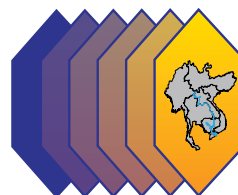


STRATEGY and ACTION PLAN for the GREATER MEKONG SUBREGION EAST–WEST ECONOMIC CORRIDOR



STRATEGY and ACTION PLAN
for the GREATER MEKONG SUBREGION
EAST–WEST ECONOMIC CORRIDOR



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Abbreviations

ADB	–	Asian Development Bank
AFTA	–	ASEAN Free Trade Area
ASEAN	–	Association of Southeast Asian Nations
AusAID	–	Australian Agency for International Development
BCI	–	Biodiversity Conservation Corridor Initiative
BDS	–	business development service
CBTA	–	Cross-Border Transport Agreement
CEP	–	Core Environment Program
CEPT	–	common effective preferential tariff
ECF	–	Economic Corridors Forum
EOC	–	Environment Operations Center
ERIA	–	Economic Research Institute for ASEAN and East Asia
EWEC	–	East–West Economic Corridor
EWEC-2	–	Second East–West Economic Corridor
FRETA	–	Freight Transport Association
GDP	–	gross domestic product
GMS	–	Greater Mekong Subregion
GMS-BF	–	GMS Business Forum
GTZ	–	Deutsche Gesellschaft für Technische Zusammenarbeit
JBIC	–	Japan Bank for International Cooperation
JICA	–	Japan International Cooperation Agency
MSE	–	micro and small-scale enterprise
MSMEs	–	micro, small, and medium-sized enterprises
MTDP	–	Mekong Tourism Development Project
NGO	–	nongovernment organization
NSEC	–	North–South Economic Corridor
ODA	–	official development assistance
SEDP	–	Socio-Economic Development Plan
SEZ	–	special economic zone

- SMEs – small and medium-sized enterprises
- SPS – sanitary and phytosanitary
- TDF – Trade Development Facility
- UNESCO – United Nations Education, Scientific and Cultural Organization
- WGA – Working Group on Agriculture
- WTO – World Trade Organization

Executive Summary

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 (ADB) 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 – This report aims 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 socioeconomic 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 multimodal 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 EWEC member countries, representatives of the private sector, nongovernment organizations (NGOs), and development partners. The consultations were initially held between September and November 2008 in each country 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 multisectoral perspective, covering spatial and socioeconomic progress over the last 10 years, and addressing practical infrastructure, human resource, policy, regulatory, and institutional barriers to trade, investment, and the movement of people and goods. 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 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 (i) to enhance connectivity of the corridor areas by reducing cross-border transactions and transportation costs; (ii) 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; (iii) to empower the private sector by promoting joint financial, technological, marketing, production, and other collaborations in the EWEC areas; and (iv) 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 subregion 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 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, GMS Freight Transport Association (FRETA), Mekong Tourism Development Project (MTDP), and the Environment Operations Center (EOC) 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 and 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 commercial activities for microenterprises and small and medium-sized enterprises (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 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 business development service 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 Special Economic Zones (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.

Reducing Poverty and Ensuring Environmental Sustainability – The strategic objective for reducing poverty and inequality in the EWEC is to support rural and border area development in a manner that provides jobs and increases the earnings of low-income groups. It also seeks to enhance mobility along the EWEC, especially across borders, to enable rural communities that include ethnic groups and women gain access to markets, jobs, and social services. Since growth as an engine of poverty reduction 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; strengthening 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 to maintain the quality of ecosystems 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 multimodal 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 \$1.5 billion over a 5-year period (2008–2012), equivalent to an average of \$300 million a year. This amount compares with \$5.0 billion over the same 5-year period for the North–South Economic Corridor. Of the currently budgeted amount for the EWEC, about 90% is for transport infrastructure and the remaining 10% 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.

Background and Accomplishments

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 kilometers (km) as a continuous land route between the Andaman Sea in the Indian Ocean and the South China Sea (Figure 1.1).¹ The provinces bordering the corridor are as follows: In Viet Nam – Da Nang, Dong Ha, Thua Thien Hue, and Quang Tri; in Lao People’s Democratic Republic (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: (i) Mawlamyine–Myawaddy in Myanmar, (ii) Mae Sot–Phitsanulok–Khon Kaen–Kalasin–Mukdahan in Thailand, (iii) Savannakhet–Dansavanh in the Lao PDR, and (iv) Lao Bao–Dong Ha–Hue–Da Nang 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 the Lao PDR, and Dansavanh–Lao Bao between the Lao PDR and Viet Nam.

Figure 1.1: East–West Economic Corridor Nodes



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

- **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: (i) Mawlamyine in Myanmar for the interchange of Yangon–Dawei; (ii) Phitsanulok in Thailand for the interchange of Chiang Mai–Bangkok, as part of the North–South Economic Corridor; (iii) Khon Kaen in Thailand for the interchange of Nong Khai–Bangkok; (iv) Khanthabouly in the Lao PDR for the interchange of Route 13 leading to the Southern Economic Corridor; and (v) Dong Ha in Viet Nam for the interchange of Highway 1A leading to the North–South Economic Corridor.

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 people and goods
- (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

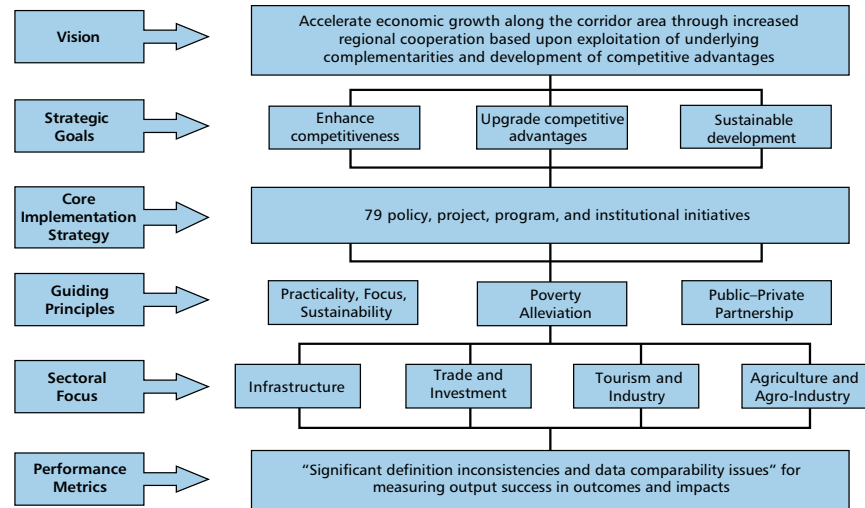
From Transport Corridor to Economic Corridor – Transformation of the EWEC transport corridor into an economic corridor is the overarching objective of its member states. The development of the economic corridor has involved a broad-based strategy supporting networks of transport information, energy,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

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 EWEC (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 serve as demonstration areas for cooperation in other EWEC areas and 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 on exploitation of underlying complementarities and development of competitive advantages.” The *Pre-Investment Study* provided a road map 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.

Figure 1.2: EWEC Strategy and Action Plan 2001



EWEC = East–West Economic Corridor.

² ADB Institute. 2003. *Facilitating Regional Cooperation in Asia*. Tokyo: ADB.

³ ADB. 2001. *Pre-investment Study for the Greater Mekong Subregion, East–West Economic Corridor*. Manila: ADB.

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 decision-making powers to the local and/or provincial levels; and (v) develop the EWEC in a financially, economically, and environmentally sustainable manner. The *Pre-Investment Study* emphasized 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) improve spatial planning and physical infrastructure to create the basis for the realization of the corridor concept; (ii) simplify policies and procedures 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) provide capital and other types of financing for the EWEC; (v) develop skills to upgrade the capabilities of EWEC residents and businesses for the long-term competitiveness of the EWEC; and (vi) build the capacity of local bodies to sustain cooperation.

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, 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 are 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-sized businesses along the corridor areas.

The following are generalizations and lessons from the 2001 Strategy and Action Plan, based on project-specific details in Table 1.1:

- First, a few targeted initiatives within well-defined areas are more likely to be implemented than wide-ranging initiatives.

- 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, the Lao PDR, Myanmar, and Yunnan to the emerging markets of South Asia and Europe, as well as the East Asian markets. It partly shifted the focus toward 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 the Lao PDR leading to the Southern Economic Corridor, and Dong Ha for the interchange of Highway 1A in Viet Nam leading to Ha Noi and the eastern section of the NSEC.
- Third, some of the private sector development initiatives were implemented because (i) institutional mechanisms like the GMS-BF were not fully operational until fairly recently; (ii) capacity limitations in the Lao PDR and Viet Nam prevented many of the proposed cross-border investment and agribusiness projects from being carried out by microenterprises, which predominate labor absorption in the formal and informal sectors; (iii) proposed financing mechanism aimed at facilitating private sector development were not put into place; (iv) potential development of commercial interchanges like Phitsanulok’s Indochina Crossroads have remained untapped; and (v) 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, human resource development, and central or provincial economic policies.
- Fourth, progress in cross-border investments was hampered by problems related to (i) promoting good governance and curbing corruption, (ii) providing adequate infrastructure, (iii) defining adequate and responsive policies on foreign investment, (iv) establishing efficient industrial zones, and (v) integrating microenterprises into value chain activities along the poorer areas of the EWEC. More broadly, the GMS Subregional Investment Working Group’s role has remained broad and nebulous since there has been considerable divergence among GMS countries over the GMS Subregional Investment Working Group’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 on 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	Reduce unofficial costs associated with expediting processing by customs officials
	Improve third party logistics	Use of electronic data interchange system in the Lao PDR
	Liberalize protocol for cross-border movements	Increased integration of customs and with other regulatory agencies
	Standardization of trade documents	Establishment of border trade database
	Temporary import facilitation	Free trade zone in Mukdahan
	Single-stop customs inspection between the Lao PDR and Viet Nam, and the Lao PDR and Thailand	

continued on next page

Table 1.1: *continued*

Sector	Implemented or in Progress	Little or No Implementation
	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 ASEAN Investment Area for cross-border EWEC investments
	Establishment of border economic zone 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
	Industrial park in Hue and Da Nang	Establishment of Investment Finance Corporation for EWEC activities
	GMS Business Forum 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	Agriculture-based processing activities in Viet Nam and Thailand
		Agro-industrial raw materials research coordination
		Agro-industrial raw materials research coordination

continued on next page

Table 1.1: *continued*

Sector	Implemented or in Progress	Little or No Implementation
		Training in agro-industrial management
		Industrial zone and/or export processing zone at Mawlamyine, Myanmar
		Promotion of appropriate agro-industrial products
		Agro-industrial materials production and marketing data compilation
Power and Telecommunications	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 Viet Nam and the Lao PDR	

AICO = ASEAN Industrial Cooperation Scheme, ASEAN = Association of Southeast Asian Nations, B2B = business to business, EWEC = East–West Economic Corridor, GMS = Greater Mekong Subregion, Lao PDR = Lao People’s Democratic Republic, SMEs = small and medium-sized enterprises, SPS = sanitary and phytosanitary.

Source: Compiled in consultation with official national and subregional agencies.

Perspective on the Development of the East–West Economic Corridor

The Consultation Process

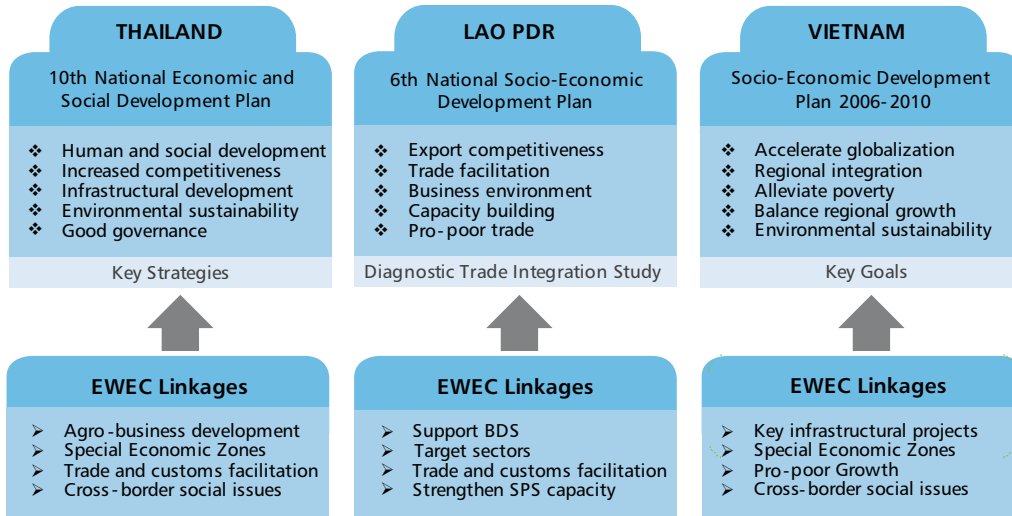
Consultations Process: An integral part of the process of revising and updating the strategy and action plan for the EWEC has been the consultation process with government officials of the EWEC member countries, representatives of the private sector, nongovernment organizations (NGOs), and development 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 consolidate 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 socioeconomic 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

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

Figure 2.1: EWEC Linkages to National Development Plans



BDS = business development service, EWEC = East–West Economic Corridor, Lao PDR = Lao People’s Democratic Republic, SPS = sanitary and phytosanitary.

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 socioeconomic 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, 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.

Government Sector

The 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 the Association of Southeast Asian Nations (ASEAN), GMS, and the World Trade Organization (WTO). To that end, the government’s Diagnostic Trade Integration Study action matrix had identified the following five priority areas for reform that require external assistance: (i) export competitiveness, (ii) trade facilitation, (iii) business environment, (iv) capacity building, and (v) trade opportunities for the poor. The government is now implementing this agenda through a multi-agency entity consistent with the WTO Integrated Framework and the Vientiane Declaration

on Aid Effectiveness that will coordinate official development assistance (ODA) from the World Bank, the European Community, and Australian Agency for International Development (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 phytosanitary standards activities will be strengthened and regulatory framework for Technical Barriers to Trade 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 and 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 the 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.

Viet Nam: 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 Viet Nam'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 Viet Nam's economic integration at the regional and international level. Many Vietnamese depend on agriculture and are likely to face income reductions as agricultural tariff 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 tariff reductions take place under the common effective preferential tariff (CEPT)–ASEAN Free Trade Area (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 for the GMS supports the SEDP by focusing on pro-poor growth in Viet Nam's 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 Conservation Corridor Initiative (BCI). 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 for 2007–2011 is the 10th National Economic and Social Development Plan. Among the five key strategies for achieving goals set out in the 10th National Economic

and Social Development Plan 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% of the poor live in rural areas and striking income disparities continue across regions. The incidence of poverty in the northeast, for example, is 50% 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, 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.

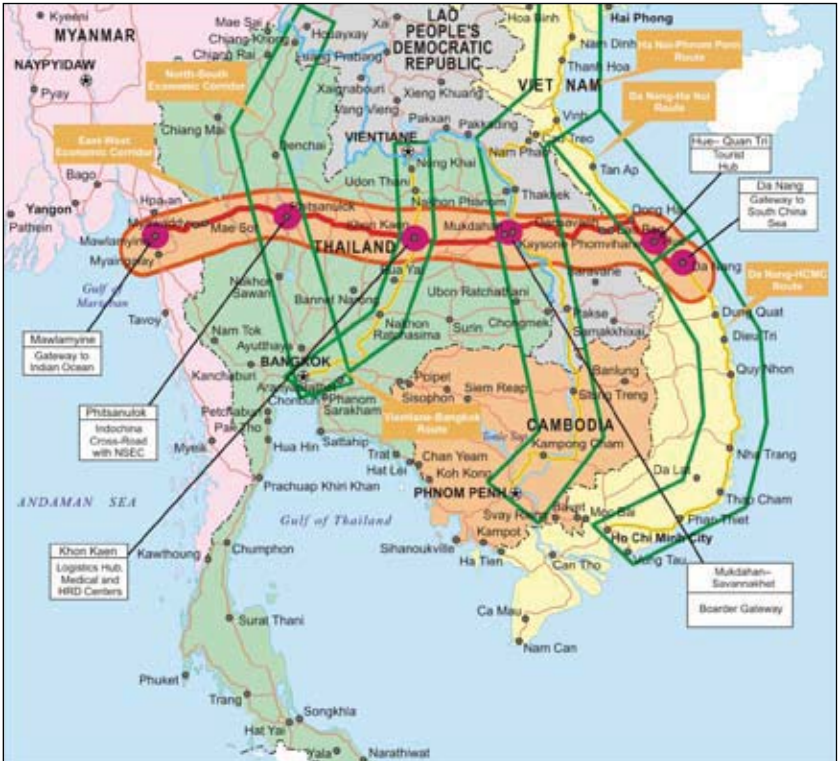
Private Sector: Transport Interests

Complementary Corridors and Routes: The EWEC is located in the center of several Indochina crossroads (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 Ha Noi 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 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 Ha Noi 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.

North–South Economic Corridor 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 to support business and tourism is lacking, especially in attractive restaurants and hotel

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.

Figure 2.2: EWEC Complementary Corridors and Routes



EWEC = East–West Economic Corridor, HCMC = Ho Chi Minh City, HRD = Human Resource Development, NSEC = North–South Economic Corridor.

accommodations and, for now, the city’s major activities center 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 People’s Republic of 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 the Lao PDR, and the multi-lane Highway 209 of the EWEC. The Government of Thailand had endorsed it as the leading export center for trade into the Indochina region.⁶ There is considerable potential

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

for value chains in sugar, electronics parts assembly, and tourism.⁷ Khon Kaen is also a regional development center 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 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 on strategic issues with neighboring countries and various socioeconomic topics through the graduate studies programs of different departments.

Ha Noi–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 Viet Nam to provide access between Ha Noi and Phnom Penh has been raised by the authorities from the Lao PDR. Commercial activities between Savannakhet and Pakse in Champasak are presently greater than in the northern section of the highway. A draft agreement between the Lao PDR and Cambodia for a transit transport route between the Lao PDR 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 Cambodia and the Lao PDR met to discuss mechanisms to facilitate trade that would provide the Lao PDR with greater access to Sihanouville port. Implementation of those transit and trade facilitation arrangements would significantly impact on commerce along National Road No 13.

Ha Noi–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 Ha Noi and Ho Chi Minh City. Highway Number 1 is congested and there are plans to create expressways along the Da Nang to Quang Nai and Ha Noi to Vinh portions of the highway to reduce congestion.⁸ The thousand-mile single-track line along that route carries about 7% 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 Government of Japan is supporting the construction of a 1,630 high-speed railway that will operate at speeds of 300–350 km/hr and reduce travel time from 10 to 40 hours. The project will cost \$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: Economic Research Institute for ASEAN and East Asia (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 sixfold

⁷ For details, see Northeastern Strategic Institute. 2006. *The Role of EWEC in Logistics Planning Case: The Northeast of Thailand*. Khon Kaen University.

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. 2008. *Road & Rail Transport Market Outlook for Viet Nam*. 15–17 October.

¹⁰ North–South rail link comes a step closer. *Viet Nam Business Finance*. 11 December 2008.

Figure 2.3: EWEC Competing Corridors and Routes



in the Bangkok metropolitan area and eightfold in the nearby coastal provinces of Rayong, Samut Sakhon, while negative population growth is anticipated in the north–central and northeast regions of Thailand.¹¹ The forecast is for a tenfold increase in gross domestic product (GDP) accompanying the industrial expansion in these areas, a similar expansion in Viet Nam’s Ba Ria–Vung Tau near Ho Chi Minh City, and a nearly sixfold 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 (Figure 2.5). It encompasses the Southern Corridor and extends it to Rangoon as a means of accessing the only

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

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 the Lao PDR, and Chongmek and Nakhon in Thailand before reaching Bangkok. The total distance of EWEC-2 would be 987 km, which is 400 km shorter than the current road between Da Nang and Bangkok using EWEC. For EWEC-2 to be implemented, a 123 km 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 socioeconomic development of the Boloven Highlands in the Lao PDR, which has large tourism potential.

In large part, the motivation underlying the traffic between Bangkok and Da Nang is the road access to Ha Noi. 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 Viet Nam, which represents 28% of the existing Corridor. The reason for the focus of the business community on the Bangkok–Ha Noi 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 of Bangkok and Ha Noi 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 provinces of Viet Nam.

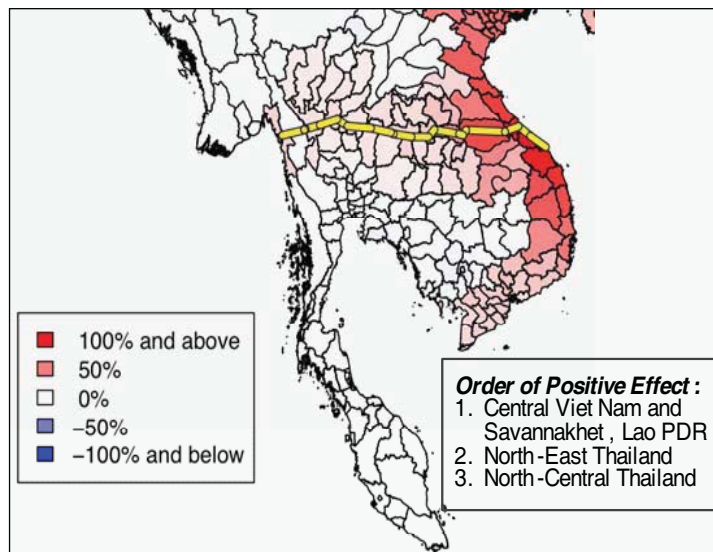
Private Sector: Provincial Interests

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,

¹² Much of the motivation for the Asian Sunbelt Initiative is based on the modelling work being undertaken by 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. 2005. *Frontiers of the New Economic Geography*. Discussion Paper No. 27. Institute of Developing Economies (April); and for details of the ERIA model, see Hadi Soesastro, ed. 2007. *Geographical Simulation Model Analyses on Economic Corridors in Developing a Roadmap towards East Asian Economic Integration*. ERIA Research Project Report. No. 1.

¹³ M. Ishida. 2007. *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.

Figure 2.4: Economic Impact of Full EWEC Implementation by 2025



Source: ERIA Infrastructure Project, IDE-JETRO.

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 interprovincial income disparities in the EWEC region. With the full development of the physical infrastructure and customs facilitation along the EWEC, Savannakhet and central Viet Nam (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%. 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-GSM. 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 intercountry 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

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

accompanied by reductions in border costs to fully affect the potential impact on the geographic distribution of populations, raise income levels, and attract industries.

Development Partners

Development sequencing has been a cornerstone of the EWEC strategy. From the onset, ADB's vision has been the socioeconomic 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.

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 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.

While 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). ADB has supported nearly 10% of the funding for that infrastructure, mainly for the rehabilitation of Road 9 in the Lao PDR between Muang Phin and Dene Savanh near the border with Viet Nam, and the upgrading of Road 9 in Viet Nam between the Lao PDR 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 and the soft loan arm of JBIC merged.

¹⁶ In the Lao PDR, ADB provided (i) rehabilitation of 78 kilometers (km) of route national (RN) 9 (Lao PDR 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 Viet Nam, 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. 2007. *Lao People's Democratic Republic and the Socialist Republic of Viet Nam: Greater Mekong Subregion: East-West Transport Corridor Project*. Manila (September). 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 the Lao PDR and Viet Nam were found to reduce vehicle operating costs between 2% and 32% with a median of 16%, while transit times were reduced by about 25%. During the same period, the value of trade across the border of the two countries was found to increase by 41% 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.

Figure 2.5: Donor Financing Sources for EWECs Transport Infrastructure

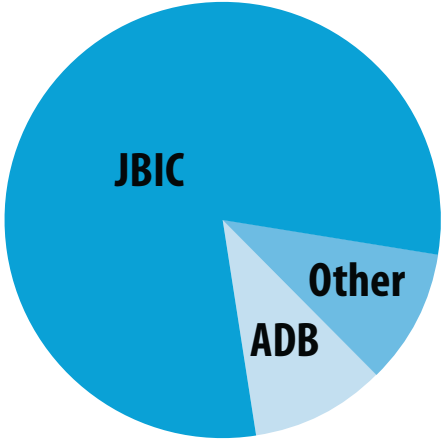
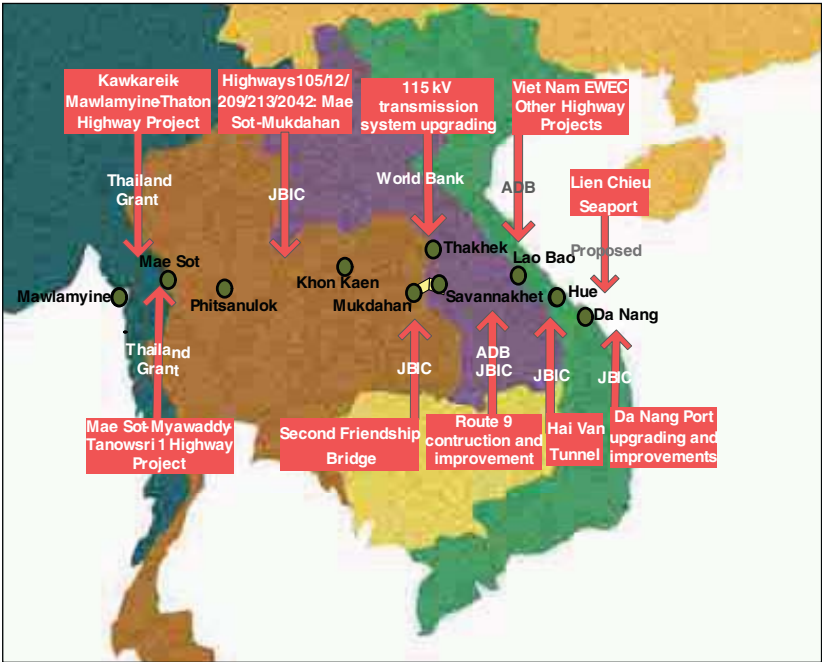


Figure 2.6: EWEC Transport-Related Donor Projects



ADB = Asian Development Bank, EWEC = East–West Economic Corridor, JBIC = Japan Bank for International Cooperation, kV = kilovolt.

Stage 2: EWEC Economic Corridor

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 jobs for women, and the promotion of tourism along the corridor. Figure 2.6 shows some of the key socioeconomic projects being

supported by international, regional, and bilateral donors and development partners. Implementation of the Cross-Border Transport Agreement (CBTA) protocols and annexes is being advanced through the support given by 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 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-scale enterprises (MSEs) in Viet Nam, the Lao PDR, and Myanmar. Critical to the development of small and medium-sized enterprises (SMEs) along Road 9 in Savannakhet is the development of roadside service stations and rest areas being financed by the Japan-ASEAN Integration Fund. 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 socioeconomic 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 the Netherlands Development Organisation.

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, Canadian International Development Agency, bilateral aid such as Belgian Technical Cooperation, New Zealand Agency for International Development, World Vision Lao PDR, and NGOs such as Concern Worldwide Lao PDR and Norwegian Church Aid.

Donor Coordination and Development Partnerships

With an increasing number of development partners and donors involved in the EWEC and area that it transverses, ADB's role as a facilitator of dialogue between agencies (i) identify and help reduce or eliminate bottlenecks and improve economic efficiency in transport infrastructure provision and service operation; (ii) support the development of the private sector in the border nodes of the corridor, as well as the province of Savannakhet in the Lao PDR and key interchange nodes like Phitsanulok in Thailand; and (iii) 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 ADB and the World Bank.

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

¹⁷ ADB. 2004. *Regional Coordination Strategy and Program 2004-2008: The GMS – Beyond Borders*. Manila (March).

coordination and, where needed, strategic partnerships with donors. The GMS Senior Officials' Meeting 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) 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 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 the 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 multidonor 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.

Development Vision and Goals

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-fledged 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-sized 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 *Pre-investment 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 (i) between public and private sectors; (ii) in doing business across borders; (iii) in value chains; and (iv) 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, ADB's focus on pro-poor growth and development in EWEC and private sector interests commercial linkages between Bangkok and Ha Noi, or commercial activities along the Sunbelt Corridor.
- (6) *Measuring progress has been difficult.* Lack of transparency in quantifiable indicators like investment and cross-border trade flows would greatly improve monitoring and evaluation 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 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.

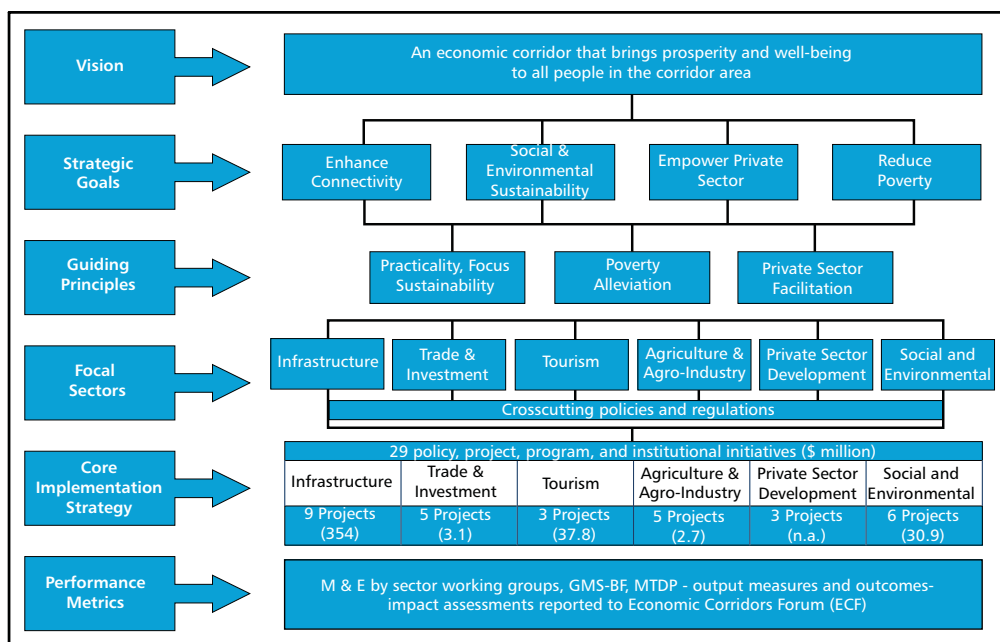
The GMS leaders also underscored the key role of the private sector in subregional development, particularly as a source of both financial and knowledge resources, and as part of that process, they reiterated the need to deepen the skills and capacities of human resources in the subregion. They also 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;
- *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 biofuel and rural renewable energy development, and expand transboundary 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;

Figure 3.1: Strategy and Action Plan 2009



GMS-BF = Greater Mekong Subregion Business Forum, M&E = monitoring and evaluation, MTDP = Mekong Tourism Development Project.

- *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, 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.

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-fledged 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 support 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 reducing 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, the 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, a number of bottlenecks to the facilitation of trade along the corridor remain, much of which involves the implementation of the Cross-Border Transport Agreement (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 under way in the Lao PDR and Viet Nam. There is nonetheless scope for an explicit subregional program that could be designed and supported with the help of ADB and other development partners. Chapter 10 elaborates on these issues and sets out the supporting project proposals.

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 (i) to focus activities on a sustainable social and economic

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

Sector and/or Criteria	Trade and Investment	Agriculture and Agri-Processing	Tourism	Human Resource Development	Transport	Crosscutting 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

GRDP = Gross Regional Domestic Product.

development process that addresses the practical needs of the subregion; (ii) to reduce poverty, support development of rural and border areas, increase the earnings of low-income groups, and provide employment opportunities; (iii) to empower the private sector by promoting joint financial, technological, marketing, production, and other collaborations in the EWEC areas; and (iv) 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 criterias: (i) contribution to gross regional domestic product, (ii) contribution to employment, (iii) generation of foreign exchange, (iv) contribution to rural development, (v) potential for economic growth, and (v) potential for cross-border collaboration. Based on these criterias, the following key sectors have been identified for the EWEC:

Comparison between SAP 2009 and SAP 2001

Table 3.2 summarizes the major differences between the 2001 Strategy and Action Plan (SAP 2001) and the 2009 Strategy and Action Plan (SAP 2009). Those differences 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 and Action Plan (SAP 2001)	2009 Strategy and Action Plan (SAP 2009)	How SAP 2009 Differs from SAP 2001
Vision	Accelerate economic growth along the corridor area through increased regional cooperation based on 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 Upgrade competitive advantage Sustainable development	Empower the private sector Reduce poverty Sustainable environment Enhance connectivity	Government and development partner role as facilitator; greater focus on social and environmental impact; expand transport to rural areas
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-modal 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 Trade Investment Agriculture and Agro-Industry Industry Tourism Human Resource Development	Infrastructure Trade Investment Agriculture and Agro-Industry Private Sector Development Tourism Social and Environmental	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
Performance Metrics	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	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.

GMS-BF = Greater Mekong Subregion Business Forum, M&E = monitoring and evaluation, MTDP = Mekong Tourism Development Project.

Action Plan for Implementing the Strategy

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 (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 5-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 CBTAs 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 Viet Nam and the Lao PDR; 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, 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 road map 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 HIV/AIDS.

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

Table 4.1: Project Summary and Implementation Costs (\$ million)

Vision	Strategic Goal	Sector Focus	Core Implementation Project	Cost	Details
Prosperity and well-being to all people in the 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 area	TBD	Chapter 7
			Capacity building for special economic zones in the Lao PDR	1.0	Chapter 7

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Table 4.1. *continued*

Vision	Strategic Goal	Sector Focus	Core Implementation Project	Cost	Details
		Tourism Sector	East–West Economic Corridor tourism development	21.3	Chapter 7
			Tourism initiative to reduce 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 Thailand and Viet Nam 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 Sector	Strategic environmental assessments of EWEC	1.5	Chapter 9
			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 Viet Nam	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	

continued on next page

Table 4.1. *continued*

Vision	Strategic Goal	Sector Focus	Core Implementation Project	Cost	Details
			Development of Lien Chieu Seaport in Viet Nam	120.0	Chapter 10
			Upgrade Da Nang Port	TBD	Chapter 10
			Savannakhet Airport Improvements	17.0	Chapter 10
Total				936.7	

CEP = Core Environment Program, EWEC = East–West Economic Corridor, GMS = Greater Mekong Subregion, HIV/AIDS = human immunodeficiency virus/acquired immune deficiency syndrome, Lao PDR = Lao’s People Democratic Republic, SME = small and medium-sized enterprise, TBD = to be determined.

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:

Implementing the Strategic Framework – This 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:

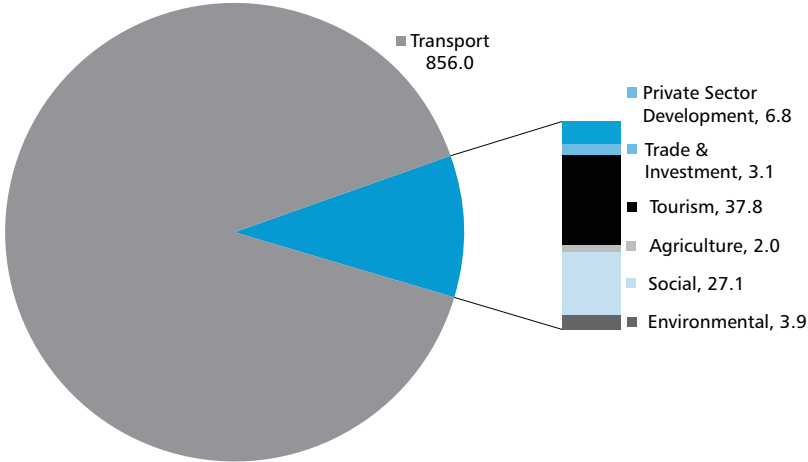
- **Spatial Planning** – The EWEC emphasizes development among specific geographical and commercial nodes around which economic activity will cluster and, as such, it will be useful to continue to focus on the gateway nodes in Da Nang and Mawlamyine, the interchange nodes that occur with the North–South 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, independent

activities are 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, projects, programs, and institution building initiatives for the corridor.

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.

Figure 4.1: Budget Allocation of 2008–2012 EWEC Action Plan (\$ million)



¹⁸ Japan Overseas Development Corporation (JODC). 2005. *Study to Formulate a Master Plan on Industrial Linkage between Thailand and Myanmar*. Bangkok.

Financing – The implementation of the EWEC Strategy and Action Plan will require about \$1.5 billion over the next 5 years or an average of \$300 million a year. This amount compares with \$5.0 billion over the same period for the North–South Economic Corridor.¹⁹ Of the budgeted amount for the EWEC, about 90% is for transport infrastructure and the remaining 10% 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% of the total budgeted amounts for economic and social projects. A number of the projects, however, remain to be costed.

¹⁹ ADB. 2008. *Toward Sustainable and Balanced Development: A Strategy and Action Plan for the GMS North–South Economic Corridor*. Manila (July).

Creating a Better Implementation Modality

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 GSM in general are responsible to the GSM leaders, who meet regularly: the senior officials' meetings are held twice yearly; the ministerial conferences are held yearly, except on years where there is a GSM Summit of Leaders; and the GSM summits are held once every 3 years.
- **Economic Corridors Forum (ECF)** – The ECF is the main advocate and promoter of the EWEC and other corridor developments in the GSM. It serves to ensure the collaboration among areas along the GSM economic corridors and among GSM 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 GSM Business Forum; and (iv) representatives of ADB and other international organizations.
- **Governors Forum** – The Governors Forum operates within the 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.
- **GSM 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 the Working Group on Agriculture's (WGA) work program towards speedy implementation of priority initiatives. They include the Subregional Transport Forum, WGA, the Subregional Trade Facilitation Working Group, the Tourism Working Group, the Regional Power Trade Coordination Committee, the Working Group on Environment, the Working Group on HRD, the Subregional Investment Working Group, and the Subregional Telecommunications Forum.

- **GMS Business Forum** – GMS-BF is the main advocate of private sector participation in the EWEC and operates as an independent nongovernment organization (NGO) 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 provision of access to technology.
- **National Transport Facilitation Committee (NTFC)** – NTFC is charged with liaising with officials at border checkpoints to implement the Cross-Border Transport Agreement (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 GMS-BF. As an NGO representing all transport and logistics companies, it will provide practical services to facilitate the implementation of those CBTA initiatives 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 the 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 GMS.
- **Environment Operations Center (EOC)** – As a joint initiative of the GMS member countries, EOC was endorsed by the Second GMS Summit of Leaders in July 2005 to provide strategic environmental assessments of GMS 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 covering bilateral and multilateral organizations and the private sector to provide a dialogue venue with the GMS countries and ADB on the GMS 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 GMS program where the private sector can actively participate.

At present, 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.

Coordinating Institutional Activities

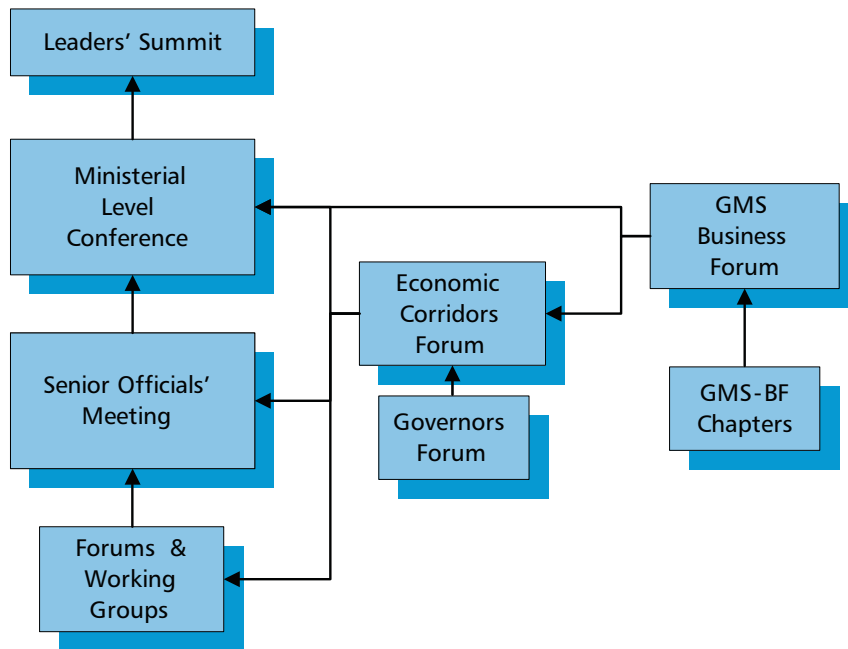
Until recently, the absence of a single authority responsible for the EWEC's development gave rise to a number of issues about the possible efforts to coordinate the existing functions of different agencies, as well as coordinate development partner projects. Under the present scheme, the ECF is charged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

Economic Corridors Forum – The functions of the ECF consist of (i) providing a platform for strengthening collaboration among GMS forums and working groups, and links among the EWEC, North–South Economic Corridor (NSEC), and the Southern Economic Corridor; (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 ADB and other international organizations. The leadership consists of a chairperson from the country hosting the ECF meeting; a co-chairperson nominated by 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. ADB provides the necessary secretariat support and works closely with the national coordinators of the GMS countries to

²⁰ Joint Ministerial Statement. 2008. *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.

Figure 5.1: Economic Corridor Forum and the GMS Organizational Framework



GMS-BF = Greater Mekong Subregion-Business Forum.

achieve this purpose as well as providing assistance in coordinating and arranging meetings. 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-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 of the CBTA and the operations of the NTFC, FRETA, MTDP, and EOC 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.

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 10 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 4 years by authorities from Viet Nam; trade data for EWEC cross-border trade in Savannakhet were only provided for 2 years by authorities from the Lao PDR 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 four-digit product aggregates over 4 years by authorities from Thailand.

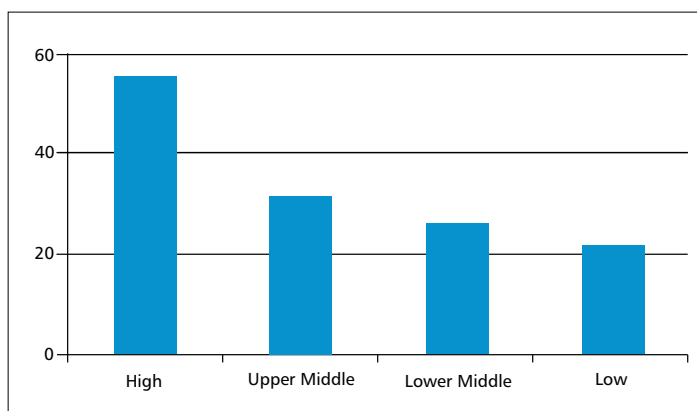
An effective monitoring and evaluation framework for the EWEC would contain benchmarks and quantifiable targets for results indicators to be provided on an annual basis by the sector working groups and impact indicators to be provided as part of the evaluation reports to be submitted to the ECF and the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

Promoting Sustained Private Sector–Led Growth I: The Business Environment

National Context of Private Sector Corridor Development

Role of micro, small, and medium-sized enterprises (MSMEs) – Development of the private sector in the EWEC member countries is largely dependent on the growth sustainability of 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, such as the Lao PDR, Thailand, and Viet Nam (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.

Figure 6.1: MSME Density in Country Income Groups



MSME = micro, small, and medium-sized enterprise.

Note: MSME Density refers to the number of MSMEs per 1,000 persons in a country.

Source: Derived from data in International Finance Corporation (IFC), World Bank Group, and MSME database online.

MSME Characteristics in EWEC Countries – The MSME density and MSME employment rate (percent of total) of the Lao PDR and Thailand is similar to that of low and lower-middle range countries (Table 6.1), while the MSME density in Viet Nam 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 the Lao PDR and Viet Nam 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

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

Item	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:^b</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

EWEC = East–West Economic Corridor, Lao PDR = Lao People’s Democratic Republic, na = not available.

^a MSMEs per 1,000 people.

^b Percent of all MSMEs.

Notes:

(a) Data for the Lao PDR from 2005 GTZ enterprise survey; data for Thailand from 2002; data for Viet Nam 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.

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 enhance 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 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 the Lao PDR, Thailand, and Viet Nam.

Lao PDR's Private Sector – The private sector in the Lao PDR is dominated by 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-sized firms only account for 2% of the total number of firms, they employ over one-half of the recorded workforce.²³ The medium and large-sized garment and wood processing industries dominate employment, absorbing 80% 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% of output and employed 51% of the workers, while locally owned private enterprises accounted for 35% of output and 40% of employment. State-owned enterprises accounted for the remaining 10% of output and employed 9% of the workers. In the small-sized enterprises, rice mills account for three-fourths of the establishments and employ two-thirds of the workforce in this type of enterprise. The informal sector is largely composed of micro-firms, which represent as much as 70% of firms involved in manufacturing and household-based enterprises. They provide employment to 16% of the labor force and are largely oriented toward wholesale and retail trade.

²¹ Department for International Development of the United Kingdom (DFID). *SME Development and Pro-poor Economic Growth: Developing Financial Service Markets in Asia*.

²² The most comprehensive overview of the small and medium-sized enterprises (SMEs) dates back to 1996. In that year, a country-wide survey of SMEs was conducted under the Lao–German Small Enterprise Development Project in a collaborative effort between the German Agency for Technical Cooperation and the Ministry of Industry and Handicrafts of Lao PDR (see Lao–German Small Enterprise Development [SED]. 1996. *Small and Medium Enterprises in the Lao PDR: The Results of a National Survey*). The most notable recent survey is that undertaken by GTZ for the Human Resource Development for Market Economy Enterprise Baseline Survey (see GTZ). *HRDME Enterprise Baseline Survey Report 2005*. Human Resource Development for Market Economy Enterprise Baseline Survey. Another important recent survey is that of the World Bank's 2007 Investment Climate Survey (World Bank. *Reducing Investment Climate Constraints to Higher Growth*. Washington, DC; ADB and World Bank. 2007. *Lao People's Democratic Republic, Private Sector and Investment Climate Assessment*).

²³ Information about medium-sized and large 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 and UNIDO. 1999. *Survey of Industrial Establishments and Small Scale Manufacturing Establishments*. Lao PDR. See also Ministry of Industry and Handicraft and UNIDO. 2003. *Lao PDR: Medium-Term Strategy and Action Plan for Industrial Development*. Lao PDR, Final Report.

Viet Nam’s Private Sector – Micro, small, and medium-sized enterprises have emerged as a dynamic force in the development of the economy of Viet Nam 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% 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% of the labor force has not been registered, which explains the low MSME density ratio for Viet Nam.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 \$86 billion.²⁶ SMEs accounted for 96.5% of those registered businesses and they absorbed one-half of the workforce and accounted for nearly 30% of the total capital. Microenterprises are largely unregistered and are estimated to account for about 13% of GDP.²⁷

The competitiveness of products and services produced by Viet Nam’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 Viet Nam 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 midpoint of the Provincial Competitiveness Index, an annual index issued by Viet Nam Chamber of Commerce and Industry 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 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.

²⁴ N.N. Anh et al. 2007. Innovation and Export of Viet Nam’s SME Sector. Paper presented at UNU-MERIT Conference on Micro evidence on Innovation in Developing Economies. May.

²⁵ H. Hansen, J. Rand, and F. Tarp. Undated. SME Growth and Survival in Viet Nam: Did Direct Government Support Matter? Discussion Paper 04-13. Institute of Economics, University of Copenhagen.

²⁶ *Uni-Bros’ News*. 2008. SME National Week 2008: Cooperation for Joint Development. 27 November.

²⁷ World Bank. 2005. *Viet Nam Business: Viet Nam Development Report 2006*. Report No. 34474-VN. Washington, DC. 30 November.

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

Thailand's Private Sector – Thailand is commonly cited as a successful model for MSME development in the Association of Southeast Asian Nations (ASEAN).²⁹ There is an estimated 1.64 million registered SMEs that together account for 47% of GDP, with their activities fairly evenly divided across manufacturing, services, and trade.³⁰ Further, SMEs account for 99.8% of the number of firms in the country and they absorb 76% 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%.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 three-and-a-half 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 characteristic of Thailand's SMEs, especially in the current global financial crisis, is that the number of small 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-Sized Enterprises – In the Lao PDR and Thailand, medium-sized enterprises are underrepresented 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 the Republic of Korea is reflected in the important representation of medium-sized enterprises, which currently absorb over one-third of the industrial labor supply and account for nearly 10% of enterprises from the Republic of Korea. Nonetheless, in Thailand, the agricultural sector which is dominated by micro and small-sized enterprises, has maintained a high rate of total factor productivity growth since 1999 of over 2% and accounting for over

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. 2007. *White Paper 2006*. Chapter 3: Economic Role of Small and Medium Enterprises in 2006. Bangkok.

³¹ A. Bakiewicz. 2005. *Small and Medium Enterprises in Thailand. Following the Leader*. Asia & Pacific Studies. 2. pp.131–151; and N. Kecharananta, and P. Kecharananta. 2007. Directions on Establishment of Thailand's Small and Medium Enterprises Promotion Policy and Challenges in the Future. 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. 2004. Experience of SMEs in South and South-East Asia, South Asia Enterprise Development Facility (SEDF). (Research Paper, December).

³⁴ Footnote 33.

80% 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.

Subregional Initiatives for Private Sector Development

GMS Business Forum – In 1997, the GMS ministers agreed to endorse the establishment of the GMS-BF. The implementation of the GMS-BF in October 2000 has provided support to the private sector as independent, nongovernment 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 (i) to provide feedback to senior officials and leaders of the GMS countries on trade and investment; (ii) to oversee the development of the GMS Freight Forwarder Association and the development of the GMS small and medium-sized enterprise pre-shipment financing; (iii) 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; (iv) to support GMS cooperation program activities, including the implementation of the Cross-Border Transport Agreement (CBTA); and (v) to develop the GMS information network for the private sector.

GMS Freight Transport Association (FRETA) – The GMS-BF is currently in the process of establishing a GMS FRETA that will mainstream the private sector’s role in the implementation of the CBTA. The association will address nonphysical 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 (i) provision of accreditation and certificate of good standing; (ii) provision of a “fast lane” for its members at border points; (iii) provision of matching investments to local firms; (iv) assistance to matching businesses for load balancing; (v) provision of up-to-date information on all transport related issues through organizing conferences, seminars, dialogue sessions on the FRETA website; (vi) training programs; (vii) provision of an interactive forum for all transport-related issues where members can post their business issues; (viii) procurement of insurance and materials handling equipment; (ix) provision of a forum for networking across the region, especially for SMEs. FRETA will be a nongovernment organization (NGO) representing all transport and logistics companies including national transport associations in the GMS. Its services and representation

³⁵ P. Warr. 2006. 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*. Indonesia: Department of Economics, Padjadjaran University (February).

³⁶ UNESCAP. 2002. *Greater Mekong Subregion Business Handbook*. Bangkok. See also information contained in GMS Business Forum website: www.gmsbizforum.com

will extend to all GMS corridors and will cover multimodal transportation in the GMS. The proposed 3-year budget for the establishment and short-term implementation of FRETA is \$1.4 million, which would be funded by ADB and other development partners for at least the first 2 years of operation.

Targeting the Corridor's Weakest Link in the Lao People's Democratic Republic

Business operations in the Lao PDR section of the EWEC remain considerably underdeveloped relative to that of other areas. In that sense, the Lao PDR 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 good originating from the Lao PDR 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 Viet Nam. A similar flow occurs in tourism, where most visitors entering the Lao PDR from Thailand are on their way to Viet Nam and spend only a day or less visiting sites in Savannakhet.³⁷ This chapter examines the situation in the Lao PDR section of

Figure 6.2: Map of Savannakhet Province



Source: Savannakhet Provincial Tourism Department.

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

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 the Lao PDR 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 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 the Lao PDR.³⁹

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

Item	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 and 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 and safety regulations	3	4	14	14	65	100

Source: GTZ. Enterprise Survey 2007.

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.

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 Project, Small and Medium Enterprises in the Lao PDR: The Results of a National Survey (1996).

Profile of EWEC in the Lao PDR: The EWEC passes through the province of Savannakhet in the Lao PDR along Route 9. With a population of 850,000, it is the most populous province in the Lao PDR.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 Japan Bank for International Cooperation (JBIC) in the amount of \$37.8 million to the Lao PDR and \$38.5 million to 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 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 about 10 workers and nearly 60% 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% of their inputs, mostly from Thailand. In fact, most of the enterprises have little, if any knowledge about trade opportunities. Only 10% of the surveyed firms knew about AFTA and, of these, 70% 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, record keeping, marketing, and a variety of other skills. Most enterprises are

⁴⁰ The province is composed of the following 15 districts: Khanthabuly, Outhoumphone, Atsaphangthong, Phine, Sepone, Nong, Thapangthong, Songkhone, Champhon, Xonbuly, Xaybuly, 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 wholly-owned subsidiary Lane Xang Minerals Ltd. from its Sepon gold project at the Sepon open pit and at the Khanong pit 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 microenterprises with small enterprises and defined SMEs as follows: small enterprises are those having an annual average number of employees not exceeding 19 persons or total assets not exceeding Kip 250 million or an annual turnover not exceeding Kip 400 million; and medium-sized enterprises are those having an annual average number of employees not exceeding 99 persons or total assets not exceeding Kip 1.2 billion or an annual turnover not exceeding Kip 1 billion.

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.

members of the Chamber of Commerce and Industry, and are motivated by efforts to resolve problems and market their activities.

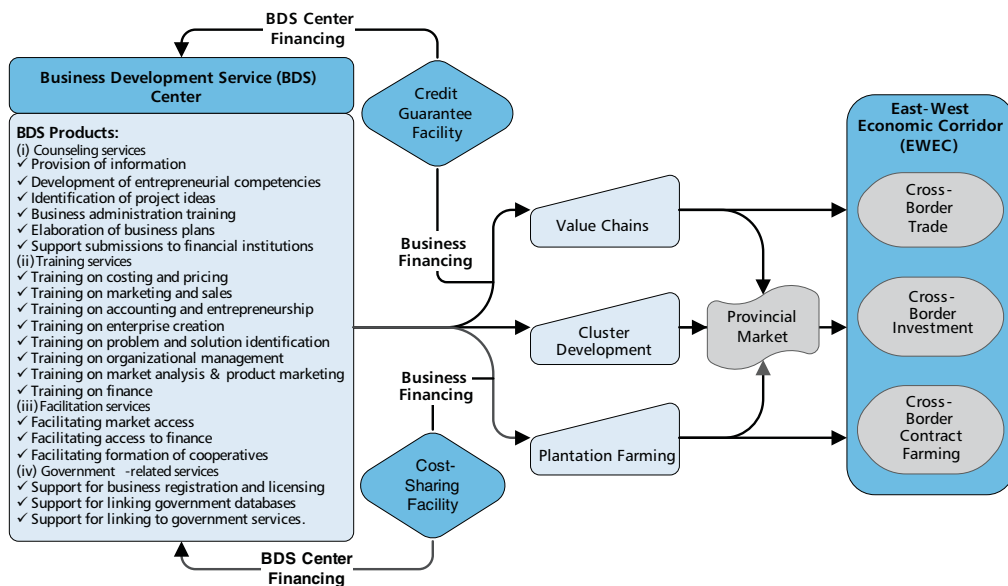
- **Lack of financing the largest internal problem:** Tables 6.2 and 6.3 show the main internal and external problems faced by these enterprises. Lack of capital and access to financing is the main internal problem of most businesses, with 60% of them saying that it is a big or very big problem. About 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

Proposed Private Sector Development Program for Savannakhet

Existing Initiatives: The underlying strategy for Savannakhet of the Government of the 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 the Lao PDR smallholders and purchasers, traders, or processors from the PRC, Thailand, and Viet Nam) or land concession-based plantation-type commodity production. Clusters are being promoted by the government in the form of one-district-one-product initiatives, supported by the Japan International

⁴⁴ MFDP. 2007. *Lao PDR: Financial Sector Diagnostics*. Vientiane: International Finance Corporation (June).

Figure 6.3: A Model for Promoting Sustainable SME-Driven Businesses in Underperforming Areas of EWEC



Cooperation Agency (JICA).⁴⁵ Several value chain studies for the Lao PDR in general and Savannakhet in particular have taken place, among the most recent being 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.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. BDS products that do exist are limited to skills-related training courses that do not necessarily induce entrepreneurial activity.

⁴⁵ The project funding is \$2 million for 2008–2011. In cooperation with the Ministry of Industry and Commerce, the objectives of the project are to raise awareness and importance of the One District One Product 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. 2005. *Integrated Value Chain Analysis of Selected Strategic Sectors in the Lao People's Democratic Republic*. (Prepared by Global Development Solutions LLC, September); SIDA. 2007. *Regional Development in the Lao PDR. Country Economic Report 2007*. 3. Programme de Capitalisation en Appui a la Politique de Developpement Rural. *Coffee Value Chain Analysis in the Lao PDR*; Khammoungkhoun, Somchit; Chanthanasinh, Vadsana; and Bounlavong, Sengsaden. 2007. *An Economic Analysis of Lao Coffee Export Competitiveness*. (AusAID Trade Analysis and Reform Project, April). GTZ is also planning to finance a study for Southern Lao PDR.

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 Viet Nam, 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: Preliminary work has 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 in Savannakhet for BDS development, while National Small and Medium-Sized Enterprise Promotion and Development Office is currently completing a supply-side study on BDS activities covering Savannakhet, among others. The GMS-BF 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 the Lao PDR. Finally, the Lao Agro-Processing Association in the Lao National Chamber of Commerce and Industry 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 BDS like information, marketing services, communication and training; and (ii) the inability to access finance at reasonable costs. On the supply side, providers of BDS in the province is lacking, as well as partial or targeted capacity building of enterprises by 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 BDS center be established in Savannakhet for the delivery of business development services to SMEs and as facilitators of Local Economic Development.

Summary: Figure 6.4 brings together the key elements of the action plan to developing business activity along the Lao PDR 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 the BDS Center and business activities would initially occur through the cost-sharing facility and later the commercialization and partial financing through the credit guarantee facility. Both of these facilities would provide significant financial support to SMEs. Together

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

⁴⁹ Based on discussion with Sisouphanh Sengsavanh, president of Lao Agro-Processing Association in the Lao National Chamber of Commerce and Industry.

these facilities would seek to establish the business capabilities of SMEs to participate in networking systems through 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 agribusiness 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 farm, it is classified as a small-scale enterprise by the Government of Lao People's Democratic Republic. It sells pigs and chickens to Viet Nam 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 to Thailand and Viet Nam but lacked the expertise. Efforts to bring in veterinarian scientists in animal husbandry to provide information failed because of poor technical support. Outside the Greater Mekong Subregion and the Association of Southeast Asian Nations (ASEAN), Mr. Bounthong has explored the sausage market in Germany and the Russian Federation but need technical training on processing and sanitary and phytosanitary (SPS) standards requirements in those countries.

The owner originally borrowed \$300,000 through the Mekong Private Sector Development Facility of the International Financial Corporation at terms of 8% for 10 years. Another \$100,000 was borrowed from a commercial bank at much less favorable terms of 15% 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 a small and medium-sized enterprise expert through the Australian Volunteer Program, but still lacks knowledge on how to market his products, as well as basic accounting, management, and business skills, and how to export his products within the Greater Mekong Subregion and the 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 small and medium-sized enterprises 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 the East–West Economic Corridor. Under the circumstances, Mr. Bounthong is limiting his market to Savannakhet.

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: (i) a strategic investment framework that provides cohesiveness and rationale to the unilateral or bilateral border economic zones being established along the corridor, (ii) full inclusion of agricultural products in cross-border trade and investment cooperation among member countries, and (iii) implementation of pro-poor measures to ensure that the corridor benefits the poor. For the EWEC, those overarching translate into the following 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 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-sized 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

continued on next page

Table 6.4. *continued*

Project Initiative	Expected Output	Progress Indicator	Implementation Agency	Time-frame	Status and Remarks
1.3 Training programs and/or 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 information technology 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 GVCs in the GMS countries is planned to select sector and/or products, buyers, distributors, suppliers and/or sellers. This will be followed by a GVCs mapping exercise and brochure production.

ADB = Asian Development Bank, BDS = business development service, BID = Business and Investments Dialogue, EWEC = East–West Economic Corridor, GMS = Greater Mekong Subregion, SMEs = small and medium-sized enterprises.

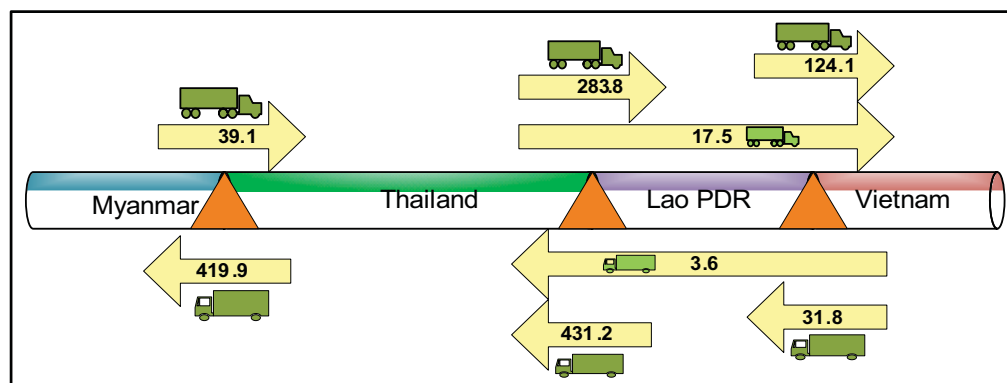
Promoting Sustained Private Sector–Led Growth II: Trade, Investment, and Tourism

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 10 times larger than that originating in Myanmar (Figure 7.1). In the Lao PDR–Viet Nam border, trade flows from the Lao PDR to Viet Nam are nearly four times larger than those from Viet Nam to the Lao PDR. Similarly, exports from Thailand to Viet Nam are nearly five times greater than exports from Viet Nam to Thailand. A major shift in trade flows has, however, occurred in the Lao PDR–Thai border. Whereas Thailand’s exports to the Lao PDR in initial years of the EWEC were eight times larger than Lao PDR’s exports to Thailand, the large expansion in copper shipments from the Lao PDR in the last 3 years has reversed that pattern.

Commodity Composition of Thailand–Lao PDR Trade Flows – Copper exports now account for 87% of total exports from the Lao PDR to Thailand (Table 7.1). The importance of those exports only became significant in 2005 when they represented one-third of the Lao PDR exports to Thailand across the Savannakhet–Mukdahan border. Lao exports of clothes in the form of shirts, suits, and blouses has risen in importance, while the share of wood and timber in total exports has declined in importance from 97% in 1999 to somewhat over 50% in 2004 to about 1% in 2008.

Figure 7.1: Snapshot of EWEC Trade Flows, 2008 (\$ million)



EWEC = East–West Economic Corridor, Lao PDR = Lao People’s Democratic Republic.

Source: National statistical offices.

Table 7.1: Top 10 Traded Products at Mukdahan–Savannakhet Border in 2008 (\$ million)

Thai Exports	Amount	%	Lao Exports	Amount	%
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 and 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 and Softdrinks (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

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

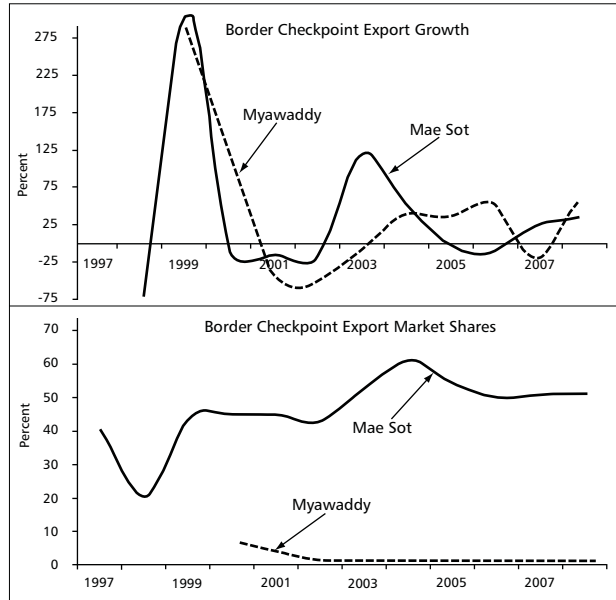
Source: National statistical offices.

On Thailand's side, the composition of exports has also changed significantly in the last decade. Today, petroleum and building equipment together account for 22% 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 the Lao PDR through the Mukdahan–Savannakhet border were consumer goods, electronics, and motorcycles.

Myanmar–Thailand 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 3 years and has since averaged about 20% 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% relative to all Thailand-Myanmar border trade (over 95% 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% up 10 percentage points from a decade earlier.

Thailand–Lao PDR 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 experienced a large expansion in both

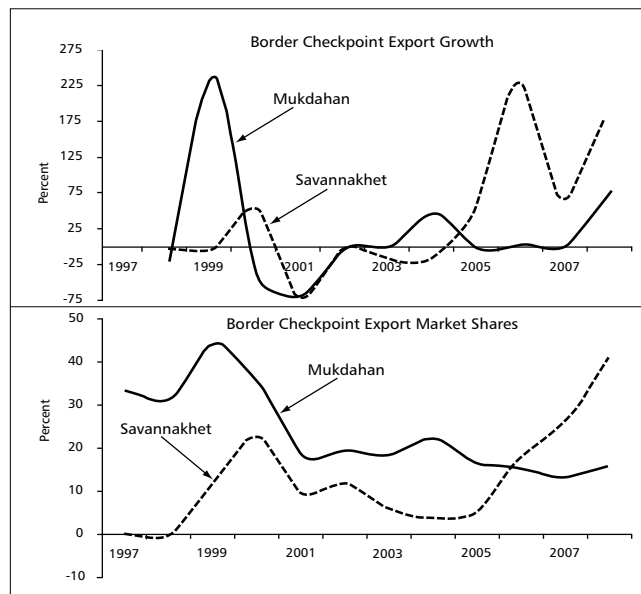
Figure 7.2: Export Performance of Myanmar–Thailand EWEC Border Trade, 1997–2008



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.

Source: National statistical offices.

Figure 7.3: Export Performance of Thailand–Lao PDR 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.

Source: National statistical offices.

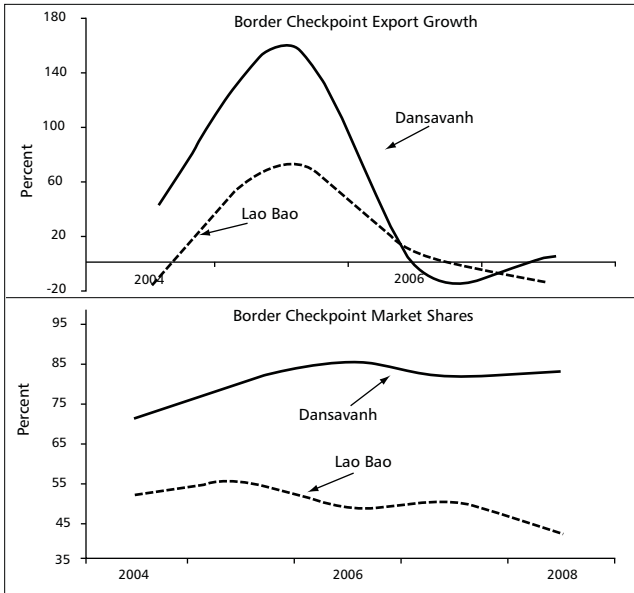
directions. From 2006 to 2008, Thailand’s exports expanded by nearly 90% while Lao PDR’s exports surged by over 350% as a result of increased copper shipments and the price rise of that commodity.

Movement of people has also increased from about 95,000 in 2000–2001 to an estimated 300,000 in 2008.⁵⁰ However, the present number of vehicles crossing the border, estimated at about 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% of the total value of trade at the Mukdahan–Savannakhet border checkpoint. Of that amount, about 85% are in the form of exports from Thailand to Viet Nam, and remaining 15% are exports of Viet Nam to Thailand.

Lao PDR–Viet Nam Border Trade – Trade between Lao PDR and Viet Nam has been fairly stable in recent years. Following a surge in 2006, trade in 2007–2008 has remained nearly unchanged. The value of exports originating in the Lao PDR has been four times greater than the value of exports from Viet Nam.⁵¹

Figure 7.4: Export Performance of Lao PDR–Viet Nam EWEC Border Trade, 2004–2008



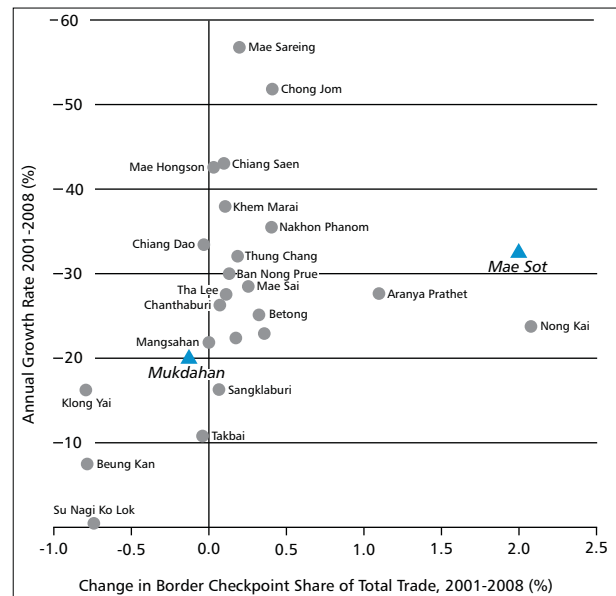
Note: Export market shares refer to the proportion of goods exported through the specified border checkpoint relative to the total value of goods exported through all border checkpoints of the destination country.

Source: National statistical offices.

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

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

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



Source: National statistical offices.

Informal Trade – It is the informal sector that accounts for the large volume of so-called traditional or informal trade in the Lao PDR. Informal border trade consists of glutinous rice and fruit and vegetable produce from southern Lao PDR and directed to Thailand. Cattle moves between the Lao PDR and Viet Nam, while agricultural inputs in the form of fertilizers, pesticides, diesel engines, and power tillers come from Thailand, Viet Nam, and the PRC. 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, the 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 the Lao PDR at between one-third and one-half time the amount of formal border trade, and that of Thailand and Myanmar at about two times the amount of formal border trade. Informal border trade takes one of three forms: (i) transportation of goods by hired laborers to smuggle merchandise across the border for traders on the other side; (ii) cross-border transportation of merchandise by small-scale traders, tourists, and the general population, and (iii) large-scale smuggling of goods across borders by professional operators.⁵³ Goods smuggled into the 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.

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

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 Thailand’s EWEC Trade – Notwithstanding large year-to-year variations in Thailand’s EWEC trade with Myanmar and the 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 the 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 Thailand’s 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 the Lao PDR along the EWEC.

Tariffs and Rules of Origin on Cross-Border Trade under CEPT–ASEAN Free Trade Area – Trade between the Lao PDR, Myanmar, Thailand, and Viet Nam are subject to commitments made under the ASEAN AFTA. Under the Common Effective Preferential Tariff (CEPT), over 99% of the products in the CEPT Inclusion List of member countries that include Thailand have been brought down to the 0%–5% tariff range. Newer ASEAN members that include the Lao PDR, Myanmar, and Viet Nam have also completed implementation of their CEPT. Viet Nam brought down its tariff of products listed in the inclusion list to no more than 5% in 2006, and the 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: (i) standardized method of calculating local and ASEAN content; (ii) a set of principles for determining the cost of ASEAN origin and the guidelines for costing methodologies; (iii) treatment of locally procured materials; and (iv) improved verification process, including on-site verification.

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 ADB’s 2001 *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 intraregional trade resulting from differences in factor endowments, but also one that builds on the growing worldwide trend toward 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.

Table 7.2: Exports at EWEC Border Checkpoints, 2002–2008 (\$ million)

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

() = negative, na = not available.

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

Source: National statistical offices.

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 relative to the national average of each EWEC country. Cross-border production opportunities are limited to small and medium-sized enterprises (SMEs) that take advantage of complementarities associated with factor price differentials and technological disparities among member countries in the corridor. Over the last 10 years, the EWEC has adopted 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 service (BDS) for micro and MSEs.

Cross-Border Investment Promotion – In December 2008, the EWEC member countries and other ASEAN members signed the ASEAN Comprehensive Investment Agreement to liberalize, facilitate, protect, and promote trade ASEAN and foreign investors in their countries. It expands on the earlier the ASEAN Investment Area Agreement and the ASEAN Investment Guarantee Agreement, which eliminated investment barriers, liberalize investment rules and policies, grant national treatment, and open up industries in the manufacturing and nonmanufacturing sectors, including mining, agriculture, fishery, and forestry. Under the ASEAN Comprehensive Investment Agreement, 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 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 (Viet Nam) 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 Malaysia–Viet Nam 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

⁵⁴ Before 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 cooperative 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 0% to 5%, 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.

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 million units/year	Viet Nam	15/12/2000
2	Pep drinking factory	Viet-Thai Chaichareon limited company	Canned and bottled drinking; bottled juice drinking	51,712,000	9 million units/yr; 15 million bottles/year; 3 million units/year	Thailand	10/3/2001
3	Cafe processing	N. road No. 9 Coffee Services Investment Company	Coffee	19,036,000	–	Viet Nam	10/10/2002
4	Bao S. Hotel	Quang Tri Construction Limited Company No.1	Hotel, travel, service	5,467,000	24 rooms	Viet Nam	31/12/2005
5	Engineering and electrical factory Lao Bao	Lao Bao Engineering Electrical Limited Company	Electrical equipment	10,000,000	2,200 units/year	Viet Nam	20/05/2002
6	Sepol Hotel	Quang Tri Trade Limited Company	Trade, services	8,537,000	24 rooms	Viet Nam	09/06/2003
7	HB Hotel	Quang Tri Import – Export JS. Company	Trade, services	7,010,000	20 rooms	Viet Nam	05/01/2006
8	Lao Bao oil and petrol shop	Quang Tri Petrol Company	Petroleum, construction material	2,400,000	–	Viet Nam	04/04/2002

– = not available.

Source: Border authorities.

taking advantage of central Viet Nam’s greater labor supplies and lower wages, and pro-industry policies of the provincial governments.⁵⁵

Quang Tri (Viet Nam) 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 about 2002–2003 in response to EWEC-based improvement of Road Number 9.⁵⁶ The Lao Bao Free Trade Area Zone was established a decade ago and now occupies an area of 15,800 hectares. Of the 50 projects currently operating in the Lao Bao Free Trade Area Zone, Table 7.3 summarized the major ones. The Government of Viet Nam 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 the 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 with whom the government signed a memorandum of understanding 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 (Japan), Global Logistic (the Lao PDR) and KP (the Lao PDR), 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 memorandum of understanding signed with the government in June 2007. A new ADB technical assistance project has been approved to provide capacity building

⁵⁵ ADB. 2008. *Performance Evaluation Report: Lao People’s Democratic Republic and Socialist Republic of Viet Nam: Greater Mekong Subregion: East–West Economic Corridor Project*. Manila (December).

⁵⁶ ADB. 2008. *Performance Evaluation Report: Lao People’s Democratic Republic and Socialist Republic of Viet Nam: Greater Mekong Subregion: East–West Economic Corridor Project*. Manila (December).

⁵⁷ ADB. 2008. *Performance Evaluation Report: Lao People’s Democratic Republic and Socialist Republic of Viet Nam: Greater Mekong Subregion: East–West Economic Corridor Project*. Manila (December).

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).

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, Lao PDR’s tourism revenue over 5 years, with tourists arrivals expected to reach 2 million by the end of the project.

⁶⁰ *Bangkok Post*. Trouble in Paradise. 4 January 2009.

for the special economic zone (SEZ) development since investment flows into the area have been minimal.⁶¹ An 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 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 near the Second Friendship Bridge and a small-scale distribution center.⁶³ There is also a \$20 million proposal to develop a special border zone 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 the Lao PDR and Viet Nam. A welcome center for the institutionalization of informal trade would be located in the special border zone as a key supporting initiative for the promotion of cross-border trade and investment.

Mae Sot (Thailand) SEZs – A border economic zone was established in 2004 in Tak Province, which included the Mae Sot region along the EWEC bordering Myanmar. Following a 2005 request based on the cabinet decision, the National Economic and Social Development Board Northern Region Office that the Tak provincial government conduct a survey and feasibility study for establishment of an industrial estate, an environmental impact survey in the region, and agricultural restructuring 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 in 2006. About 300 existing factories in Mae Sot are also

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; (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, 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. 2008. 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).

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

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 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, 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

Tourism

Original EWEC Strategy – The GMS tourism cooperation program dates back to 1993, when the GMS Tourism Working Group was established 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 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 *Pre-Investment 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: (i) increase awareness of the EWEC as a tourist destination through well-targeted destination marketing activities, (ii) create a Marketing Task Force to sustain the process, (iii) prepare feasibility studies of high-priority tourism infrastructure facilities in the EWEC, (iv) identify specific training needs for tourism training personnel, (v) prepare appropriate measures to preserve the EWEC’s natural, cultural, and historical tourism resources, (vi) 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 (vii) establish a single-country program of tourism initiatives for the Lao PDR.

⁶⁵ This is based on information contained in Takao Tsuneishi. 2008. 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).

⁶⁶ Footnote 65.

⁶⁷ Toshihiro Kudo. 2007. Border Industry in Myanmar: Turning the Periphery into the Center of Growth. IDE Discussion Paper No.122. Institute Of Developing Economies (October). See also Takao Tsuneishi. 2007. 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).

⁶⁸ ADB. 2001. *Pre-Investment Study for the Greater Mekong Subregion East–West Economic Corridor: Tourism*. Manila.

Table 7.4: EWEC Tourism Products

Province	Tourist Attraction	Type	Province	Tourist Attraction	Type	
Thailand	Tak (Mae Sot)	Nam Tok Mae Sa (Waterfall)	Thailand	Kaeng Krabao Islet	Natural	
		Thai-Myanmar Friendship Bridge		Nam Tok Tad Ton Waterfall	Natural	
	Phitsanulok	Mysterious Hill	Natural	Mukdahan	Chao Pho Chao Fa Mueang Shrine	Cultural
		Hilltribe Market	Cultural		Mukdahan National Park	Natural
		Doi Muser Crops Research Station	Modern	Ho Kaeo Mukdahan (Tower)	Modern	
		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	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	
Khon Kaen	City Walls and Moats of Phitsanulok	Cultural	Savannakhet	Tomb of Khai Dinh	Historical	
		Art & Culture Gallery, Naresuan University		Cultural	Tunnels of Vinh Moc	Historical
	Ubolratana dam	Modern	Lao PDR	Lang Co Beach	Natural	
	Bang Saen II and Hat Chom Thong	Natural		Hai Van Pass	Natural	
	Prasat Pueai Noi	Cultural	Viet Nam	Cham Museum	Cultural	
	Phu Wiang National Park (Dinosaurs)	Historical		Marble Mountain	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		

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Table 7.4. continued

Province	Tourist Attraction	Type	Province	Tourist Attraction	Type	
Thailand	Khon Kaen	Khon Kaen city Museum	Viet Nam	Hue Citadel	Historical	
		Tortoise Village		Imperial City	Historical	
	Kalasin	Non Mueang Ancient Town		Thau Thien Hue	Forbidden City	Historical
		Sala Mai Thai (Thai Silk)			Thien Mu Pagoda	Cultural
	Kalasin	Hat Sawan scenic lake		Mawlamyline	The Imperial Tombs	Historical
		Phu Thai Nong Hang Handicraft Center			Tomb of Tu Duc	Historical
		Namtok Tat Thong (Waterfall)			Tomb of Minh Mang	Historical
		Mueang Pha Daeng Song Yang ancient town			DanSaVanh Casino	Modern
		Lam Pao Dam			Quang Tri Citadel	Historical
		Sirindhorn Museum and Phu Kum Khao Dinosaurs			Vinh Moc Tunnels	Historical
		Phu Faek Forest Park (Dinosaur Footprints)			Kyaikthanlan Pagoda	Cultural
		Kalasin Museum			Thanlwin or Salween River	Natural
		Phraya Chai Sunthon Monument			Temples of Kawgaun Cave	Cultural
		Phrathat Yakhru (Chedi)			Payon Cave	Natural
Ban Phon Phrae Wa Silk	Kawgaun Cave (Cave of Ten Thousand Buddha's houses)	Cultural				
	Thai-Burmese Friendship Bridge	Historical				
	Myawaddy					
	Myanmar					

Source: Tourism authorities of EWEC countries.

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 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 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 tourism:⁷⁰

- 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 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, 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

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

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

Figure 7.6: EWEC Priority Tourism Zones within GMS Overall Tourism Strategy



Source: ADB. October 2005. *Greater Mekong Subregion: Tourism Sector Strategy*. Technical Assistance Consultant's Report. (TA 6179).

development has the potential to significantly contribute to local poverty reduction. 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 EWEC segments of Viet Nam and the 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 findings of the workshop emphasized the progress made with tourist services following the opening of the Second Friendship Bridge, for example, a 10-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 the 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 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 EWEC.⁷³ For that zone, the scope of activities covers (i) tourism centers in the

⁷¹ GMS Tourism Workshop on Transforming GMS Economic Corridors into Tourism Roads Fostering Local Development. Hué, Viet Nam. 27–28 November 2008.

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. Hué, Viet Nam, 27–28 November 2008. JICA's project framework for promoting the tourism industry in Savannakhet province includes 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 and/or 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. 2005. *Greater Mekong Subregion: Tourism Sector Strategy*. Technical Assistance Consultant's Report. (TA 6179).

Lao PDR, between Thailand and Viet Nam (Figure 7.6); (ii) tourism infrastructure development requirements; (iii) marketing tourism in the corridor within the overall GMS context; (iv) training in basic skills for EWEC tourism officials; (v) a program to promote overland EWEC tours; (vi) a program to promote Buddhist pilgrimage tourism in the EWEC; (vii) a program to promote war memorial tourism in the EWEC; (viii) a feasibility study for cruise tourism at the end of the EWEC; (ix) a program to promote ecotourism in the EWEC; and (x) a program to promote agro-tourism. Outputs would include a zonal tourism development covering infrastructure and priority initiatives, with outcomes related to visitor targets, economic impacts, poverty reduction, and support to the other Millennium Development Goals.

EWEC Area of Viet Nam: Sustainable Tourism Development – ADB has recently approved the Greater Mekong Subregion Sustainable Tourism Development Project that will provide \$10 million to carry out a tourism development project which will benefit five provinces in Viet Nam, 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 and UNESCO.⁷⁵

EWEC Area of the Lao PDR: Sustainable Tourism Development – ADB has also recently approved \$10.0 million to develop demonstration subprojects in the Lao PDR that improve the environment of urban and natural tourism sites, benefit ethnic groups and/or 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 SMEs and public sector tourism organizations. The project area covers nine provinces in the Lao PDR, 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 provided.

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

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

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

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 private sector, both in the production of goods and in the promotion of tourism along the corridor.

Implementation Modalities: The proposed implementation strategy relies on a broad-based set of activities: to facilitate trade through the implementation of the Cross-Border Transport Agreement (CBTA) and the establishment of Freight Transport Association (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:

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 private 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 Viet Nam, the 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 FRETA	Study on the establishment of the GMS FRETA, as proposed by the Business and Investment Dialogue 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 recruit 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 under-taking the study.
2.3 Special Economic Zones Capacity Building in the Lao PDR	Capacity building for the Lao PDR to develop, manage, negotiate, and promote 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 the Lao PDR developed and operational; FDI baseline of \$200 million in investments in SEZ attained; legislation providing incentives to potential SEZ financiers.

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Table 7.5. *continued*

Project Initiative	Expected Output	Progress Indicator	Implementation Agency	Time-frame	Status and Remarks
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 cofinancing by ADB and PRC.
2.5 Joint Study on Demand and Supply of Key Agricultural Products and Cross-border Agriculture Resource and 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	WG/AADB 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 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 production cost structure of foreign invested enterprises and whether there are any adverse impacts resulting from competing FDI incentives packages across the GMS countries.	Completion of study	Not yet determined	2008–2012	Financing is being sought for these activities.

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Table 7.5. *continued*

Project Initiative	Expected Output	Progress Indicator	Implementation Agency	Time-frame	Status and Remarks
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 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. Cofinanced by ADB and 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 and/or 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.
2.10 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.

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Table 7.5. *continued*

Project Initiative	Expected Output	Progress Indicator	Implementation Agency	Time-frame	Status and Remarks
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.

ADB = Asian Development Bank, AFD = Agence Française de Développement, CBTA = Cross-Border Transport Agreement, EWEC = East–West Economic Corridors, FRETA = Freight Transport Association, FDI = foreign direct investment, GMS-BF = Greater Mekong Subregion Business Forum, ICT = information and communication technology, IRRRI = International Rice Research Institute, MTCO = Mekong Tourism Coordination Office, PRC = People's Republic of China, RETA = regional technical assistance, SEZ = special economic zone, SMEs = small and medium-sized enterprises, TA = technical assistance, WGA = Working Group on Agriculture.

Improving Equity and Reducing Poverty

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 the Lao PDR and Thailand. In the Lao PDR, the EWEC provinces account for 15% of the country’s population, while in Thailand they represent 12%. 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% of the provincial total of all countries, while Myanmar represents 32%. The proportions are lower in Viet Nam (5% of the EWEC provincial total), as well as in the Lao PDR (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% of the population that lived in Lao PDR’s Savannakhet province was classified as poor. That proportion has now been reduced to 37%.⁷⁷ In Thailand, 28% 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% 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).

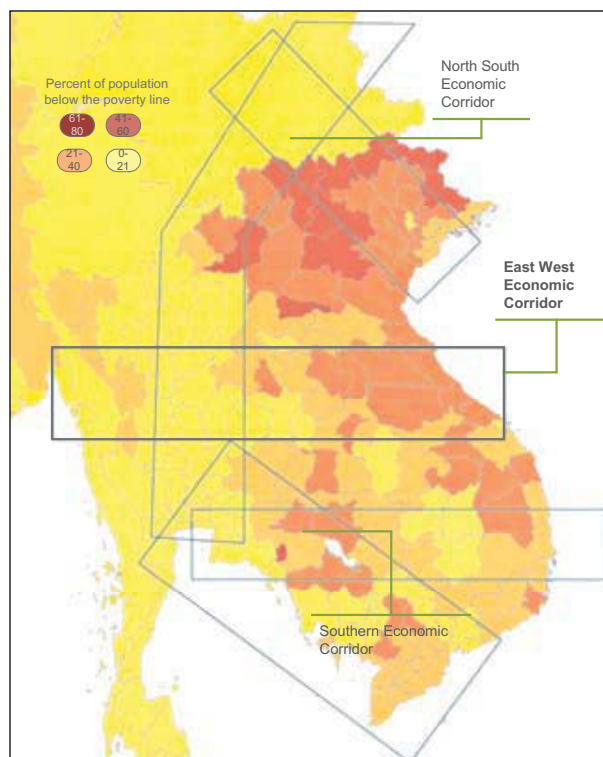
Poverty Reduction – Reduction of poverty is closely related to economic growth and, for that reason, the three key objectives of EWEC directly support efforts to reduce poverty in the subregion.⁷⁹

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 indexes and other revisions, the calculated poverty head-count ratio in 2000 for the Northeast provinces is 36% (see Jitsuchon, S. 2004. A Framework for Revised Official Lines in Thailand. Paper presented to UNDP and NESDB on Review of Official Poverty Line Project).

⁷⁹ The EWEC’s emphasis on economic growth and development of the corridor as a strategy to reduce 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. 2000. *Inequality and Growth: Lessons for Policy*. Washington, DC: The World Bank (Global Development Network); and Dollar, D., and A. Kraay. 2002. Growth is Good for the Poor. *Foreign Affairs*, July/August. Nevertheless, poverty reduction that relies on economic growth alone is ineffective, since it needs to be accompanied by falling inequality to be effective. See Ravallion, M. 2000. *Growth, Inequality and Poverty: Looking Beyond Averages*. Washington, DC: The World Bank (Development Research Group).

**Figure 8.1: Poverty in the
GMS Economic Corridors**



GMS = Greater Mekong Subregion.

- 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.

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, jobs, 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,

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

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

the geographic limitations and lack of water means the continued use of slash-and-burn methods; some activities like transporting livestock into Viet Nam, and selling vegetables, bamboo shoots, and other non-timber food products 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 traders from Viet Nam; 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 between economic development in rural areas, mobility, and HIV/AIDS along the EWEC.⁸³ ADB has continued to study this problem in the EWEC and other corridors in order to establish recommendations and action programs for the reduction.⁸⁴ There is also continued work being carried out on the impact of cross-border trade and investment on poverty reduction.⁸⁵

Economic Growth for Poverty Reduction – Growth as an engine of poverty reduction 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 the Lao PDR and Viet Nam.

Proposed Strategy and Implementation Modality

Strategic Thrust: The strategic objective for the reduction of poverty and inequality in the EWEC is 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:

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 reduction 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

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

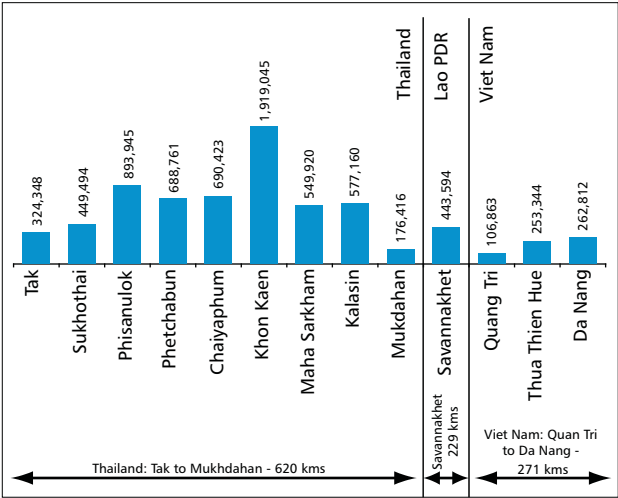
⁸³ Handicap International. 2006. *Development, Mobility, and HIV in South East Asia: A Preliminary Study for the Implementation of a Development-Based HIV Prevention Programme along the East-West Corridor/Highway 9 in Laos and Vietnam*. Paris.

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

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

⁸⁶ The correlation coefficient is .89 for the EWEC provinces in Thailand, the Lao PDR, and Viet Nam.

Figure 8.2: Eastern Part of EWEK Provincial GDP and Poverty Incidence (\$)



EWEK = East–West Economic Corridor, GDP = gross domestic product, km = kilometer, Lao PDR = Lao People’s Democratic Republic.

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 reduce poverty and inequality is as follows:

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

Project Initiative	Expected Output	Progress Indicator	Implementation Agency	Timeframe	Status and Remarks
Strategic Objective: REDUCE POVERTY AND 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 the 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.	2008–010	Ongoing. Project to be completed in 2010.

continued on next page

Table 8.1: *continued*

Project Initiative	Expected Output	Progress Indicator	Implementation Agency	Timeframe	Status and Remarks
3.3 GMS Communicable Disease Control Project (Phase 2)	Improve environmental health and reduce the burden of communicable diseases in the 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 the 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 the 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 the Lao PDR, as well as NSEC in the 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.

ADB = Asian Development Bank, CBTA = Cross-Border Transport Agreement, EWEC = East–West Economic Corridor, GMS = Greater Mekong Subregion, HIV/AIDS = human immunodeficiency virus/acquired immune deficiency syndrome, Lao PDR = Lao People's Democratic Republic, NSEC = North–South Economic Corridor, RETA = regional technical assistance.

Ensuring Environmental Sustainability

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 the Lao PDR, 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 significance in the Lao PDR relates 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 the Lao PDR has adopted conservation measures in protected areas from forest protection to forest conservation and production. In Viet Nam, 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 within the Strategic Environmental Impact Assessment analytical framework.⁸⁸

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 3-year phase in 2005 within the context of a 10-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

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

⁸⁸ See, for example, D. W. Yingchroen. 2006. *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.

⁸⁹ Details available at www.gms-eoc.org/CEP/CEPDocument.aspx

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.

Proposed Strategy and Implementation Modality

Strategic Thrust: The strategic objective for environmental conservation in the EWEC is the maintenance of the quality of ecosystems 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 to secure critical ecosystems and environmental quality in the EWEC.

Implementation Modalities: The resulting action plan to reduce 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:					
Action Plan:					
ENVIRONMENTAL IMPACT ASSESSMENTS AND CONSERVATION					
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	EOC	2008–012	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 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	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 playing the GMS transport corridors.	Assessment completion and recommendations	EOC	2008–2012	Ongoing. Findings of ongoing WGE and/or EOC study to guide subsequent studies and/or activities to further achieving reduced-carbon economic corridors.

Enhancing Connectivity

EWEC Transport System

Overview: A number of important improvements have occurred in the development of the EWEC highway during the last 10 years.⁹⁰

- **Myanmar** (200 km): Part of the road between Thinganyinaug 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 Thinganyinaug 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 Lao PDR 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 5 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 Thailand–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.
- **The Lao PDR** (229 km): ADB and the Government of Japan 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 the Lao PDR, as well as Viet Nam, 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 Viet Nam. One other issue relates to the permissible axle load 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.

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.

Figure 10.1: EWEC Road Network

Mawlamyine		Myawaddy						Seno		Lao-Vietnam Border	
Myanmar 200 kms		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	241 kms	82kms	80kms	129kms	35kms	8kms	208 kms	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	Chumpae			Kalasin		Mukdaham		Lao Bao	Da Nang	
		Pitsanulok	Khon Kaen			Kamchaee	2 nd Friendship Bridge			Dong Ha	

- 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 PDR Bao on the Lao PDR–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 Ha Noi and Ho Chi Minh City and shipping to numerous seaports. The port itself consisting of two areas, Tien Sa Seaport and Han River port. Tien Sa Seaport is the third largest commercial port in Viet Nam 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 square meters (m²) and the total warehouse area is 22,764 m². The length of berths is 1,647 m² and total area of berths is 27,633 m².

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 the Lao PDR and Northeast Thailand via Road No 14B and Road No 9 linking routes along the EWEC. However, there is currently a large underutilization

⁹¹ The Danang port has sufficient modern facilities to satisfy customers’ demands including 7 tugboats from 305 HP to 1,750 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.

of port facilities, estimated at 50% 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 1.6 km 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 \$70,000,000 funded largely by a loan from Japan.

Road Network – The EWEC road network is distributed among member countries as follows: Myanmar, 11%; Thailand, 54%; the Lao PDR, 16%; and Viet Nam, 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 the Lao PDR along the EWEC borders. The proposed electrified line would run through Atsaphangthong, Phalarn, Phin, and Sepone to Lao Bao on the Viet Nam 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 basis.⁹⁴ The construction period has been estimated at 8 years with a cost of \$3 billion.

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

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 ADB. 2008. *Performance Evaluation Report Lao People’s Democratic Republic and Socialist Republic of Viet Nam: Greater Mekong Subregion: East–West Economic Corridor Project*. Manila (December). 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 the 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 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 4 years and in Viet Nam by 3 years. The completion of the main corridor in the 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 10 November 2008.

Secondary Road Improvement Program

Feeder Roads and Supporting Infrastructure – As part of the ADB loan to the Lao PDR and Viet Nam, 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 190 km, 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 thereby affected about 101 villages with a population of about 45,513. In Viet Nam, the project included the Dong Ha Southern Bypass of 10.7 km 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.

Positive Effects: According to the recent performance evaluation for the Lao PDR and Viet Nam sections of the EWEC, the socioeconomic 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, jobs, and social services. Economic activity, as measured by growth in the services sector, has increased and improved road access, 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.

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 multimodal 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

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

helping to link rural areas to markets, with the following strategic objective for improving connectivity:

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 Viet Nam	Upgrade to class 3 the following sections: Highway 8 Cau Treo border-Hong Linh 80 km, D700 billion; Highway 217 Na Meo-Do Len check point 154-194 km, (upgrading to class 4) D160 billion; Highway 49 in Hue 80 km; Highway 19 Quy Nhon port-Binh Dinh province 250 km, D2,000 billion; Highway 24 Dung Quat port-Kon Tum 168 km, D1,360 billion; Highway 9 phase 3, 83 km, D3000 billion; Highway 26 Cam Ranh port-Buon Ma Thuot 151 km, D1208 billion; Highway 14 Nam Giang-Giang Bridge 76 km, D760 billion and; Highways 20/28 Phan Thiet-Da Lat 140 km, D1, 120 billion.	Completion of road upgrading.	Ministry of Transport of Viet Nam	2008–2012	Ongoing.
5.2 Upgrade sections of the EWEC from Mae Sot to Mukdahan in Thailand	Upgrade road sections for the following sections of the EWEC: Tak-Sukhothai section 2 (26 km); Nong Rua-Chumpae-Konsarn section 1 (24km); and Tak-Mae Sot section 1 (12km).	Completion of transport projects; reduction in cost and time of travel, and operating costs.	Ministry of Transport and Communications of Thailand	2008–2016	Ongoing. Cost estimate is for the first 220 km. Total length to be upgraded is 465 km. Thailand is financing the upgrading of 62 km, costing \$35 million. The remaining 403 km is included in Thailand's 3-year plan (2009–2011) and 11th Highway Development Plan (2012–2016).

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Table 10.1: *continued*

Project Initiative	Expected Output	Progress Indicator	Implementation Agency	Time-frame	Status and Remarks
5.3 Expansion Program for EWEC and Southern Corridors Highways	Upgrade 217 km of existing highway in Thailand that is part of the EWEC and Southern corridors from 2-lanes to 4-lanes 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 \$110 million included in the 2009 pipeline) and Government of Thailand (\$125 million); other sections to be financed by World Bank.
5.4 Road improvement of EWEC from Thingannynaung to Kawkareik (Myanmar)	Improve EWEC road in Myanmar from Thingannynaung 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 40 km mountainous section of EWEC, which is currently operating one direction per day.	Completion of construction.	Ministry of Rail, Transportation, Road Transport Administration Department, Myanmar	2008–2012	With financial assistance from Thailand. Cost to be determined.

continued on next page

Table 10.1: *continued*

Project Initiative	Expected Output	Progress Indicator	Implementation Agency	Time-frame	Status and Remarks
5.6 Construction or reconstruction of Kawkaireik-Mawlamyine-Thaton in Myanmar	Construction or reconstruction of 189 km Kawkaireik-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 210 km electrified railway line across Savannakhet linking Thailand to Viet Nam.	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 Viet Nam	Development of Lien Chieu Seaport, which is part of the Da Nang Seaport System, in the following areas: (i) construction of a 250 meter (m) long container pier at the area of natural depth (9 m) for 30,000 dead-weight ton (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 of 850 m to prevent waves and wind from the north and northeast.	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 and/or gateway of the EWEC and provide a deepwater port to handle imports and/or 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.
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.

ADB = Asian Development Bank, D = dong, EWEC = East-West Economic Corridor, km = kilometer, JBIC = Japan Bank for International Cooperation, Lao PDR = Lao People's Democratic Republic.

Strategy and Action Plan for the Greater Mekong Subregion East–West Economic Corridor

The East–West Economic Corridor (EWEC) was launched in 1998 as a flagship initiative of the Greater Mekong Subregion. EWEC has since achieved many of its infrastructure targets and must now be transformed from a transport corridor into an economic corridor. This report reviews and updates the Pre-Investment Study for EWEC conducted in 2001. It consolidates the interests and concerns of stakeholders into a revised and updated strategy and action plan to provide a vision and framework, improve coordination, and assist in mobilizing resources for EWEC development.

Preparation of this revised and updated strategy and action plan for EWEC involved a series of consultations with government officials of EWEC countries and representatives of the private sector, nongovernment organizations, and development partners. These consultations culminated in a regional workshop held on 24 April 2009 in Khon Kaen, Thailand. The revised and updated strategy and action plan for EWEC was endorsed at the 15th GMS Ministerial Conference held in Cha-am, Petchburi Province, Thailand on 17–19 June 2009.

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