

Issue Paper

NORTH-SOUTH ECONOMIC CORRIDOR: PROGRESS, ISSUES AND WAY FORWARD

Introduction

This paper summarizes the progress, issues and way forward in developing the North-South Economic Corridor (NSEC) in the context of the Strategy and Action Plan (SAP) for NSEC which was endorsed at the 15th GMS Ministerial Conference held in Thailand on 17-19 June 2009.¹ The next section provides an overview of the vision, goals and objectives of the draft SAP for the NSEC, while the subsequent sections outlines the progress, issues and way forward in achieving each of the strategic priorities of the SAP.

Vision, Goals, Objectives and Strategic Priorities

The long-term vision of NSEC is that of a dynamic, progressive and well-integrated economic corridor, serving as a locomotive for economic and social development along the north-south axis of the GMS, able to attract domestic and foreign investment, functioning as a major gateway for ASEAN-PRC trade, and contributing to employment and income growth, as well as poverty reduction in the GMS. Its key characteristic would be a highly efficient multi-modal transport and logistics system which allows the seamless movement of people, goods and services along the corridor. NSEC development is envisioned to be balanced and sustainable, with the less developed components of the corridor deriving commensurate benefits, the interests of vulnerable groups being adequately protected, and environmental concerns being effectively addressed.

The ultimate goal of NSEC development is to reduce income disparities, increase employment opportunities, generate higher income and improve the living conditions of people in the corridor and surrounding areas. To realize this goal, the more immediate objectives of NSEC development are: (i) to ensure that NSEC development is economically, socially and environmentally sustainable; (ii) to enhance the competitiveness of the corridor by reducing the cost of transport and of doing business, and facilitating the start-up and operation of business ventures in the corridor; and (iii) to make the most of underlying comparative advantages and complementarities among NSEC components, specifically by promoting NSEC areas as a tourist and investment destination and production base. Along these lines, the strategic priorities of the NSEC SAP are: (i) to mainstream measures to deal with social and environmental concerns in NSEC development; (ii) to strengthen infrastructure and facilities needed for integration; (iii) to facilitate cross border transport and trade; (iv) to promote and facilitate investment in agriculture, agro-industry, natural-resource based industries, manufacturing, tourism and logistics; (v) to address human resource constraints in the public and private sectors; and (v) to enhance institutional mechanisms for planning, coordinating and implementing NSEC initiatives and increasing public-private partnerships.

Mainstreaming Measures to Deal with Social and Environmental Concerns

Although the development of NSEC is expected to bring benefits to the local people in terms of increased trade and investment, greater income-generating opportunities, reduced poverty and better quality of life, there are threats and risks that could have undesirable

¹ See the SAP for NSEC which has been circulated separately.

consequences for NSEC and the people residing in the corridor and surrounding areas. These include possible displacement of local communities and ethnic communities, spread of communicable diseases, trafficking of women and children and illegal trade, deforestation and loss of biodiversity, and environmental degradation. NSEC development needs to recognize and adopt a proactive stance to address these threats and risks. The following table summarizes the progress, issues and way forward in mainstreaming social and environmental concerns in NSEC development:

Sector/ Activity	Progress	Issues	Way Forward
Social concerns	Some pilot projects have been implemented to mitigate the negative impact of economic corridor development such as those in the control of the spread of HIV/AIDS.	Sustained, effective and coordinated measures are necessary to effectively address the possible negative impact of NSEC development on the people living in the corridor.	Enhance cooperation in formulating and implementing measures to address the possible negative impact of NSEC development (e.g., in the control and surveillance, public awareness and response to epidemics due to transboundary diseases); replicate successful pilot projects.
Environment concerns	GMS countries are implementing thru the GMS Environment Operations Center a Core Environmental Program to, among others, ensure sustainability of GMS economic corridor development.	Full integration and internalization of environmental concerns in the planning and implementation of NSEC initiatives has not yet been achieved.	Ensure that major investments (e.g., in transport, power, tourism) are pursued in a sustainable manner; develop frameworks and approaches for strengthening the management and protection of natural resources in NSEC areas.

Strengthening Infrastructure and Facilities Needed for Integration

Improvement of physical infrastructure in NSEC has progressed very well, and this is now of a lesser constraint. However, problems remain in some NSEC components, such as the shortage of rail capacity between Hekou and Hai Phong, poor road conditions in the mountainous areas between Lao Cai and Ha Noi, lack of power and other utilities in the Lao PDR and Myanmar components of NSEC, lack of facilities, including IT equipment and communications services in many of the border checkpoints, and shortage of storage and warehousing facilities. There is also a need to develop links among various modes of transport in the corridor and continue upgrading existing links as traffic through the NSEC routes grows over time. The following table summarizes the progress, issues and way forward in strengthening infrastructure and facilities in NSEC:

Sector/ Activity	Progress	Issues	Way Forward
Transport	Major NSEC roads have been upgraded and/or rehabilitated and the transport corridor has been substantially completed; last missing link, i.e., crossing over the Mekong between Houaxay (Lao PDR) and	Problems remain in some NSEC components such as shortage of rail capacity between Hekou (Yunnan) and Hai Phong (Viet Nam), and poor road conditions in the mountainous areas between Lao Cai and Hanoi. There is a need to further improve major transport	Complete on-going projects to further upgrade NSEC roads, including the ADB-assisted Lao Cai-Noi-Bai-Hanoi expressway project; complete on-going projects to increase capacity and improve reliability of rail services along the Kunming-Hanoi-Haiphong route.

Sector/ Activity	Progress	Issues	Way Forward
	Chiang Khong (Thailand) is being addressed by the construction of 4 th Mekong International Bridge.	links to reduce travel time and increase carrying capacity, safety and reliability. It will be necessary to rehabilitate and/or upgrade access or secondary roads in NSEC to link priority agricultural, agro-industrial and tourism projects to the main NSEC roads. There is a need to promote multimodalism to best serve future transport and trade flows.	Incorporate access or secondary roads development in NSEC road projects and/or agricultural or tourism projects; prepare feeder roads development project to complement the development of the main NSEC roads. Take account of multimodal facilities in the preparation of road, rail, water and air transport projects, especially the links to major ports and airports.
Power	Power supply is adequate in the PRC and Thailand components of NSEC.	Power supply situation in the Lao PDR and Myanmar components of NSEC needs substantial improvement; similar situation in the northern provinces of Viet Nam in NSEC, though to a lesser degree.	Facilitate on-going ADB-assisted project to expand Lao PDR's backbone transmission network; pursue cooperation in the supply of electricity between border areas (e.g., sale of electricity by Hekou of Yunnan Province to Lao Cai).
Telecom	Access to ICT is generally adequate in the NSEC areas in the PRC, Thailand and Viet Nam.	Development of Lao PDR component of NSEC is constrained by poor ICT infrastructure and weak access to ICT, with telephone access concentrated in or around Vientiane and mobile coverage outside of provincial capitals being limited, especially in the north.	Complete project to develop mobile and fiber optic fiber backbone in Lao PDR, including mobile and optical fiber network in the northern provinces.
Border Facilities	There has been some improvement in the facilities in major border checkpoints such as Hekou (Yunnan)-Lao Cai (Viet Nam) Youyiguan (Guangxi)-Dong Dang (Viet Nam).	Facilities are still lacking at other border checkpoints to facilitate clearing of formalities (e.g., for inspection and transloading); utilities (water, power, telecom services) and other support services in border towns also need expansion and improvement; facilities at Dong Dang are adequate but becoming congested and require expansion.	Prepare/finalize plans for upgrading of facilities at NSEC border checkpoints and secure financing for their implementation.

Facilitating Cross Border Transport and Trade

While substantial progress has been achieved in improving physical connectivity among NSEC components, the implementation of the “soft” aspects of economic corridor development, especially the Cross Border Transport Agreement (CBTA), has lagged behind. The pilot projects are not proceeding according to schedule, except to a limited extent at one of the border checkpoints. By and large, processing of goods and vehicles by regulatory agencies remains multi-step, redundant and fragmented at many border checkpoints. Except for Thailand, the use of ICT is quite limited, with the border offices generally operating stand-alone systems that are not connected to the national system. It will be essential to accelerate the implementation of the

CBTA so that the benefits from improved physical connectivity can be maximized. The following table summarizes the progress, issues and way forward in facilitating cross border transport and trade in NSEC:

Sector/Activity	Progress	Issues	Way Forward
Trade and Transport Facilitation	A Cross Border Transport Agreement (CBTA) was formulated, agreed to, signed and ratified to facilitate the cross border movement of people and goods in the GMS.	Implementation of the CBTA especially exchange of traffic rights has been delayed; major cause of delay in crossing borders is the need for transshipment of cargo. Issues in CBTA implementation include limited coordination among trade/transport facilitation (TTF) initiatives; insufficient ownership of the CBTA by customs authorities and other agencies; insufficient involvement of the private sector; weak institutional arrangements for implementing the CBTA; and lack of skills and capacity, especially at the borders and the provinces for implementing the CBTA.	Commence/accelerate implementation of MOUs for CBTA implementation in Hekou-Lao Cai, Tachilek (Myanmar)-Mae Sai (Thailand), and Houaxay-Chiang Khong; complete negotiations for CBTA implementation in Youyiguan (PRC)-Huu Nghi (Viet Nam) and Mohan (PRC)-Boten (Lao PDR). Agree on and finalize the proposed strategy and work program for transport and trade facilitation in the GMS; implement the proposed ADB-assisted project for improvement of handling of phytosanitary (SPS) requirements in GMS cross-border trade.

Promoting and Facilitating Investment

The promotion and facilitation of investments in NSEC requires measures to improve the competitiveness of NSEC areas. To achieve this, it will be necessary to reduce the cost of doing business which includes the cost of setting up enterprises, cost of production and operations, and cost of transportation and distribution. Investment promotion has to target both cross-border investments and those from outside of the GMS with emphasis on agriculture, agro-industry, natural resource-based industries, manufacturing, tourism and logistics. The development of industrial clusters and value chains along the corridor and surrounding areas needs to be promoted together with the development of small and medium enterprises linked to large enterprises in the corridor. The following table summarizes the progress, issues and way forward in facilitating cross border transport and trade in NSEC:

Sector/Activity	Progress	Issues	Way Forward
Investment Promotion	NSEC countries have established special economic zones especially in or near border areas.	There is a need to actively disseminate and promote business opportunities in NSEC areas. It is also necessary to promote the development of cross-border economic zones to take advantage of existing complementarities in terms of land, wages, labor skills and access to capital and technology.	Organize and conduct SEC investment fairs and road shows; streamline investment approval procedures; systematize dissemination of business opportunities and related information on the SEC (printed and electronic means); support the development of cross-border economic zones.
Agriculture and industry	Enterprises from Thailand are investing in Lao PDR and Viet Nam. Contract	It will be necessary to develop multi-country production and processing links that can relieve	Identify and support development of commercially viable agro-industrial projects; facilitate the

Sector/ Activity	Progress	Issues	Way Forward
	farming has been pursued in border areas in the NSEC.	raw material constraints, increase productivity and value adding activities, and take advantage of complementarities. Specific questions are how to further promote and support contract farming in NSEC areas, and how SMEs in these areas and their link to large enterprises can be developed.	flow of factors of production across national borders; streamline trade and investment regimes and accelerate human resource development efforts; strengthen policy support to contract farming; improve the access of SMEs to financing; provide business development services to SMEs preferably through existing private business and industry associations;
Tourism	Tourist arrivals in NSEC countries have grown significantly in the last decade, though there has been some slackening due to the global economic and financial crisis. Improved physical connectivity is expected to facilitate realization of the tourism potential of SEC areas.	Challenge is how to jointly maximize and spread the benefits from tourism development in the SEC in a sustainable and socially viable manner. Problems in less developed tourist destinations include lack of (i) skilled personnel; (ii) supporting infrastructure, utilities and facilities; and (iii) promotional materials.	Jointly promote and conduct product development; facilitate travel; improve and develop tourism products and facilities; conduct skills training for the tourism industry; improve infrastructure to support tourism, including access roads, power, water and other essential services.
Logistics	NSEC countries are promoting development of logistics industry to support trade and investment activities.	Cost of logistics along NSEC is high and reliability of services is relatively low. The logistics industry in Viet Nam is still at an early stage of development, with freight forwarding companies tending to be highly specialized and with limited coordination within and among different modes of transport. The logistics industry is still undeveloped in Lao PDR and Myanmar.	Promote logistics industry thru deregulation and increased foreign participation where feasible; increase awareness, knowledge and skills in logistics concepts, operations and development; establish a GMS Freight Transport Association (FRETA).

Addressing Human Resource Constraints in the Public and Private Sectors

Lack of awareness, knowledge and skills in transport, trade and investment facilitation by officials, especially at the local level is hindering the growth of trade and investment in NSEC. Logistics service providers also lack capacity for providing services in line with international standards. The low level of labor skills in the Lao PDR and Myanmar components and, to a certain extent, the Viet Nam component of NSEC (upland areas) is constraining their development. Capacity for the utilization of ICT applications is also generally limited, particularly at the local level. The following table summarizes the progress, issues and way forward in addressing human resource constraints in NSEC development:

Sector/ Activity	Progress	Issues	Way Forward
Public sector	Training programs and workshops have been conducted to raise awareness, knowledge and	Large majority of those involved in GMS economic cooperation, especially those in the border areas and provinces has not yet	Conduct/update needs assessment; conduct more training workshops at the local level (e.g., borders and

Sector/ Activity	Progress	Issues	Way Forward
Private sector (skills development and migration)	skills of staff of key central agencies in GMS-related policies and approaches. There are some bilateral programs involving NSEC countries that involve skills training, including training of trainers.	been reached by training programs so far conducted; level of awareness, knowledge and skills required to implement the policies for NSEC development at the local level (e.g., various provisions of the CBTA) is still generally low. It is necessary to (i) increase labor skills in Lao PDR and Myanmar components of NSEC; (ii) adopt policies and regulations to safeguard welfare of migrant workers and the interests of sending and receiving countries.	provinces). Conduct skills development programs with special attention to workers in Lao PDR and Myanmar; jointly address migration issues; promote cooperative programs among training and educational institutions in NSEC countries.

Enhancing Institutional Mechanisms and Increasing Public-Private Partnerships

Weak coordination among agencies (e.g., transport, trade and investment, tourism) has been cited as a major issue which has contributed to problems and delays in implementing agreements which have already been adopted and ratified, including those in the CBTA and ASEAN framework. Institutional mechanisms and arrangements are also not adequate to ensure effective and sustained implementation of NSEC initiatives. The involvement of local authorities and communities in corridor development in many NSEC areas is limited. Mechanisms to promote private sector participation in NSEC development are deficient and so far not very effective. The Economic Corridors Forum (ECF) was established in June 2008 to address these issues. Besides the problem of coordination, lack of information on NSEC programs and projects has been identified as another constraint in NSEC development. For instance, the lack of coordination among concerned government agencies is partly due to the insufficient information flow across agencies at different levels on various aspects of NSEC development. The private sector also lacks information about what NSEC is trying to achieve, what opportunities are open to them, and what rules would be applied to enable them to participate in the development of the corridor. The following table summarizes the progress, issues and way forward in enhancing institutional arrangements and increasing public-private sector cooperation to advance the development of NSEC:

Sector/ Activity	Progress	Issues	Way Forward
Institutional arrangements for implementing NSEC initiatives.	ECF was established in June 2008 to sharpen the focus on and promote networking and coordination among various groups involved in GMS economic corridor development.	Key issue is how to make the ECF an effective instrument for promoting and facilitating GMS economic corridor development; close cooperation is needed at all levels – between central and local agencies, among central agencies and GMS working groups, among provinces, between public and private sectors.	Provide continuing support to the operations of the ECF, including networking arrangements that arise from its meeting; ensure that recommendations of the ECF are followed up and acted upon by appropriate authorities.
Promotion of	The GMS Business Forum	The private sector needs	Increase private sector

Sector/ Activity	Progress	Issues	Way Forward
private sector participation and public-private partnerships (PPP).	has implemented various promotional measures to increase private sector participation in GMS development, including in economic corridor development. Some PPP projects have been implemented in the PRC, Thailand and Viet Nam, especially in the transport and power sectors.	strengthening in Lao PDR and Myanmar. SMEs, especially in these countries lack financing, technology, management and marketing skills. Issues involving SMES include (i) how to best provide business development services to SMEs in the SEC; (i) how to link them to large enterprises in the corridor; and (iii) how to increase availability and access of SMEs to financing. Broader issues include how to strengthen the role of the GMS BF, provincial chambers of commerce and industry associations in NSEC development.	involvement in planning and implementing NSEC initiatives; improve investment environment; conduct regular public-private sector dialogue; promote closer cooperation among provincial CCIs along NSEC, especially in the border provinces; organize industry associations and involve existing industry associations in extending business development services to SMEs in NSEC.