

(As of 26 June 2005)

Summary

Rationale

The flagship initiative for the Southern Economic Corridor directly supports three of the five strategic thrusts of the Greater Mekong subregion (GMS) 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 will allow goods and people to circulate or move around the subregion without significant impediment or excessive cost/delay. Improvement in the transportation network is expected to catalyze economic growth and regional development, thereby reducing poverty.

In an effort to improve and maximize benefits of intraregional transport, GMS countries have adopted 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 or economic corridors to maximize development impact while minimizing development costs. The flagship initiative also involves carefully planning and managing policy and regulatory and infrastructure initiatives in support of selected business opportunities.

The Southern Economic Corridor Flagship Initiative will strive to improve subregional economic cooperation between and among Cambodia, Thailand, Viet Nam, and to a limited extent, southern Lao PDR, by, among others, upgrading critical links in the Asian Highway from Bangkok to Ho Chi Minh City via Phnom Penh. By 2004, all weather road travel between the major cities of Bangkok and Ho Chi Minh City will be possible.

Flagship Objectives

The Southern Economic Corridor flagship initiative aims to: (i) promote regional cooperation, foster economic integration, support increased trade and investment, and facilitate exchange and development along the east-west axis between and among Thailand, Cambodia, Viet Nam, and, to a limited extent, southern Lao PDR; and (ii) facilitate the development of economic corridors encompassing major cities in Thailand, Cambodia, and Viet Nam through the provision of road and rail infrastructure linkages.

Key Components

Fourteen projects are included the Southern Economic Corridor Flagship Initiative:

Core Transport:

- a) Bangkok-Phnom Penh-Ho Chi Minh City-Vung Tau Road Improvement Project
- b) Southern Coastal Road Corridor
- c) Southern Lao PDR-Sihanoukville Road Improvement Project

- d) Cambodia Central West-East Corridor Project (part of Northern Thailand-Southern Lao PDR-Northeastern Cambodia-Central Viet Nam Corridor Project)
- e) Thailand-Cambodia-Viet Nam railway development
- f) Water transport development
- g) Air transport development
- 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) Thai Cambodian Economic Cooperation Plan

Most of these projects form part of the work program of GMS forums or working groups, and are in varying stages of development.

The Southern Economic Corridor Initiative requires road, rail, water transport, and air transport linkages. The first road component projects, the Bangkok-Phnom Penh-Ho Chi Minh City-Vung Tau road improvement project (GMS R1) and the Southern Coastal Road Corridor (GMS R10) that links Trat in Thailand, Koh Kong and Kampot in Cambodia, and Ha Tien, Ca Mau, and Nam Cau in Viet Nam are considered high-priority. Key sections of GMS R1 in Cambodia and Viet Nam are underway with ADB assistance, while the section of GMS R10 in Viet Nam is included in ADB's indicative lending pipeline Viet Nam for 2006. The next road component projects, the Southern Lao PDR-Sihanoukville Road Improvement Project and the Cambodia Central West-East Corridor project, will complement the east-west connection by establishing a link to Lao PDR. The two projects also support the Cambodia-Lao PDR-Viet Nam Development Triangle Initiative¹ and will serve to bridge the Southern and East-West Economic Corridors.

The railway component (Thailand-Cambodia-Viet Nam railway development) involves extensive rehabilitation and/or new construction of the link from Poipet at the Thai-Cambodian border to Ho Chi Minh City, with a line from Phnom Penh to Sihanoukville. The main railway line forms part of the priority routing of the proposed Singapore-Kunming Rail Link project. Improvement of the ports in Phnom Penh and Sihanoukville in Cambodia, and in Thi Vai/Vung Tau in Viet Nam, are components of water transport and will cater to both national and subregional cargo traffic.

The development of secondary airports in the Southern Economic Corridor has been included in this flagship initiative. This involves (i) upgrading of the Pakse airport in southern Lao PDR to support the promotion of a subregional tourism loop consisting of UNESCO World Heritage sites; and (ii) upgrading of Rattanakiri and Stung Treng

¹ The Prime Ministers of Cambodia, Lao PDR, and Viet Nam agreed in January 2002 to formulate a comprehensive socioeconomic development program among the three countries. The program, which was called Triangle Development Program, will involve cooperation in such areas as communications networks, trade and tourism, and power network development. The Program will initially involve seven provinces, namely: Rattanakiri and Stung Treng in Cambodia, Attapeau and Se Kong in Lao PDR, and Kontum, Gia Lai, and Dac Lac in Viet Nam.

airports in Cambodia, which form part of the ADB-assisted Mekong Tourism Development Project.

Equally important in developing the Southern 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 Southern Economic Corridor development. The agreement will 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. Single-stop customs procedures which would further reduce transportation time and costs, are being pilot tested along the Corridor at the Thai-Cambodian border at Aranyaprathet-Poipet, and at the Cambodian-Vietnamese border at Bavet-Moc Bai.

Two power transmission interconnection options that form part of the *Regional Power Interconnection and Power Trade Arrangements Flagship Initiative* are situated in the Southern Economic Corridor and hence included in this flagship initiative. These are: (i) the 230 kV DC line interconnection project to connect Phnom Penh and Chau Doc, and (ii) the 115 kV SC line to connect Thailand and western Cambodia. Feasibility studies for gas pipeline between Thailand and Cambodia are another development component of the Corridor.

The flagship initiative includes fiber optic transmission links which form part of the Telecommunications Backbone Project – Phase I. They are as follows: (i) Phnom Penh-Siem Reap-Sisophon (ii) Pakse-Phnom Penh, and (iii) Poipet-Phnom Penh-Bavet. Implementing policy reforms in the telecommunications sector in Cambodia, Lao PDR, and Viet Nam is another important project component. The project is included in ADB's indicative lending pipeline for 2005 to Cambodia and Lao PDR.

There is strong potential to further develop tourism in the Southern Economic Corridor, particularly in Cambodia. For this reason, some projects and activities under the *GMS Tourism Development Flagship Initiative* directly impact the Southern Economic Corridor. These include tourism infrastructure projects in Cambodia and Viet Nam that form part of the ongoing ADB-assisted Mekong Tourism Development Project.

Projects and activities identified under the Thai-Cambodia Joint Development Study for Economic Cooperation (TCJDS), and prepared through the assistance of the Government of Thailand, are included in the Southern Economic Corridor initiative. TCJDS recommended four recurrent programs, 21 feasibility studies, and 19 investment projects in infrastructure, agro-industry and fisheries, light manufacturing and industry, tourism, and trade.

Sequencing Priorities

The participating governments will soon formulate and agree on a sequencing and prioritization strategy for all component projects. The high-priority subregional road connection between and among Bangkok-Phnom Penh-Ho Chi Minh City-Vung Tau, key components of which are either underway or in an advanced planning stage, is expected

to be fully operational by 2006/2007. The Southern Coastal Road Corridor project is scheduled to commence in 2006/2007 in Cambodia and Viet Nam. Expected to be operational by 2007 is the telecommunications backbone project. Implementation period for the other infrastructure components, such as rail and water transport, and power transmission is not yet firm. Cross-border agreement on land transport facilitation, including its annexes and protocols, is expected to be finalized and signed by 2005.

Project Financing

Several major potential sources of funding have been identified 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. Given the nature of its project components, the Southern Economic Corridor initiatives are expected to be financed mainly from public sector funds, particularly in the early stages of development.

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

GMS Flagship Initiative
SOUTHERN ECONOMIC CORRIDOR

