

Issue Paper

SOUTHERN ECONOMIC CORRIDOR: PROGRESS, ISSUES AND WAY FORWARD

Introduction

This paper summarizes the progress, issues and way forward in developing the Southern Economic Corridor (SEC) in the context of the draft Strategy and Action Plan (SAP) for the SEC.¹ The next section provides an overview of the vision, goals and objectives of the draft SAP for the SEC, while the subsequent sections outlines the progress, issues and way forward in achieving each of the objectives of the SAP.

Vision, Goals and Objectives

The vision for the SEC is to create a dynamic and prosperous economic corridor that lifts the well-being of the people in the corridor, while ensuring that its development is inclusive and sustainable. It will serve as an engine of economic growth and social development in the southern part of the GMS. Based on this vision, the goals of SEC development are to create jobs, increase incomes, reduce poverty and improve the living conditions of the people in the corridor and surrounding areas.

To realize these vision and goals, the objectives of the strategy and action plan for SEC development are to: (i) strengthen infrastructure and connectivity among the areas in the corridor; (ii) promote and facilitate trade and investment based on underlying as well as evolving complementarities and comparative advantages of the SEC areas; (iii) address social and environmental concerns in SEC development; and (iv) enhance mechanisms for promoting private sector participation and public-private sector collaboration in the development of the SEC. Special attention will be given to (i) spreading the benefits of SEC development so that they reach the people in the provinces and local areas of the corridor; and (ii) advancing the “soft” aspects of economic corridor development, as their implementation has fallen behind progress in addressing physical infrastructure constraints.

Strengthening Infrastructure and Connectivity

There are still many deficiencies in the availability of infrastructure in SEC areas, especially in Cambodia and Lao PDR which constrain connectivity and investments in agro-processing, manufacturing, tourism and other service industries. Although many road sections along the SEC, especially along the Central Sub-Corridor have been improved, there are still important missing links in the Northern and Southern Coastal Sub-Corridors for which further infrastructure investments are needed. The construction of a bridge across the Mekong in Neak Loueng in Cambodia in the Central Sub-Corridor is necessary to resolve the bottleneck there. Besides these missing links, there is also a need to connect rural areas to the primary roads to improve their access to the main corridor routes and enable them to benefit from the development of the corridor. Other important infrastructure requirements include development of multi-modal transport links and provision of power, water and telecommunications in corridor towns (especially border towns) that have poor services. The following table summarizes the progress, issues and way forward in strengthening infrastructure and connectivity in the SEC:

¹ See draft and executive summary of SAP which have been circulated separately.

Sector/ Activity	Progress	Issues	Way Forward
Transport	Most of the SEC roads upgraded and/or rehabilitated, improving physical connectivity.	<p>Need to address missing links (e.g., bridge in Neak Loueng in Cambodia, road sections in Northern and Southern Coastal Sub-Corridors).</p> <p>Need to connect rural areas to primary SEC roads.</p> <p>Need to rehabilitate railway system in Cambodia and construct sections in Cambodia and Viet Nam to complete the Singapore-Kunming Rail link.</p> <p>Need to develop multimodal transport links in the SEC.</p>	<p>Complete ADB-assisted road projects to address missing links in the Northern and Southern Coastal Sub-Corridors; finalize financing package for the construction of bridge at Neak Loueng.</p> <p>Incorporate feeder roads development in SEC road projects; prepare feeder roads development project to complement SEC road development.</p> <p>Complete ADB-assisted railway rehabilitation project in Cambodia; complete studies and secure financing for the railway sections in Cambodia and Viet Nam for the Singapore-Kunming Rail link.</p> <p>Take account of multimodal facilities in the preparation of road, rail, water and air transport projects, especially the links to major ports and airports.</p>
Power	Cooperation in the supply of power in key border areas has been pursued (e.g., electricity in many border towns in Cambodia is being supplied by neighboring countries).	Power supply situation in Cambodia needs substantial improvement; country's large hydropower potential needs to be developed; electricity services in Lao PDR and Viet Nam have to reach more villages in the rural areas.	Complete studies for developing major hydropower projects in Cambodia and secure financing for them with private sector participation thru build-operate-transfer or similar arrangements; incorporate rural electrification in major power projects (similar to approach in rural roads) and/or prepare dedicated rural electrification projects.
Telecom	Fiber optic connection among the SEC countries has been completed; telecommunication services have expanded rapidly in the last decade.	Substantial upgrading of telecommunications services in Cambodia is necessary; upgrading is also needed in Lao PDR and the Viet Nam components of the Northern and Southern Coastal Sub-Corridors.	Complete on-going project to expand fiber optic network at Aranyaprathet-Poipet; initiate telecommunications improvement projects in unserved/underserved areas thru or with private sector participation.
Border Facilities	Some improvement in border checkpoint facilities have been made together with the upgrading of major roads (e.g., in Bavet Moc-Bai together with the Phnom Penh-HCMC road improvement project).	Facilities are lacking at the 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; some delineation issues need to be resolved so border area development projects can be fully implemented.	Implement ADB-assisted Corridor Towns Improvement Project initially targeting Aranyaprathet-Poipet and Bavet-Moc Bai; resolve issue of delineation and location of key border facilities as soon as possible (e.g., in Aranyaprathet-Poipet).

Promoting and Facilitating Trade and Investment

The promotion and facilitation of trade and investment in the SEC entails measures to improve the competitiveness of the SEC for investments and exports, which in turn requires the reduction of transaction costs, including production, transport and distribution costs. The aim is to increase and diversify trade not only within the SEC, but also trade among the GMS countries and with the rest of the world. The development of transit trade will be important to facilitate access to large markets in Southeast Asia, East and South Asia using the most efficient routes and means of transport. Investment promotion will cover not only cross-border investments but also investments coming from non-GMS countries. Emphasis will be on the sectors and sub-sectors which include agriculture, agro-industry, manufacturing, tourism and logistics. Efforts will also be taken to develop industrial clusters and value chains in the corridor and surrounding areas on a complementary basis, including the promotion of small and medium scale enterprises as suppliers to large enterprises. The following table summarizes the progress, issues and way forward in promoting and facilitating trade and investment in the SEC:

Sector/ Activity	Progress	Issues	Way Forward
Trade 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. Cambodia and Viet Nam has allowed exchange of traffic rights on a limited basis (initially 40 vehicles and recently increased to 150).	Implementation of the CBTA especially exchange of traffic rights has been delayed due to 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. Need for transshipment is causing delay crossing borders, e.g., border crossing at Aranyaprathet-Poipet and Bavet-Moc Bai takes around 5 and more than 6 hours, respectively, although clearing of border formalities takes only about 1 hour, due to the need unloading and reloading of cargo.	Accelerate pilot implementation of exchange of traffic rights in the SEC. 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.
Investment Promotion	FDI in the SEC countries have grown rapidly in the last decade, although it has been adversely affected by the global financial and economic crisis. Most of the SEC countries have established special economic zones especially in border areas.	Need to continue improving the investment climate in the SEC countries and to actively disseminate and promote business opportunities in SEC areas. It is also necessary to improve the operations of existing special economic zones.	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).
• Agriculture and Industry	Enterprises from Thailand are investing in Cambodia, Lao	Need to develop multi-country production and processing links that can relieve raw material constraints, increase productivity and value adding	Identify and support development of commercially viable agro-industrial projects; facilitate the combination of factors of

Sector/ Activity	Progress	Issues	Way Forward
<ul style="list-style-type: none"> <li data-bbox="191 569 326 594">• Tourism <li data-bbox="191 1094 326 1119">• Logistics 	<p data-bbox="394 216 597 373">PDR and Viet Nam. Contract farming has been pursued in some border areas in the SEC.</p> <p data-bbox="394 569 597 1056">Tourist arrivals in SEC 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.</p> <p data-bbox="394 1094 597 1360">Relatively well-developed in Thailand, other SEC countries are promoting development of logistics industry to support trade and investment activities.</p>	<p data-bbox="630 216 1036 405">activities, and take advantage of complementarities. Specific questions are how to further promote and support contract farming among SEC areas, and how SMEs and their link to large enterprises in the SEC can be developed.</p> <p data-bbox="630 569 1036 842">Broad challenge is how to jointly maximize and spread the benefits from tourism development in the SEC in a sustainable and socially viable manner. Specific question is how to develop and promote new tourism products and destinations, especially ecotourism (all SEC subcorridors) and coastal tourism in the Southern Coastal Subcorridor.</p> <p data-bbox="630 1094 1036 1386">Cost of logistics services along the SEC are high and their reliability 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 Cambodia and Lao PDR.</p>	<p data-bbox="1068 216 1427 541">production (including technology) across national borders; streamline trade and investment regimes and accelerate human resource development efforts; strengthen policy support to contract farming; provide business development services to SMEs preferably through existing private business associations; improve availability and access of SMEs to financing.</p> <p data-bbox="1068 569 1427 842">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.</p> <p data-bbox="1068 1094 1427 1339">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).</p>

Addressing Social and Environmental Concerns

There are three areas of concerns involving social aspects of SEC development. The first is the need to upgrade labor skills in the Cambodian and Lao components of the SEC, which is necessary to take full advantage of complementarities in labor supply and wages and enhance the competitiveness of the corridor. The second is the need for cooperation among SEC countries so that they can adopt policies and regulations that would benefit and safeguard the interests of sending and receiving countries and at the same time ensure the welfare of migrant workers. The third requires a proactive approach to address the possible negative effects of SEC development, such as the spread of communicable diseases, drug and human trafficking, and displacement of local communities. As regards environmental concerns, the broad objective is to institute measures to maintain the long-term sustainability of SEC development, which include actions needed to effectively address the negative consequences of climate change and major SEC programs and projects such those involving tourism, industrial

and infrastructure development. The following table summarizes the progress, issues and way forward in addressing social and environmental concerns in the SEC:

Sector/ Activity	Progress	Issues	Way Forward
<ul style="list-style-type: none"> Social concerns 	Some pilot projects have been implemented to mitigate the negative impact of economic corridor development such as those in the control of communicable diseases.	Need to (i) upgrade labor skills in Cambodia and Lao PDR components of the SEC; (ii) adopt policies and regulations to safeguard welfare of migrant workers and the interests of sending and receiving countries; (iii) effectively address possible negative impact of SEC development such as displacement of local communities, spread of communicable diseases, trafficking of women and children, and illegal trade.	Conduct skills development programs with special attention to workers in Cambodia and Lao PDR; cooperate in control and surveillance, public awareness and response to epidemics due to transboundary diseases; jointly address migration issues; promote “Corporate Social Responsibility” and people to people contact in the SEC.
<ul style="list-style-type: none"> 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.	Need for specific, effective and coordinated measures to ensure that SEC development is sustainable and for appropriate responses to climate change. A specific issue is how to achieve balance between economic and environmental objectives (e.g., devoting large tracts of agricultural land to biofuel production could jeopardize food security in the future, rapid industrial development could lead to unmitigated pollution).	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 SEC areas; jointly address effects of climate change on agricultural production and living conditions of the people in SEC areas.

Enhancing Private Sector Participation and Public-Private Sector Collaboration

Although the private sector is expected to serve as the primary engine of growth in SEC development, there are many factors that have prevented this from being realized. For one, the environment for private investments in terms of the requisite infrastructure, policy and regulatory framework in many SEC areas is still not conducive to greater private sector involvement. The availability and access to financing for cross-border investments, particularly for small and medium scale enterprises is also still limited. The private sector in the Cambodian and Lao PDR components of the SEC is still “weak” compared to those in Thailand and Viet Nam. A closer collaboration between the public and private sectors in the SEC will be necessary so that the factors holding back the energy of the private sector can be effectively addressed. The following table summarizes the progress, issues and way forward in enhancing private sector participation and public-private sector collaboration in the SEC:

Sector/ Activity	Progress	Issues	Way Forward
Promotion of private sector participation and public-private partnership (PPP) projects	The GMS Business Forum has implemented various promotional measures to promote greater private sector participation,	The private sector is still weak in Cambodia and Lao PDR. 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;	Increase private sector involvement; improve investment environment; conduct regular public-private sector dialogue; promote closer cooperation among provincial CCIs, especially in the border provinces; organize industry associations and involve existing industry associations in

Sector/ Activity	Progress	Issues	Way Forward
	<p>including economic corridor development. There have been some PPP projects in Thailand and Viet Nam, especially in the transport sector.</p>	<p>and (iii) how to increase availability and access of SMEs to financing. Broader issues include how to roles of the GMS BF, provincial chambers of commerce and industry associations can be strengthened to support SEC development.</p>	<p>extending business development services to SMEs in the SEC.</p>