

Issue Paper

EAST-WEST ECONOMIC CORRIDOR: PROGRESS, ISSUES AND WAY FORWARD

Background

Since its launching ten years ago, the East-West Economic Corridor (EWEC) has achieved many of its target infrastructural benchmarks, making the road transport system an effective means for generating trade and other subregional cooperation benefits. To facilitate the transformation of the EWEC into a genuine economic corridor, a new strategy and action plan was approved at the 15th GMS Ministerial Conference held in Petchburi, Thailand, on 17–19 June 2009. It establishes a set of practical initiatives for sustaining pro-poor growth that are more focused than the original strategy set out in the ADB's *2001 Preinvestment Study*.

The new EWEC strategy and action plan differs significantly from the one that directed the Corridor's development in the last ten years. First, it shifts the vision of the Corridor to its socio-economic development, with a poverty-based focus that is linked closely to the other corridors and transport routes at the interchange, border and gateway nodes, as well as secondary and feeder roads offering access to markets for rural communities. Second, it focuses the action plan on a relatively few high-profile initiatives that have direct links to key strategic areas in private sector, social, environmental and multi-modal transport development. Finally, it broadens the sector coverage to those of private sector, as well as social and environmental development, while maintaining trade and investment, agriculture and agro-industry, tourism and infrastructure as core development areas.

Issues being Addressed

At the 15th GMS Ministerial Conference, the ministers reiterated the need for the private sector to be the driving force behind the EWEC's transformation into an economic corridor. They also emphasized the importance of distinguishing between (a) the private sector's interest in the Corridor as a transport system, and (b) its interest in the economic opportunities of the areas surrounding the Corridor. Commercial development of the transport system is benefiting from the large number of interchange nodes linking east-west trade with north-south trade along the EWEC's entire range. There is, however, less momentum to develop some of the poorer areas surrounding the Corridor, to the effectiveness of public sector interventions, supported by development partners, will be critical to the EWEC's success as an economic corridor.

Past interventions by provincial and central governments have, at times, been constrained by capacity limitations, and donors have either duplicated activities in some instances or intervened in some activities that lacked the necessary complementary projects to make them effective. To remedy these difficulties, the new EWEC strategy and action plan adopts an integrated approach to pro-poor interventions as a means of preventing a repetition of earlier projects fragmentations. The integrated approach consists of a set of comprehensive and sustainable activities that facilitate the development of the private sector's capacity through a broad range of socio-economic initiatives promoting the use of the EWEC's area surrounding, and helping to reverse any unfavorable socio-economic effects from those commercial developments.

Implementation of the Economic Corridor

A. Pro-Poor Private Sector Development

The EWEC's integrated approach to pro-poor private sector growth and development uses two types of action plans. The first covers cross-border activities that enhance the competitiveness of the private sector in traded goods, service-based activities, and cross-border investments. The second approach involves mechanisms that improve equity and

alleviate poverty, specifically targeting capacity building activities and programs directed at the social sector. Examples of these pro-poor growth activities are the following:

- A corridor towns development project providing a broad-based and comprehensive support to the development of the private sector.
- Sustainable business development services supported by financing mechanisms aimed at integrating micro, small and medium size enterprises (MSMEs) into corridor-based activities, either as stand-alone commercial activities or as part of value chains or networking systems located, for example, in special economic zones (SEZs).
- Other pro-poor programs focusing on the amelioration of negative effects from the Corridor related to HIV/AIDS, epidemics and disease outbreaks, and other communicable diseases in vulnerable populations.

The EWEC strategy and action plan identifies 23 specific initiatives in the area of pro-poor private sector development. Among these are the following urgently needed ones addressing specific issues and problems that are considered among major obstacles to the EWEC's transformation to an economic corridor:

Factor(s) Impeding Transformation to an Economic Corridor	Ongoing or Proposed Interventions	Expected Output
Infrastructure-related backlogs from economic corridor development, and opportunity costs for affected population in.	Corridor Towns Development Project	Development of public and economic infrastructure in the secondary towns and border towns located along the Corridor.
Lack of comprehensive approach for delivery of BDS products to MSMEs.	Business Development Service Center for Micro and Small Business Development	(i) improved availability and access to production and market information; (ii) access to markets, including transport and logistics; (iii) access to low cost finance; (iv) affordable technical consultancy and training; (v) basic management training; (vi) start-up training
Lack of financing mechanisms in poorer areas of the Corridor	Establishment of an SME Development Fund	Establishment of fund supporting development of MSMEs in the lesser developed areas of the EWEC.
Preponderance of micro-enterprises lacking competitive advantage over foreign imports.	Training programs/workshops on SMEs' participation in global value chains	Global value chains (GVCs) awareness workshop based on case study and instructions on GVC steps and requirements for their application. Includes preparation of GVC-related technical training on technical, product and process quality standards, and IT requirements.
Sourcing problems by foreign buyers who will not have to deal with many small suppliers in scattered locations.	Mapping of global value chain opportunities for SMEs in EWEC and other GMS areas	Mapping exercises to identify constraints in specific industries, including trade rules and regulations and inadequacies in the logistics systems, as well as feasibility studies for establishing clusters of SME export suppliers along the borders of the GMS economic corridors to ease sourcing problems by foreign buyers.
Negative impact of economic development on social welfare of areas around Corridor.	Pro-poor programs to ameliorate of negative Corridor effects	Community based programs targeting HIV/AIDS, epidemics and disease outbreaks, and other communicable diseases in vulnerable populations.
Inadequate capacity to effectively develop SEZs in Lao	Special Economic Zones Capacity Building in Lao	Capacity building for Lao PDR to develop, manage, negotiate, and promote special economic zone (SEZs)
Lack of coordination in contract farming arrangements; need for public sector capacity building	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.
Limited tourism facilities along poorer areas of Corridor.	East-West Economic Corridor Tourism Development	Support to development of tourist attractions using value chains, and improvement of border facilities and services for tourists along EWEC

Factor(s) Impeding Transformation to an Economic Corridor	Ongoing or Proposed Interventions	Expected Output
Inadequate private sector capacity in poorer areas.	SME Development & Investment in EWEC Tourism-Related Facilities	Improve the small enterprise investment environment for tourism and facilitate investment in SMEs

B. Infrastructure and Trade Facilitation

Enhance connectivity remains one of the most effective ways of promoting the economic corridor, and involves both multi-modal transportation systems along the main artery of the Corridor and the development of secondary road systems linking rural communities to markets. Infrastructural improvements in these areas will save time, reduce risks and lower transportation costs, thereby encouraging trade along the Corridor and promoting production and employment opportunities in the surrounding areas. In facilitating trade, the new strategy and action plan focuses on harmonizing and integrating procedures and systems to facilitate border crossing formalities, including customs, immigration, and quarantine, as well as promoting the development of trade logistics.

The EWEC strategy and action plan identifies 17 specific initiatives in the area of infrastructure and trade facilitation. Among those are the following urgently needed ones addressing specific issues and problems that are considered among major obstacles to the EWEC's transformation to an economic corridor:

Factor(s) Impeding Transformation to an Economic Corridor	Ongoing or Proposed Interventions	Expected Output
Major constraints include (a) lack of logistics facilities at border to support trans-loading; (b) poor road conditions due to depressions and damages from rain, lack of alternative routes in case of accident or natural disasters, and slow-down of trucks caused by mixed traffic that includes motorcycles and animal-drawn carts; (c) lack of service facilities along Route 9 in Savannakhet	Upgrade sections of the EWEC Other Highway Projects in Vietnam	The outputs are specific to various sections of highway projects. See EWEC Strategy and Action Plan for details.
	Rehabilitation of damaged roadway along Route 9	Rehabilitation of Road 9 in the Lao PDR and the upgrading and partial rehabilitation of Road 9 in Viet Nam
	Improved road safety along Route 9 in Savannakhet	Implementation of road safety measures for night traffic, segregation of opposing traffic flows with median dividers, and hard shoulder from the main carriageway.
	Upgrade sections of the EWEC from Mae Sot to Mukdahan in Thailand	Improvement of Highways 105/12/209/213/2042: Mae Sot-Mukdahan 770km, progressive widening to 4-lane, 233km completed; 75km under construction, additional 262km to be widened in 10th Plan 2007-11.
	Mukdahan-Sa Kaeo-Laem Chabang missing links construction	Construction of missing links along Mukdahan-Sa Kaeo-Laem Chabang.
Poor and disadvantaged groups living in rural communities lack access to markets, employment opportunities, and social services	Secondary Feeder Road Networks	Development of extended feeder road network in Vietnam and Laos to enable poor and disadvantaged groups to gain access to markets through the construction and improvement of rural roads, small bridges, river crossing systems, and other rural infrastructure.
Implementation of CBTA annexes and protocols remains unclear due to lack of dissemination about the agreement to	Implementation of CBTA	Implementation of CBTA for (i) establishing an efficient management systems with associated capacity building; (ii) streamlining and harmonizing border control documents; (iii) preparing manuals of operation at the border checkpoints and providing associated training; (iv) establishing required

Factor(s) Impeding Transformation to an Economic Corridor	Ongoing or Proposed Interventions	Expected Output
customs officials located in the border checkpoints.		infrastructure, and, in some cases, relocating and/or modifying layouts of border checkpoints, as well as providing common control areas to allow single-stop and single-window inspections.
Several transit agreements exist (see EWEC Strategy & Action Plan) but implementation issues remain.	Transit Trade Improvements	(i) reduce trucking costs caused by imbalance in the direction of trade; (ii) use of electronic data interchange system in Lao PDR; (iii) maximize benefits from transit traffic by service, custom clearance and handling income sources; (iv) upgrade Lao PDR truck fleet; (v) reduce unofficial costs associated with expediting processing by customs officials; (vi) simplify documents currently required for Thai cargo.

C. Institutional Requirements

Institutional capacity building and coordination of the growing number of subregional institutions are an integral part of the new strategy and action plan. At the 15th GMS Ministerial Conference, the ministers noted the importance of the newly-created Economic Corridors Forum (ECF) to unify and focus initiatives for the EWEC and other GMS corridors. Key features of its success are as follows:

- The ECF will be closely linked to the GMS Business Forum (GMS-BF) and the Governors Forum, as well as the GMS Ministerial Meeting, Senior Officials Meeting, and various forums and working groups.
- Enhancing linkages should be established with the CBTA and the operations of the National Transport Facilitation Committee (NTFC), GMS Freight Transport Association (FRETA), Mekong Tourism Development Project (MTDP), and the Environment Operations Center (EOC) to ensure collaboration among all initiatives related to the EWEC and other corridors.
- The role of the ECF within the GMS/EWEC organizational framework needs to evolve as the existing situation gives way to increased need for collaboration and coordination among different sector initiatives in the Corridor.

D. Investment Requirements

Implementation of the EWEC Strategy and Action Plan will require about US\$1.5 billion over a five-year period (2008-2012), equivalent to an average of \$300 million a year. This amount compares with US\$5.0 billion over the same five-year period for the North-South Economic Corridor (NSEC). Notable features of the existing implementation budget are as follows:

- The bulk (about 90%) of the currently budgeted amount is for transport infrastructure and the remaining (10%) is for economic and social initiatives.
- In the economic and social initiatives, tourism absorbs the largest proportion (nearly one-half of the total), followed by social and environmental projects (over one-third).
- Private sector development, including trade and investment initiatives and agricultural development, together accounts for one-eighth of the total budgeted amounts for economic and social projects.

It is important to underscore that a number of the projects still need to be costed, and those additions will significantly increase the total budget and the proportion of economic and social initiatives within it.