnam have been unable to integrate into large-scale business relationships because they lack international standards and quality controls underscores the importance of established supply contracts based on good business practices. Good business practices for MSME linkages to large enterprises are generally recognized to follow established guidelines:
 - ✓ Improving products and services of local suppliers through technology transfer and skills upgrading that give local suppliers the ability to meet international production and quality standards;
 - ✓ Implementing policy initiatives that promote an enabling environment for the private sector, emphasizing taxation, infrastructure, red tape reduction, intellectual property protection, competition policy, finance, and measures that impact the overall competitiveness of an economy;
 - ✓ Strengthening the supply capacity of local MSMEs in different fields, ranging from technical skills in production processes to management competences;
 - ✓ Improving access to finance and non-financial business services with specialized competencies in different fields;

¹¹⁸ A. Sinha, "Experience of SMEs in South and South-east Asia", South-Asia Enterprise Development Facility (SEDF), Research Paper, December 2003.

¹¹⁹ Based on a survey of 130 global companies by AMR Research reported in Global Supply Chain Council, "China still contributes the most risk to global supply chains". 17 December 2008. Available: <http://www.supplychain.cn/en/art/?2679>.



- ✓ Promoting the development of industrial clusters that generate economies of scale and agglomeration can help to develop a network of firms cooperating in complementary areas of specialization.¹²⁰

In the latter case, the Government of Vietnam recognizes the fact that MSMEs often do not have access to industrial parks and special economic zones because they are geared towards larger sized enterprises.¹²¹ To remedy the situation, the Government has initiated programs to create ground areas for MSME-based activities at the local level and through the establishment of number of industrial complexes specifically geared towards those types of enterprises.

Review of Value Chains for GMS and EWEC –

- *Linking Greater Mekong Subregion Enterprises to International Markets: The Role of Global Value Chains, International Production Networks and Enterprise Clusters.*¹²² Report describing global value chains and opportunities to implement them in the GMS.
- *Global Value Chain: the Role of EWEC in Logistics Planning case: the Northeast of Thailand.*¹²³ Study produced at the Northeastern Strategic Institute of Khon Khen describes a number of opportunities along the EWEC and provides some details about value chains in the sugar, parts assembly (electronic devices) industries of the northwest of Thailand.
- *Emergence of Global Value Chains and SMEs' Challenges and Opportunities in the GMS.*¹²⁴ Presentation on SME opportunities in global value chains, including recommendations for implementing them in the GMS countries.
- *The Role of Global Value Chains in Agribusiness SME Development in the GMS.*¹²⁵ Study presents a value chain analysis of an organic vegetable company in Yunnan Province, China, that targets Thai fruits and vegetable markets. Includes recommendations for integration of GMS agribusiness into global value chains.
- *Developing improved supply chains for temperate fruit in transitional Asian economies of Thailand and Vietnam.*¹²⁶ Survey showing that effective use of value chains for fruits and vegetables in Thailand and Vietnam requires infrastructure upgrading in terms of roads, irrigation and other production facilities, as well as research and development support, extension services, technical know-how and

¹²⁰ UNCTAD, "Developing Business Linkages". Report TD/B/COM.3/EM.28.2, 9 October 2006.

¹²¹ Uni-Bros' News, "SME National Week 2008: Cooperation for Joint Development". 27 November 2008.

¹²² UNESCAP, "Linking Greater Mekong Subregion Enterprises to International Markets: The Role of Global Value Chains, International Production Networks and Enterprise Clusters". Studies in Trade and Investment No. 59. November 2006.

¹²³ W. Sessomboon, "Global Value Chain: The Role of EWEC in Logistics Planning case: the Northeast of Thailand". Northeastern Strategic Institute, Khon Kaen University. Presented to the Second GMS-BF East West Economic Corridor Conference. New World Hotel, Saigon, Ho Chi Minh City, Vietnam, March 26-27, 2006.

¹²⁴ M. Abe, "Emergence of Global Value Chains and SMEs' Challenges / Opportunities in the GMS". Trade and Investment Division, UNESCAP, March 2006.

¹²⁵ A. Zola, "The Role of Global Value Chains in Agribusiness SME Development in the GMS". Presented to the Expert Group Meeting on Promoting SMEs' Participation in Global Value Chains in the Greater Mekong Subregion, Kunming, 7-10 March 2006.

¹²⁶ Nissen, R.J., et al. "Developing improved supply chains for temperate fruit in transitional Asian economies of Thailand and Vietnam. *Acta Horticulturae*, 699: 335-344, 2006.



adequate credit facilities.

- *The Adoption of Rattan Cultivation for Edible Shoot Production in Lao PDR and Thailand—From Non Timber Forest Product to Cash Crop.*¹²⁷ Discusses rattan as a potentially large non-timber forest product (NTFP) industry for Laos, and reviews production and processing expansion through the assistance of some donors like the World Wildlife Federation (WWF) and the Netherlands Development Organization (SNV), in collaboration with Forest Research Center (FRC) of the National Agriculture and Forest Research Institute (NAFRI). The main commercial species are exported to neighboring countries, although edible shoots of rattans are considered a delicacy in Laos, and there is currently cultivation of rattans to produce edible shoots, based on technology from Northern Thailand.

Review of Value Chains for EWEC Area in Vietnam –

- *Linking the Poor with Rice Value Chains.*¹²⁸ Study outlining issues confronting rice production in Vietnam (inability of small rice farmers to escape poverty, fragmentation of production, and dominance of government exports) through collective action among farmers; collaboration among farmers, the state, scientific researchers, and commercial enterprises; adding value by developing niche products; and vertical coordination and value chain management.
- *Cases of Successful Links between Small-Scale Producers and Markets.*¹²⁹ Case studies of entrepreneurs setting up businesses in Vietnam, and developing successful links to markets, focusing on the participation of the poor in both global and local value chains.
- *Linking Farmers to Markets through Contract Farming.*¹³⁰ Contains several papers on a the M4P Project covering value-chains on tea and cassava, and another on supermarkets. The papers include one on value chain application issue in Vietnam, and others on the application of supply chains for rice, sugar and other agricultural products.
- *Making the most of market chains. Challenges for small scale farmers and traders in upland Vietnam.*¹³¹ A study on maximizing the value chain in Vietnam, emphasizing problems in tax and multiple fees, government policy implementation and excessive focus on technical assistance at the expenses of support in information and marketing.
- *The participation of the poor in supermarkets and other distribution value chains.*¹³²

¹²⁷ Evans, T.D., and Sengdala, K., "The Adoption of Rattan Cultivation for Edible Shoot Production in Lao PDR and Thailand—From Non Timber Forest Product to Cash Crop". BioOne, Economic Botany, Volume 56, Issue 2 (April 2002).

¹²⁸ Agrifood Consulting "Linking the Poor with Rice Value Chains", Making Markets Work Better for the Poor Briefing No.1., 2004.

¹²⁹ ADB, "Cases of Successful Links between Small-Scale Producers and Markets". Manila, 2004.

¹³⁰ ADB, "Linking Farmers to Markets through Contract Farming". Proceedings of a M4P / An Giang University Workshop. Manila, 2005.

¹³¹ Le Thi Phi et al., *Making the most of market chains. Challenges for small scale farmers and traders in upland Vietnam*. IIED and SIDA. London, 2004.

¹³² P. Moustier and al, "The participation of the poor in supermarkets and other distribution value chains". Making Markets Work Better for the Poor Project and MALICA, and CIRAD, IOS, RIFAV, VAAS-ASD and Nong Lam University, 2005.



Study discussing potential ways that small-scale farmers can form associations and develop quality guarantee systems to use supermarkets as distribution chains for their products. It contains an extensive analysis of the situation prevailing in Vietnam.

- *The participation of the poor in the value chain for tea.*¹³³ Study on institutional linkages connecting poor farmers to the tea value chain in Vietnam, including a number of recommendations on how to improve collaboration among farmers to upgrade value chain linkages and improve the enabling environment in the value chain, particularly in terms of credit access, regulatory enforcement technical training, and market information.

Review of Value Chains for EWEC Area in Lao PDR¹³⁴ –

- *Participative Analysis of Coffee Supply Chain in Lao PDR*¹³⁵ Study examining weaknesses in the coffee supply chain process: (i) high formal and unofficial transactions costs; (ii) lack of organization among producers; (iii) weak linkages between Lao exporters and international markets due to the widespread use of coffee traders; (iv) dominance of one company in the supply chain; (v) lack of organizational capacity among the main coffee actors; and (vi) dominance of Coffee Growers Association over all coffee exporting activities
- *An Economic Analysis of Lao Coffee Export Competitiveness*¹³⁶ Study examining the reasons why Lao coffee farmers are unable to take advantage of their organic product, viz., (i) without extension services, farmers have poor on-farm technical skills and poor post-harvest handling, all contributing to low yield, poor quality control, poor product quality, and limited volume of marketable product; (ii) lack of marketing facilities prevents them from linking with key buyers in the international coffee market; (iii) branding of Lao coffee has not occurred; and (iv) the Coffee Growers Association of Lao lacks the capacity to promote its organic coffee and reap higher prices.
- *Regional Development in the Lao PDR.*¹³⁷ Describes in detail the value chain for coffee from southern Lao PDR and Lao coffee, showing that there has been a shift from a complicated value chain that incurred high transactions costs and limited value added to a structure where Lao producers create a larger share of the value added. Direct control over coffee production and coffee sales, and marketing has

¹³³ [various unnamed authors] “The participation of the poor in the value chain for tea”. MMW4P’s Discussion Paper No 1. Informatics Center for Agricultural and Rural Development (ICARD) of the Ministry of Agriculture and Rural Development, the Viet Nam Tea Research Institute (VTRI), and international consultants from Agrifood Consulting International (ACI), undated.

¹³⁴ Although reports are unavailable, it is important to mention that a NTFP-focused project has been operating in Lao PDR since 1995 with funding by the Netherlands Government. Under this project, the National Agriculture and Forestry Institute (NAFRI) began implementation in 2004 of the “marketing system development for non-wood forest products project” in three provinces, including Savannakhet and Champasack. The NTFP products selected for Savannakhet, as well as Champasack, are rattan and mushrooms, with the objective of establishing a model for developing marketing systems for priority NTFP that enable local communities to identify potential products and develop markets.

¹³⁵ Galindo, J., Sallee, B. et al., “Participative Analysis of Coffee Supply Chain in Lao PDR”. Groupe de Travail Café (GTC).

¹³⁶ Khammoungkhoun, Somchit; Chanthanasinh, Vadsana; and Bounlavong, Sengsaden, “An Economic Analysis of Lao Coffee Export Competitiveness”. AusAID Trade Analysis and Reform Project, April 2007.

¹³⁷ SIDA, “Regional Development in the Lao PDR”. Country Economic Report 2007:3, May 2007.



increasingly focused on niche markets. It argues that increased GMS integration has offered the Lao private sector better opportunities for market expansion through stronger linkages to the global transportation networks, primarily through ports and airports in Thailand, and the observed upgrading in the coffee value chain in Lao PDR can serve as a good example of how further integration with the closest neighbors can facilitate the linkages to the world economy in the GMS in general and the EWEC in particular.

Review of Value Chains for EWEC Area in Thailand –

- *Northeast Thailand Rice Value Chain Study*.¹³⁸ Report examines challenges facing Thailand's rice industry in maintaining its competitiveness in the global value chain. It covers the northeast EWEC regions, where larger mills are fully integrated into value chains, and examines alternative marketing for domestic and export markets.
- *Capital Expansion and Migrant Workers: Flexible Labor in the Thai - Burma Border Economy*.¹³⁹ Study on textile and garment value chains along Thai-Burmese border, including Mae Sot along the EWEC, where the study finds that many manufacturers are at the bottom of the value chain. For Mae Sot, where Burmese migrant workers dominate employment in those industries located in SEZs, the study contains detailed information about conditions in the factories and labor relations among different factories based on national ownership.
- *Power Relationships along the Value Chain: Multinational Firms, Global Buyers, and Local Suppliers' Performance*.¹⁴⁰ Study of global and domestic value chains in Thailand, focusing on quantitative measures of governance that take into account different levels and types of buyers' involvement with suppliers' activities. The authors apply econometric techniques to measure suppliers' performances, finding that for Thailand the relationships MNCs have with their suppliers is multifold and generally more intense than for domestic value chains.
- *Export Performance, Foreign Ownership, and Trade Policy Regime: Evidence from Thai Manufacturing*.¹⁴¹ Examines the determinants of a firm's export decision and the role of multinational corporations (MNCs) in generating export spillovers to domestically owned firms, and shows that MNCs tend to be more export-oriented than indigenous firms and the entry of the former stimulates the latter to become involved in the production of exports.
- *Agri-Supply Chain Management to Stimulate Cross-Border Trade in Developing Countries and Emerging Economies*.¹⁴² Contains case study of fresh foods supply chain in Thailand. Discusses how smallholders are involved in the TOPS supplier

¹³⁸ Agrifood Consulting International, "Northeast Thailand Rice Value Chain Study". Project Brief Series, 2005.

¹³⁹ SIDA, "Capital Expansion and Migrant Workers: Flexible Labor in the Thai - Burma Border Economy". *Human Rights in Asia Series*. Mahidol University, 2007.

¹⁴⁰ C. Pietrobelli and F. Saliola, "Power Relationships along the Value Chain: Multinational Firms, Global Buyers, and Local Suppliers' Performance". Centro di Ricerca Interdipartimentale di Economia delle Istituzioni (CREI). CREI Working Paper no. 2/2007.

¹⁴¹ J. Jongwanich and A. Kohpaiboon, "Export Performance, Foreign Ownership, and Trade Policy Regime: Evidence from Thai Manufacturing". Manila, Asian Development Bank. Working Paper Series No. 140, December 2008.

¹⁴² J. Jan van Roekel, S. Willems, and D.M. Boselie, "Agri-Supply Chain Management to Stimulate Cross-Border Trade in Developing Countries and Emerging Economies". Agri Chain Competence center, and Agricultural Economics Research Institute (LEI), 2002.



network, first, via the network of contract farmers and buyers who are preferred suppliers because of their ability to exert backwards control on the supply chain and, second, via the recent phenomenon of informal farmers' associations.

Common Difficulties and Remedies – Despite important differences among EWEC member countries and regions within them, there are a number of common adversities facing MSMEs throughout the Corridor: lack of market information; restricted access to technology; shortage of funds for setting up business channels; lack of experience in international business practice. To remedy this situation, a number of innovative policies are being adopted:

- ✚ Improving the general business environment and infrastructure. In Laos, for example, commercialization of fruits and vegetables in the southern provinces is underdeveloped and market signals are lacking in rural areas. As a result, there are large price variations across different localities far exceeded those that would otherwise be explained by transportation cost differentials.¹⁴³ Feeder roads along Route 9 in Savannakhet are providing access to markets for remote villages, which are helping farmers integrate their operations into commercial systems.
- ✚ Adopting specific policies to attract foreign direct investment and encourage business linkages. In Thailand network relationships have gained large importance in global value chains as a mechanism of coordination between firms.¹⁴⁴ The critical feature is that this type of relationship between a firm and its suppliers is not based on ownership, but nevertheless implies a degree of coordination which can be very high. Relying on factors such as the ownership of brand names, proprietary technology, or the exclusive information about different product markets, lead firms act as governors of the chain by setting the conditions of the participation of the other agents in the chain. These would include, typically, process and product standards, quantity and terms of delivery. Another example is in Vietnam's aqua cultured shrimp farming in Danang, where local suppliers have established relationships with companies in HCMC supplying the Japanese market using networks that provide information on price and access to credit.¹⁴⁵ Nevertheless, in comparison with shrimp processing companies in Thailand, there is a relatively low degree of product upgrading through feed, consulting services and laboratory work, a situation that could be remedied through increased cross-border value chains with Thai companies.
- ✚ Making available information and opportunities for business linkages. In Thailand, for example, the Board of Investment (BOI) has established a program under its Unit for Industrial Linkage Development (BUILD) to act as a go-between Thai and foreign customers and local suppliers to use technology transfer to reduce imports of parts and components, thereby linking Thai suppliers with large companies and strengthening the role of part makers in Thailand.

¹⁴³ R. van der Weide, "The Variation in Prices for Various Commodities in Lao PDR". Draft Report, undated.

¹⁴⁴ For an analysis of Thailand's global and domestic value chain involving different levels of and types of buyers' involvement with suppliers' activities, see C. Pietrobelli and F. Saliola, "Power Relationships along the Value Chain: Multinational Firms, Global Buyers, and Local Suppliers' Performance". Centro di Ricerca Interdipartimentale di Economia delle Istituzioni (CREI). CREI Working Paper no. 2/2007.

¹⁴⁵ J. Lindahl, "Vietnam's seafood industry: A socially embedded division of state owned and local Chinese owned enterprises in regional value chains?". International Development Studies, Roskilde University (undated).



- ✚ Providing capacity-building and training to upgrade the skills and competitiveness of MSME suppliers. In Vietnam, for example, market development linking business development service (BDS) providers to clients in the shrimp industry of Da Nang have benefitted from the experience of Thai BDS providers in targeting BDS market development in an effort to better service the needs of MSMEs.¹⁴⁶ But there remain fundamental difficulties with micro and small businesses in the Lao portion of the EWEC and these difficulties are addressed in Chapter 7.

¹⁴⁶ See World Bank, “Small and Medium Enterprises Partnership Group”. Updated December 2007; and A.O. Miehlsbradt, “Business Development Services in Viet Nam A Study to Assess the Market for BDS among 1,200 Small and Medium Enterprises in Ha Noi, Ho Chi Minh City, Da Nang, Hai Phong, Dong Nai and Binh Duong”. SME Promotion Project of German Technical Cooperation (GTZ), Viet Nam and Swisscontact SME Promotion Program, Viet Nam, 2002.



ANNEX E: EWEC PROJECT INITIATIVES THROUGH 2007

Sector	Project	Description	Status	Implementation Schedule/Date	Executing Agency	Estimated Cost (US\$ Million)	Financing (US\$ Million)
TRANSPORT							
Transport	Da Nang Port Improvement	The project included upgrading of two terminals, construction of a 250-m long breakwater and a four-lane, 15-km access road from the port to Highway 1. Project aims to increase port throughput capacity by up to 2.5M tons per year by 2005, and enable handling of up to 35,000 deadweight tons (dwt) ships. Civil works began in November 2001.	Completed	2001-2004	Ministry of Transport of Viet Nam	US\$124	Funded by the Japan Bank for International Cooperation (JBIC) and the Government of Viet Nam
Transport	Hai Van Tunnel	A 6.28km tunnel on National Road No. 1 (NR1) between Hue and Da Nang. The tunnel reduces the distance between Da Nang and Hue by 20km and saves between 30 minutes and an hour on traveling times over the old Hai Van Pass route. Route planning and design work started in January 1998 and officially opened in June 2005. The main tunnel is 11.9 meters wide, and a second tunnel running alongside the main tunnel is used for maintenance and emergencies and is planned to expand at a later date as traffic increases. Currently the single tunnel has one lane of traffic in each direction	Completed	June 2005	Joint venture between Nippon Koei Company Limited Japan and Louis Berger International Inc., USA.	US\$251	Funded by Japan Bank for International Co-operation (JBIC) in the amount of \$200 million.
Transport	Route 9 in Laos	Muang Phin-Dansavannh (Savannakhet, Lao PDR)	Completed	2005	Lao PDR component, Ministry of Communications, Transport, Post and Construction (MCTPC)	US\$40	Funded by ADB through loan
Transport	Route 9 in Vietnam	Lao Bao-Dong Ha (Viet Nam)	Completed	2005	Ministry of Transport.	US\$36	Funded by ADB through loan
Transport	Route 9 in Laos and Vietnam	The project provided (i) EWEC access through the rehabilitation of Road 9 in the Lao PDR (about 78km) and the upgrading and partial rehabilitation of Road 9 in Viet Nam (about 83 km); (ii) enable the poor and disadvantaged groups living in rural communities to gain access to markets, employment opportunities and social services through the construction and improvement of rural roads, small bridges, river crossing systems, and other rural	Completed	2001-2004	For the Lao PDR component, Ministry of Communications, Transport, Post and Construction (MCTPC); For the Vietnam component, Ministry of Transport.	US\$205	US\$32M; Government: US\$28M; JICA and JBIC US\$145M.



Sector	Project	Description	Status	Implementation Schedule/Date	Executing Agency	Estimated Cost (US\$ Million)	Financing (US\$ Million)
		infrastructure in the project area; (iii) strengthen environmental and social governance through the implementation of migration measures.					
Transport	Route 9 Improvement in Laos	Xeno- Muang Phin (Savannakhet, Lao PDR). Improvement for this 130-km road section from Seno-Phalan (70 km) and Phalan-Muang Phin (60 km).	Completed	NA	Ministry of Communication, Transport, Post and Construction of Laos	US\$65	Funded by Japan Bank for International Co-operation (JBIC)
Transport	Second Friendship Bridge.	Construction of the Mukdahan-Savannakhet Second Mekong International Bridge and approach roads 6km, bridge length 1.6km, opened in early 2007.	Completed	December 2006	Japan International Cooperation Agency (JICA) technical cooperation for bridge design; Japan Bank for International Cooperation (JIBC) provided ODA loan support for construction.	US\$76.3	Funded by the Japan Bank for International Cooperation (JBIC) in the amount of \$37.8 million to Lao PDR and \$38.5 million Thailand.
Transport	Highways 105/12/209/213/2042: Mae Sot-Mukdahan	The project involves the improvement of Highways 105/12/209/213/2042: Mae Sot-Mukdahan 770km, progressive widening to 4-lane, 233km completed; 75km under construction, additional 262km to be widened in 10th Plan 2007-11. The completed 4-lane section are as follows: Sukhothai by-pass (27km), Phitsanulok-Wang Thong (18km), Nong Rua-Khon Kean (53km), Yang Talat-Kalasin (24km), Khon Kaen-Yang Talat including Khon Kaen by-pass (67km), Phitsanulok by-pass (27km), Mukdahan-Kham Cha-I section2 (18km). The ongoing widening projects are: Mae Sot-Nam Moei (9km), Phitsanulok-Sukhothai (49km), Mukdahan-Kham Cha-I section1 (17km).	Ongoing	NA	Ministry of Transport of Thailand, Department of Highways	NA	Project being financed by Thai government and loan from the Japan Bank for International Cooperation (JBIC).
Transport	Mukdahan-Sa Kaeo-Laem Chabang, missing links construction	The project will involve the construction of missing links along Mukdahan-Sa Kaeo-Laem Chabang.	Ongoing	NA	Ministry of Transport of Thailand, Department of Highways	NA	Ministry of Communication, Transport, Post and Construction of Lao PDR; Ministry of Transport of Thailand, Department of Highways
Transport	EWEC Road: Mawlamyine-	The project will involve the improvement of the road in Myanmar from Myawaddy to Mawlamyine using	Ongoing	2002-ongoing	Ministry of Rail, Transportation,	US\$100	Government of Thailand grant.



Sector	Project	Description	Status	Implementation Schedule/Date	Executing Agency	Estimated Cost (US\$ Million)	Financing (US\$ Million)
	Myawaddy section (Myanmar)	the following routes: (i) Myawaddy-Kawkareik-Paan-Mawlamyine; and (ii) Myawaddy-Kawkareik-Mudon-Mawlamyine, to complete the western end of the East West Economic Corridor. Part of the road between Thingannyinaug and Myawady on the border with Thailand was completed in June 2006 with grant aid from the Government of Thailand.			Road Transport Administration Department, Myanmar		
TRADE AND INVESTMENT							
Trade and Investment	INV004: Facilitating Cross-Border Trade and Investment for Small and Medium Enterprise Development in the GMS	The project promoted the competitiveness of the GMS through cross-border trade and investment facilitation which will benefit small and medium enterprises in the region. This is addressed through three components (i) trade and investment information to overcome existing information inadequacies for trade and investment at the cross-border areas; (ii) support to small and medium sized enterprises provided by a new institution the GMS Business Forum; and (iii) trade and customs facilitation to pilot the implementation of single-stop customs inspection procedures at selected border crossings.	Completed	2001-2006	GMS Business Forum and the GMS-BF Board of Directors (including the six regional chambers of commerce, UNESCAP, ADB)	US\$0.9	\$0.9 million, of which ADB-JSF: US\$600,000; Government US\$300,000.
Trade and Investment	TRD002: Cross-Border Movement of Goods and People in the Greater Mekong Subregion	The object of the project is to promote the formulation and implementation of cross-border agreements. The project comprised two parts: (i) preparation of a basic framework to act as a model agreement for the future development of bilateral or multilateral agreements; and (ii) comprehensively informing all concerned national agencies of the problems and their solutions through the conduct of country workshops. The project also provided assistance in the setting up of the National Facilitation Committee.	Completed	July 1999 - December 2005	ADB	US\$1.0	\$0.99 million, of which ADB assisted (JSF): \$950,00. Government: \$40,000.
Trade and Investment	TRD005: Implementation of the Greater Mekong Subregion Cross-Border Transport Agreement	The project aimed to contribute to rapid and sustainable economic growth resulting from increased trade and investment. The outputs of the project were (i) shortened border crossing clearance times at key border crossings; (ii) finalized arrangements for Cross-Border Transport Agreement (CBTA) implementation at a second set of border crossings; (iii) recommendations to maximize benefits and address limitations of the implementation of the CBTA; and (iv) strengthened	Ongoing	March 2006-August 2007	ADB	US\$1.9	\$1.86 million, of which ADB assisted (PRC Fund): \$800,00. Government: \$60,000; AusAID US\$1M.



Sector	Project	Description	Status	Implementation Schedule/Date	Executing Agency	Estimated Cost (US\$ Million)	Financing (US\$ Million)
		National Transport Facilitation Committees (NTFCs).					
Trade and Investment	TRD007: Trade Flow and Logistics Analysis Study.	The project provides detailed information on the costs and barriers to moving goods along the EWEC and NSEC. The objective of the exercise is to provide information and analysis on the infrastructure, clearance procedures, freight cost structure and time required of freight activities on the select routes. The results are published in a report entitled, "Report on the Study of the Greater Mekong Subregion North-South And East-West Economic Corridors"	Completed	2005	ADB	NA	NA
TOURISM							
Tourism	East West Economic Corridor (EWEC) Tourism Development Study	The project analyzes the tourism development needs of the EWEC corridor. The scope includes:(i) Tourism Centre in Lao, between Thailand and Vietnam, (ii) Tourism Infrastructure Development Requirements, (iii) Marketing Tourism in the EWEC (in the context of the GMS Strategy), (iv) Training in Basic Skills for EWEC Tourism Officials, (v) Program to Promote Overland Tours in the EWEC, (vi) Program to Promote Buddhist Pilgrimage Tourism in the EWEC, (vii) Program to Promote War Memorial Tourism in the EWEC, (viii) Feasibility study for Cruise Tourism at the ends of the EWEC, (ix) Program to Promote Eco tourism in the EWEC, (x) Program to Promote Agro tourism, (xi) Other as suggested by the four Countries.	Ongoing		Lao PDR	US\$21.3	Included in ADB's GMS Tourism Sector Strategy (2006-2010).
Tourism	Tourism Development in the East-West Corridor Project	In cooperation with the Lao National Tourism Administration (LNTA) and Savannakhet Province, this technical cooperation project aims encourage tourism development thorough capacity building, in order to contribute sustainability in East-West corridor.					Included in ADB's GMS Tourism Sector Strategy (2006-2010).
Tourism	TOU015: Human Resource Development and Capacity Building in the Greater Mekong Subregion (Target: Hospitality Skills	The project aims to train a corps of master hospitality skills trainers in each GMS country who in turn, will train other trainers in their respective countries in a cascade effect. This strategy will address the need to train prospective employees and retrain the thousands of employees currently employed in hotels, guest houses, restaurants, and other tourist-oriented establishments. ASEAN countries, of which 5 GMS countries are members,	Proposed	2006-2010	Mekong Tourism (Coordination) Office	US\$2.5	















Sector	Project	Description	Status	Implementation Schedule/Date	Executing Agency	Estimated Cost (US\$ Million)	Financing (US\$ Million)
	Trainers in Vocational Institutions)	are in the process of adopting common skills standards in hospitality. These standards will be used as a basis for the training. The project will adopt existing train-the-trainers programs in the region which are deemed to be successful; translate the training manuals into the GMS languages; develop teacher training kits and translate these to the GMS languages; digitize the training manuals (CD ROMs); and make them available on a web-based Knowledge Center which will be accessible to a wide audience in the GMS. The train the trainers programs for the master trainers will be conducted in English in a common center in one of the GMS countries but the echo or cascade programs will be conducted in each country in the national language to ensure that owners of the smaller lodging establishments and restaurants/F & B outlets will also have the opportunity to be trained as trainers.					













Annex F: Photos of Eastern EWEC Section

		<p>Da Nang Port (Vietnam)</p>
		<p>Hai Van Tunnel (Route No.1 between Hue and Da Nang, Vietnam)</p>
		<p>Lao PDR-Vietnam Border Crossing: Dansavanh border checkpoint (Lao PDR); and Laobao border checkpoint (Vietnam)</p>
		<p>Bonded warehouse in border checkpoint of Savannakhet (Laos); and Lao Bao (Vietnam) schematic diagram of border checkpoint.</p>
		<p>Route 9 in Savannakhet (Lao PDR) with recent rain damage and possible use by trucks exceeding 9 ton per axle</p>
		<p>Informal trade along Lao PDR – Vietnam border in Savannakhet. Goods being trucked from Thailand to Vietnam along</p>

		<p>Savannakhet Casino under construction in Savannakhet</p>
		<p>Traditional natural dye process in silk clothes</p>
		<p>tourism shop in Savannakhet and bus service bringing Thai tourists into Savannakhet on their way to Hue and</p>
		<p>2nd Friendship Bridge between Mukdahan (Thailand) and Savannakhet (Lao PDR); Savannakhet border checkpoint (Lao PDR).</p>
		<p>Colonial section of downtown Savannakhet</p>
		<p>Downtown Savannakhet and new 4-star hotel under construction overlooking Mekong River</p>

		<p>Savannakhet Special Economic Zone Area C vision and land availability</p>
		<p>Mukdahan custom border (Thailand-Lao PDR) and Indo China Market</p>
		<p>Kaew Tower in Mukdahan and landscape view of the city from the tower</p>
		<p>Khon Kaen University</p>
		<p>Rice harvesting in Khon Kaen</p>
		<p>Market in Khon Kaen</p>



		<p>Road condition and congestion of traffic on Route A12 from Khon Kaen to Phitsanulok</p>
		<p>Sugarcane factory in Khon Kaen</p>
		<p>Trucks and road condition route A12 Khon Kaen -Phitsanulok</p>
		<p>Road during construction on Route A12 between Khon Kaen and Phitsaulok</p>
		<p>Local products to market on Route A12 between Khon Kaen and Phitsanulok</p>
		<p>Traffic on Route A12 between Khon Kaen and Phitsanulok</p>

		<p>Route 12 between Khon Kaen and Phitsanulok</p>
		<p>Indochina Intersection. Sign show direction from Phitsanulok to Danang(Vietnam), Kun Ming(China) and Kuala Lumpur (Malaysia)</p>
		<p>Naresuan University in Phitsanulok</p>
		<p>Tourist attraction Phra Si Mahathat Temple (Praphutthachinnarat) image Buddha and Phu Hin Rong Kla National Park in Phitsanulok</p>
		<p>Kang Sopa Waterfall at Tung Salang Laung National Park in Phitsanulok</p>
		<p>Rice and Nam Dok Mai Mango are among the main agriculture products of Phitsanulok</p>
		<p>Maize and cassava crops in Phitsanulok</p>