

(As of 26 June 2005)

## ***Summary***

### **Rationale**

The flagship initiative for the North-South Economic Corridor directly supports three of the five strategic thrusts of the Greater Mekong subregion strategic framework: (i) strengthening infrastructure linkages through a multisectoral approach, (ii) facilitating cross-border trade and investment, and (iii) enhancing private sector participation in development and improving its competitiveness. The goal is to develop a highly efficient transport system which allows goods and people to circulate or move around the subregion without significant impediment or excessive cost/delay. Improvement in the transportation network will promote economic growth and regional development, thereby reducing poverty.

In an effort to improve intraregional transport and maximize benefits, GMS countries have begun to adopt a holistic approach to development, in the form of *economic corridors*. Investments in priority infrastructure sectors such as transport, energy, telecommunications, and tourism, will focus on the same geographic space to maximize development impact while minimizing development costs. This flagship initiative will also involve carefully planning and managing policy and regulatory and infrastructure initiatives in support of selected business opportunities.

Two different routes along the north-south axis are involved in the North-South Economic Corridor initiative: (i) the Kunming-Chiang Rai-Bangkok via Lao PDR and Myanmar route, and (ii) Kunming-Hanoi-Haiphong which connects to the existing Highway No. 1 running from the northern to the southern part of Viet Nam. These major routes, together with the Southern Economic Corridor that links Bangkok to Ho Chi Minh City, form a large 'loop' or 'ring road' that covers the major cities and towns of the GMS. The North-South Economic Corridor will, therefore, play a critical role in providing PRC and northern Lao PDR access to important sea ports. The corridor intersects the East-West Corridor at key 'junction points' in Thailand and Viet Nam. Potential market coverage is extensive, given the excellent state of the existing road network from Singapore via Malaysia to Chiang Rai, and from Kunming to Beijing.

### **Flagship Objectives**

The objectives of the North-South Economic Corridor flagship initiative are: (i) to facilitate trade and development between and among Lao PDR, Myanmar, Thailand, Viet Nam, and PRC; (ii) to reduce transport costs in the project influence area, and move goods and passengers more efficiently; and (iii) to reduce poverty, support development of rural and border areas, increase earnings of low-income groups, provide employment opportunities for women, and promote tourism in its influence area.

## **Key Components**

### ***Core Transport***

- a) Chiang Rai-Kunming via Lao PDR Road Improvement Project
- b) Chiang Rai-Kunming via Myanmar Road Improvement Project
- c) Huay Goan (Nan)-Phak Bang (Lao PDR)-Udom Chai-Boten-Chiang Rung (PRC)-Kunming Road Improvement Project
- d) Kunming-Hanoi-Haiphong Transport Corridor Project
- e) Railway development
- f) Air transport development
- g) Developments related to the Upper Lancang/Mekong River Commercial Navigation Agreement
- h) Cross-border facilitation in the movement of goods and people
- i) Human resource development for the transport sector

### ***Other Infrastructure***

- j) Development of electric power grid
- k) Promotion of regional energy cooperation arrangements
- l) Telecommunications backbone development
- m) Mekong River tourism development
- n) Preinvestment Study for the North-South Economic Corridor
- o) Establishment of a special border economic zone in Chiang Rai Province, Thailand

Most of these projects are included in GMS forums and working group work programs, and are in varying stages of development.

The North-South Economic Corridor initiative requires road, rail, water transport, and air transport linkages. The first two road component projects, the Chiang Rai-Kunming via Lao PDR and via Myanmar, are considered high-priority. Upgrading of large sections of this connection in the PRC territory is either completed or underway. Sections in Thailand are in good condition, while sections in Myanmar are being upgraded by the Myanmar government with some private sector participation. The section in Lao PDR from Boten to Houayxay will be improved with loan assistance from ADB and the Governments of PRC and Thailand in the amount of about US\$30 million each. An alternative north-south road connection originating from Nan in Thailand has been proposed by the Government of Thailand as part of the ASEAN-Mekong Basin Development Cooperation (AMBDC), and is included in this flagship initiative. For the Kunming-Hanoi-Haiphong Multimodal Transport Corridor, which is another high priority GMS transport project, ADB technical assistance to examine the viability of improvements in roads, railways, or inland waterways and recommend appropriate transport mode was completed, and feasibility studies for the selected expressway and railway are being implemented. The projects for the expressway and railway are included in ADB's indicative lending pipeline to Viet Nam in 2005 and thereafter.

Three railway projects are included in this flagship initiative, one of which form part of the priority routing of the ASEAN-initiated Singapore-Kunming Rail Link Project.

The other two are railway projects to connect Thailand with Yunnan Province through Lao PDR and have been proposed by the Government of Thailand as part of the AMBDC initiative.

Lao PDR proposed the inclusion of projects to improve Louang Namtha and Houayxay airports in the North-South Economic Corridor flagship program. These projects will allow the two airports in the northern part of Lao PDR to accommodate medium-size aircraft.

At the suggestion of the PRC, a separate component concerning developments related to the Upper Lancang/Mekong River Commercial Navigation Agreement, which was signed by PRC, Lao PDR, Myanmar, and Thailand in April 2000, was proposed to form part of the North-South Flagship Initiative. Subcomponents include international navigation and related issues, as well as training.

Equally important in developing this economic corridor are the 'soft' aspects – that is, policies and regulations that play a vital role in determining the form, level, and use of infrastructure investments. In this regard, a separate flagship initiative on *Facilitating Cross-border Trade and Investment* is included in the GMS Strategic Framework. As with other GMS economic corridor initiatives, implementing a cross-border land transport facilitation agreement is integral to North-South Economic Corridor development. This is expected to simplify customs procedures, facilitate cross-border travel, minimize the need for transshipment, among many other advantages. A human resource development program for the transport sector is also included.

A preinvestment study for the North-South Economic Corridor will be prepared in 2005/2006 to determine the feasibility of creating a viable economic corridor, and to identify priority projects, policies, institutions, and financing needed to realize the potential benefits of better transportation linkages. The North-South Corridor Initiative also includes recommendations from a study prepared by the Government of Thailand to establish a special border economic zone in Chiang Rai Province.

Power transmission interconnection options are also included in the North-South Economic Corridor flagship initiative. These form part of the *Regional Power Interconnection and Power Trade Arrangements Flagship Initiative*.

Developing fiber optic transmission links is also part of the *Telecommunications Backbone and Information and Communications Technology Flagship Initiative* of the North South Economic Corridor. These links are part of the Telecommunications Backbone Project – Phase II.

Tourism holds promising potentials in the North-South Economic Corridor. For this reason, some projects and activities under the *GMS Tourism Development Flagship Initiative* have been designed to directly impact on tourism potentials of this Corridor. Initiatives identified by the Yunnan Provincial Government to develop tourism infrastructure in Yunnan Province as well as a cross-border visa policy study have been included.

### **Sequencing Priorities**

The five participating governments will soon develop and agree on a sequencing and prioritization strategy for all components of the flagship initiative. For the Kunming-Chiang Rai road connection, developing the missing link in Lao PDR, including a bridge crossing the Mekong River from Chiang Khong in Thailand to Houayxay in Lao PDR, is of highest priority. The financial and technical arrangements for this subproject were agreed upon in 2002, enabling construction to begin in 2003 and to be completed by 2006/2007. Upgrading of the road component of the Kunming-Haiphong Transport Corridor is scheduled to commence in 2005/2006. Implementation of other infrastructure components, such as rail and water transport, power transmission, remains uncertain. The Cross-Border Land Transport Facilitation Agreement, including the annexes and protocols, is expected to be finalized and signed by 2005.

### **Project Financing**

There are several major potential sources of funding for the various proposals: (i) government, (ii) multilateral development agencies and international lending agencies, (iii) foreign and local direct private investment, (iv) international private equity funds, and (v) international and domestic capital markets. Public sector funds are expected to play a key role in project financing, particularly in the early development stage.

The five participating governments will have to shoulder a significant share of the development costs, especially in the case of policy and program formulation and implementation, and institutional development. In several cases, implementation of various programs and institutions will require multicountry support; and cost sharing will have to be established on a case-by-case basis in line with anticipated benefits.

GMS Flagship Initiative  
**NORTH-SOUTH ECONOMIC CORRIDOR**

