Greater Mekong Subregion: Capacity Development for Economic Zones in Border Areas
(Cofinanced by the People's Republic of China Regional Cooperation and Poverty Reduction Fund)

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For the Asian Development Bank

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TA 8989-REG: Greater Mekong Subregion: Capacity Development for Economic Zones in Border Areas

Working Paper

Improving Economic Connectivity: Developing the Greater Mekong Subregion Corridor Towns and Border Economic Zones

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Experience has shown that there are wide variations in the development performance of the border economic zones (BEZs) and the associated corridor towns in the Greater Mekong Subregion. The reasons are multiple and interconnected, including nonoptimal governance and economic development; unrealistic and unenforceable master planning; poorly financed infrastructure, housing, and public facilities; and deteriorating environmental quality.

The need for change is obvious and it is therefore urgent to (i) release the full economic and social development potential of the BEZs and (ii) ensure the associated corridor towns, and economic corridors as a whole, become primary beneficiaries of development-related investments. This can best be hinged around the implementation of an optimal development module for BEZ and corridor town development and investment. By stressing the need for more capacity in integrated governance and stakeholder collaboration, optimal and inclusive economic and social development, and better financed and focused planning and investment, the value of private sector or community investment and sustainable and climate-resilient environmental planning can be optimized.

As a consequence, the benefits of the Asian Development Bank’s intervention and support will be greatly enhanced by a project design process, which better safeguards investment value and incorporates (i) multisector and medium-term investment programming as an agreed foundation for project design and (ii) inclusive local economic and social development planning as a tool to establishing project feasibility.
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<th>Abbreviation</th>
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<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<tr>
<td>BEZ</td>
<td>border economic zone</td>
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<td>CTDP</td>
<td>corridor towns development project</td>
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<td>GMS</td>
<td>Greater Mekong Subregion</td>
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<tr>
<td>ha</td>
<td>hectare</td>
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<tr>
<td>ICT</td>
<td>information and communications technology</td>
</tr>
<tr>
<td>km</td>
<td>kilometer</td>
</tr>
<tr>
<td>Lao PDR</td>
<td>Lao People’s Democratic Republic</td>
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<tr>
<td>LEDP</td>
<td>local economic development plan</td>
</tr>
<tr>
<td>MCEZ</td>
<td>Mong Cai border-gate economic zone</td>
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<tr>
<td>O&amp;M</td>
<td>operations and maintenance</td>
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<tr>
<td>ODM</td>
<td>optimal development model</td>
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<tr>
<td>PPP</td>
<td>public–private partnership</td>
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<td>PPTA</td>
<td>project preparatory technical assistance</td>
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<tr>
<td>PRC</td>
<td>People’s Republic of China</td>
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<tr>
<td>SEZ</td>
<td>special economic zone</td>
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<tr>
<td>SMEs</td>
<td>small and medium-sized enterprises</td>
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I. INTRODUCTION

A. Background and Purpose

1. The first, second, and third phases of the Greater Mekong Subregion (GMS) corridor towns development projects (CTDPs) are being implemented in Cambodia, Lao People's Democratic Republic (PDR), Myanmar, and Viet Nam. The fourth phase in Cambodia and Lao PDR is in an advanced stage of preparation. It is observed through preparation of the CTDPs that the corridor towns focus attention on local infrastructure improvements. Where corridor towns are located within border economic zones (BEZs), the impact on investment, economic activity, and social development through implementation of the CTDPs is potentially more beneficial and cost-effective. Therefore, prior to the design of the next round of CTDPs, the benefits of strengthening the linkages between the CTDPs and the BEZs are reviewed in a practical case study environment at five selected economic hotspots. These economic hotspots are (i) Pakse in Lao PDR, (ii) Poipet in Cambodia and Aranyaprathet in Thailand, (iii) Bavet in Cambodia and Moc Bai in Viet Nam, (iv) Dong Dang–Lang Son in Viet Nam and Pingxiang in the People's Republic of China (PRC), and (v) Mong Cai in Viet Nam and Dongxing in the PRC. They were selected from a total of 17 GMS international border zones (Table 1 and Figure 1).

Table 1: Greater Mekong Subregion International Border Zones

<table>
<thead>
<tr>
<th>No.</th>
<th>Countries</th>
<th>Border Points</th>
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<tbody>
<tr>
<td>1</td>
<td>PRC–Myanmar</td>
<td>Ruili–Muse</td>
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<tr>
<td>2</td>
<td>PRC–Viet Nam</td>
<td>Hekou Yao Autonomous County–Lao Cai</td>
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<tr>
<td>3</td>
<td>PRC–Viet Nam</td>
<td>Pingxiang–Dong Dang</td>
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<td>4</td>
<td>PRC–Viet Nam</td>
<td>Dongxing–Mong Cai</td>
</tr>
<tr>
<td>5</td>
<td>Myanmar–Thailand</td>
<td>Tachileik–Mae Sai</td>
</tr>
<tr>
<td>6</td>
<td>PRC–Lao PDR</td>
<td>Mohan–Boten</td>
</tr>
<tr>
<td>7</td>
<td>Thailand–Lao PDR</td>
<td>Chiang Khong–Ban Houayxay</td>
</tr>
<tr>
<td>8</td>
<td>Myanmar–Thailand</td>
<td>Myawaddy–Mae Sot</td>
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<tr>
<td>9</td>
<td>Thailand–Lao PDR</td>
<td>Nakhon Phanom–Thakhek</td>
</tr>
<tr>
<td>10</td>
<td>Thailand–Lao PDR</td>
<td>Mukdahan–Kaysone Phomvihane</td>
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<tr>
<td>11</td>
<td>Lao PDR–Viet Nam</td>
<td>Dansavanh–Lao Bao</td>
</tr>
<tr>
<td>12</td>
<td>Myanmar–Thailand</td>
<td>Htiikh–Ban Phu Nam Ron</td>
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<td>13</td>
<td>Thailand–Cambodia</td>
<td>Aranyaprathet–Poipet</td>
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<td>14</td>
<td>Thailand–Cambodia</td>
<td>Hat Lek–Cham Yeam</td>
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<td>15</td>
<td>Thailand–Lao PDR</td>
<td>Nong Khai–Vientiane</td>
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<td>16</td>
<td>Cambodia–Viet Nam</td>
<td>Bavet–Moc Bai</td>
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<td>17</td>
<td>Cambodia–Lao PDR</td>
<td>Dong Kralor–Veun Kham</td>
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Source: Asian Development Bank and Project Management International Ltd. (PM Group) consultant team.
Figure 1: Priority Border Points in the Greater Mekong Subregion

Source: Asian Development Bank and Project Management International Ltd. (PM Group) consultant team.
B. Objectives

2. The objective of this working paper is to describe an improved context for the sustainable planning, design, and implementation of the fifth, sixth, and seventh GMS CTDPs. The working paper critically examines existing policy and practice in developing GMS BEZs through the study of five economic hotspots and makes recommendations for (i) achieving better and more sustainable BEZ performance, (ii) improved living and working conditions and the elimination of poverty in the associated corridor towns, and (iii) better returns on investment by the Asian Development Bank (ADB) in the BEZs and the associated GMS corridor towns.

C. Stakeholder Consultation

3. The working paper is prepared in a consultative environment, hinged on field missions to the five economic hotspots and associated meetings with officials from the national governments, provincial and local city or district authorities, and border zone authorities in all the GMS countries. Key issues relevant to the preparation of the working paper were also considered at meetings of the ADB GMS Working Group on Urban Development in 2017 and 2018.
II. THE ECONOMIC HOTSPOTS: PERFORMANCE OPPORTUNITIES AND CONSTRAINTS

A. Case Study 1: Pakse (Lao People’s Democratic Republic)

1. Background and Purpose

Rapid economic developments over the past decade and infrastructure investments in the Champasak Province of Lao PDR, where Pakse is located, and in the neighboring provinces of Attapeu, Salavan, and Sekong have contributed to establishing the Greater Pakse Area as a major GMS regional center in the south of Lao PDR, and to strengthening the urban area’s ties with the neighboring countries of Cambodia, Thailand, and Viet Nam. Economic and trade ties with the border province of Ubon Ratchathani in Thailand are particularly strong (Zola, 2013). The population of the greater Pakse urban area, comprising Pakse itself and neighboring districts, is around 133,000 persons. It is expected to continue to grow rapidly over the next decade.

The emergence of the Greater Pakse Area as a GMS border economic hotspot is due to its connectivity and geography. Pakse is on the GMS central economic corridor linking Vientiane in Lao PDR to Phnom Penh and Sihanoukville in Cambodia. About 140 kilometers (km) south of Pakse, the central economic corridor passes the border with Cambodia at the Nong Nok Khiene (Veun Kham–Lao PDR) and Trapaing Kreal (Cambodia) border point before reaching the city of Stung Treng (Cambodia), 50 km further south.

To the east of Pakse, the border between Thailand (Chongmek) and Lao PDR (Vangtao) is about 40 km away via a new four-lane highway built under a build–operate–transfer (BOT) scheme. The Chongmek–Vangtao border point is a strategic border on the ‘parallel’ East–West Economic Corridor (Para-EWEC) linking Bangkok (Thailand) via the Thai border city of Ubon Ratchathani, 130 km from Pakse, to the Central Highlands of Viet Nam (Kon Tum Province) and the port city of Quy Nhon and Ho Chi Minh City. It is estimated that the Para-EWEC shortens the distance from Bangkok to the Vietnamese coast by 450 km compared to the East–West Economic Corridor. In December 2003, the Thailand government approved the development of the Chongmek border as a strategic border point. Since then, both governments of Thailand and Lao PDR have made extensive infrastructure investments to upgrade border facilities. On the Lao PDR side, however, facilities need further investment.

The Greater Pakse Area has two major economic strengths making it an emerging GMS economic hotspot: (i) a very rich agriculture area and strong agro-industry sector potential, and (ii) strategic tourism potential. While the whole area of Pakse, and its close hinterland on the Bolaven Plateau, is in fact an economic zone without boundaries, several delimited economic zones are also under development both around the greater Pakse urban area and at the Chongmek (Thailand)–Vangtao (Lao PDR) border about 40 km east from Pakse. The city of Pakse acts as a regional hub for the south of Lao PDR and was elevated to a “city” status by the Lao PDR government in June 2018, a status identical to that of Vientiane.

In Champasak Province, there are five subzones, each with a different purpose and different stage of development: (i) Vangtao–Phonthong special economic zone (SEZ), (ii) Champa City SEZ (Huay Poun), (iii) Four Thousand Island New Area, (iv) Pakse–Japan SME SEZ, and (v) Champasak Lao Service Industrial Park.
9. The Vangtao−Phonthong SEZ, with total area of 253 hectares (ha) (including 70 ha in Phase 1), is proposed for development as a tourism, shopping light manufacturing, and logistics hub (industry and/or logistics area in Figure 2). The Champa City SEZ, with total area of 58 ha (just north of the Xedon River in Figure 2) and located close to the center of Pakse City and Pakse International Airport, is at a conceptual stage and will focus on residential, hotels, and parkland development. The Four Thousand Island New Area, covering approximately 7,000 ha, is located at the Lao–Cambodian border and is one of Lao PDR’s most popular tourist destinations. The project would develop an entire city built around tourism development. It has only just recently been approved and is scheduled to take several decades to be constructed. The Pakse–Japan SME SEZ, covering 195 ha (high-tech industry in Figure 2), specifically targets Japanese small and medium-sized enterprises (SMEs), where at least one shareholder must be a Japanese national. Companies have committed to invest in the Pakse–Japan SME SEZ. Some of the investments have taken place as part of the “Thailand-Plus-One” strategy and are integrated into Thai–Japanese supply chains, whereas others supply goods directly to Japan or the domestic market. Finally, the Champasak Lao Service Industrial Park (800 ha) is being developed by Lao Service Co.Ltd. on a partnership basis with the local government (70% private capital and 30% government).

Figure 2: Pakse Development Strategy, Phase 2 (2016−2020)


2. Problems and Opportunities

10. The whole southern part of Lao PDR, including Pakse, Champasak Province, and the provinces of Attapeu, Salavan, and Sekong, is a major economic center for agriculture production and agro-processing due to very fertile soil and unique favorable climatic conditions, particularly on the Bolaven Plateau about 50 km east of Pakse. Most of the agriculture products grown in the southern part of Lao PDR are exported to Thailand either for processing or distribution to markets in Thailand or for export to third countries. All the major Thai agribusiness firms are based around Pakse and across the border in Thailand in Ubon Ratchathani Province. The Greater Pakse Area acts as a center where consolidation and first value-added activities take place before exports to Thailand through the Chongmek (Thailand)–Vangtao (Lao PDR) border point. Due to its attractive location, Pakse has recently also been able to attract Thailand-Plus-One investments in manufacturing.

11. Tourism, the second driver of economic growth, is similarly centered on the Greater Pakse Area, which acts as a tourism hub. The famous United Nations Educational, Scientific and Cultural Organization (UNESCO) World Heritage site of Vat Phou is located about 40 km from the city of Pakse. In addition, the whole southern part of Lao PDR has many attractive eco-tourism sites, such as Si Phan Don (Four Thousand Islands) on the Mekong River, the Bolaven Plateau and its many trails and waterfalls, the Khone Phapheng Falls on the Mekong River, attractive riverbanks of the Mekong River as well as indigenous villages. The city of Pakse itself has attractive heritage architectural features and tourism potential, though, they are not fully exploited.

12. The vibrant economy of the Greater Pakse Area has resulted in an expansion of its urban area, thereby putting pressure on its urban infrastructure and services. A Pakse Urban Development Strategy up to the year 2030 was prepared in 2011, and a new detailed master plan will be finalized in 2018. During consultations for the preparation of the strategy, planned investment in urban infrastructure and public facilities is not well matched with the master plan proposals. Urban management skills are found to be weak, and plans and regulations were not well enforced. After acquiring the status of a “city,” Pakse announced its vision to become (i) a city emphasizing human resources development for science and technology; (ii) a commercial, services, and tourism center; (iii) a city with a clean and friendly environment; and (iv) a socially well-organized city. Institutional and human resource capacities remain constrained, although institutional capacity development is part of the ongoing Pakse Urban Environmental Improvement Project.

13. The SEZs in and around Pakse differ substantially in terms of size, investment, scope, development progress, and potential. Some can contribute to employment, economic, and social development of the greater Pakse urban area by providing linkages between the local economy and international markets. This is particularly true for agro-processing and tourism. To fully take advantage of the benefits of such development, a cluster-approach involving the entire southern Lao PDR region including neighboring countries should be considered. To develop successful clusters, there are three main components needed: infrastructure, cluster-support, and finance (Lindfield, 2017). Cluster development occurs at the international or cross-border, national, and local levels and involves all public and private stakeholders.

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3. Planning and Investment Priorities

14. The development of Pakse as an economic hotspot will be centered around two key goals: (i) to ensure Pakse becomes the main tourism hub for the southern part of Lao PDR, and (ii) to make Pakse a hub for agro-industry and trade with Thailand. There are at least three main areas, which should be addressed to help achieve these goals.

15. First, the provision of adequate municipal infrastructure should prioritize (i) the ongoing drainage system for expanding areas of the city, (ii) the construction of water treatment facilities in core urban areas, and (iii) the improvement of solid waste collection and sorting through sustainable solid waste management planning. Second, key transport infrastructure must be developed (i) to gain better access to the key tourism areas, (ii) to be in easier reach of the border crossings, and (iii) to decongest the greater Pakse urban area. In this regard, there should be support for the development of Pakse city bypass road and urban access roads, paving key access roads in the Bolaven Plateau and Paksong area, building a main road bypassing the Vat Phou world heritage site, and establishing the Lao PDR border crossing facilities at the Vangtao border with Thailand. Upgrading and beautifying the heritage of Pakse will enhance the city’s potential as a tourism hub. Third, in the area of human capacity development, it is important to (i) support the planning and management capacities of the SEZ authorities of the Champasak Province, (ii) upgrade and modernize the urban management capacity of the Pakse Urban Development Administration Authority (UDAA), and (iii) support the development of Champasak University.

B. Case Study 2: Poipet (Cambodia)–Aranyaprathet (Thailand)

1. Background and Purpose

16. The Poipet border economic zone (BEZ) and/or corridor town is located on the GMS Southern Economic Corridor at the border with Thailand, Cambodia’s main economic partner. It is 400 km northwest of Phnom Penh. Aranyaprathet is a small town on the Thai side of the border located in the Sa Kaew Province of Thailand, which is one of the provinces targeted by the government of Thailand to develop BEZs.

17. The relocation of more labor-intensive manufacturing facilities from Thailand will be the main driving force behind the development of Poipet as a future GMS economic hotspot. Tourism also has some potential based on many recreational and gaming establishments already operating next to the current border gate. Being at the border of Cambodia and close to major transport hubs and advanced industry clusters in Thailand make Poipet a very attractive location for foreign direct investments. Poipet is close to Laem Chabang deep-sea port (250 km) and the Suvarnabhumi airport hub (300 km), and is only just over 200 km away from some of Thailand’s industrial clusters south of Bangkok. It is estimated that over one million Cambodian migrant workers are present in Thailand. With major improvements in border-crossing infrastructure in Poipet, which boost its attractiveness to foreign investors (particularly those from Thailand), some of these Cambodian workers are likely to return home for employment. This, in fact, has already been observed, along with internal migration to the Poipet area.
18. Until recently, Poipet has not benefitted substantially from foreign direct investment inflows primarily because of past border security issues with Thailand and poor cross-border infrastructure facilities. The current international border-crossing facility between Cambodia and Thailand at Ban Khlong Luek–Poipet is heavily congested. In Poipet, the border crossing is cluttered by hotels and casinos, such that there is no land available for cargo inspection or transshipment. Currently, trucks have to cross the town a few kilometers inside Cambodia to reach inspection and transshipment facilities. As a result, many trucks park along the main National Highway 5 (or National Road No.5) in the town area, causing much inconvenience for traffic, the environment, and the town’s inhabitants.

19. This situation is, nevertheless, about to change dramatically as Thailand is building a large bypass of Aranyaprathet from AH1, the road to Bangkok, to the border at Ban Nong Ian. A new major international border gate, which is about 10 km from the center of Poipet town, will be opened at Stung Bot (Cambodia)–Ban Nong Ian (Thailand). A third may follow. On both sides of the border, connecting roads, border facilities, and related infrastructure are going to be developed. A large new dry port facility—the PVN Poipet Dry Port, which is capable of handling about 600 trucks a day—opened in 2017 and will progressively replace all the other dry ports and transshipment facilities now located in the Poipet urban area. The railway link with Thailand, which had been nonoperational over the past several decades, has now been reestablished, although not yet over the whole distance to Phnom Penh. The new railway line will be a major boost to the supply chains in the GMS and will become an important connection for freight transport between Cambodia and Thailand.

20. This new transport infrastructure will bring major changes to Poipet. Over the past 4 years, two new BEZs have already been set up, which have attracted several Thai and Japanese investors. They were approved and are under the supervision of the central government’s Council for the Development of Cambodia. Zone developers of economic zones in Cambodia have to provide all the needed on-site facilities, including power, water supply, waste water sewage networks, solid waste management, and environmental protection measures.

21. The Poipet O’Neang Special Economic Zone (with total area of about 500ha; purple area north of map in Figure 3), the first SEZ in Poipet, was established in 2006 and is located northeast of Poipet about 10 km from the city center. It includes an industrial zone, a commercial zone, a dry port, and a residential zone. Its development is slow partly because there is poor access infrastructure and it is situated at a somewhat remote location with weak support facilities. The Sanco Poipet SEZ was officially established in 2014. It is 5 km from the current international border and close to the new border gate (small purple area at center of the map in Figure 3). It currently has an area of 83 ha, which can further be expanded to 500ha. Typically, the Thailand-Plus-One companies have invested in Sanco Poipet SEZ. The Phnom Penh Special Economic Zone company, the largest operator of SEZs in Cambodia, is developing a third SEZ on a 68-ha area close to the new border gate with Thailand and next to the Sanco Poipet SEZ. The decision to invest in Poipet, financed by capital raised from the Cambodia stock exchange, reflects the optimism about Poipet’s development as a major industrial hub linked to the Thai transport hubs and industrial clusters, especially the automotive cluster.
2. Problems and Opportunities

22. The recent establishment of the three SEZs—closely associated with the planned opening of new border crossing facilities—is leading to a growing manufacturing sector, which will likely experience a very significant acceleration in growth over the next few years. This will create employment opportunities in both the services and manufacturing sectors, which are expected to gradually become an important source of income for the population and revenues for the local governments.

23. Poipet city’s population of 95,723 people in 2016 is expected to increase rapidly due to migration from other parts of Cambodia and the return of some migrant Cambodian workers from Thailand. The population has more than doubled over the past two decades, and its annual growth rate is currently estimated at 5.5%. With proper human resource development programs and technical skills training, such as those provided by Techno Park in the Sanco Poipet SEZ, the working age group can assist in providing at least some of the required manpower resources.
24. Poipet faces numerous existing urban challenges due to lack of investment in urban infrastructure and services and weak implementation of urban regulations, including land-use planning and regulations. Apart from the National Highway 5, all other urban roads in Poipet are in very poor condition or not paved. Similarly, urban services including water supply, wastewater systems, and solid waste management are inadequate in meeting the needs of the rapidly growing town. While there is plenty of available land, land use and zoning plans are poorly implemented. High-rise buildings of hotels, recreational facilities, and gaming establishments are all concentrated around the current Aranyaprathet–Ban Khlong Luek border gate, with small local restaurants, guest houses, and commercial shops at the periphery. The area close to the border gate is a very congested. The city is dusty during the dry season and muddy during the rainy season.

25. In-migration from other parts of Cambodia and from Cambodian workers in Thailand will further accelerate population growth, which will put further pressure on urban infrastructure and public services. Capacity building and skills development should be prioritized to make Poipet attractive for workers and business executives alike, from both Cambodia and other countries.

3. Planning and Investment Priorities

26. A strong collaborative mechanism between the municipal authorities and the SEZ developers and investors is needed, possibly coordinated by the Council for the Development of Cambodia, to guide urban development issues, especially in term of investments in hard and soft infrastructure. To effectively accommodate the influx of unskilled migrant workers in Poipet and to ensure that SEZs remain competitive over the medium and long term, institutions for vocational training, business service training, and higher technical level training are likewise needed—at present, they are totally absent. The Council for the Development of Cambodia and the provincial and municipal authorities should try to attract investments in these training facilities.

27. The rapid development of SEZs on the Cambodian side of the border and the objective of developing part of the Sa Kaeo Province of Thailand as a BEZ (coupled with the ongoing investment of the Industrial Estate Authority of Thailand in Sa Kaeo Industrial Estate) may justify the creation of a “Cambodia–Thailand Southern Economy Corridor Development Authority” involving public and private sectors from both countries. Such an organization could provide guidance to the coordinated development of the border SEZs and border infrastructure as well as advice on transport and trade facilitation issues.

C. Case Study 3: Bavet (Cambodia)–Moc Bai (Viet Nam)

1. Background and Purpose

28. The Bavet BEZ and/or corridor town is located on the GMS Southern Economic Corridor at the border with Viet Nam and about 125 km from Phnom Penh. The Bavet area experienced an economic transformation from a rice production district, prior to the completion of the Southern Economic Corridor, to a thriving GMS border city, with casinos and hotels catering to Vietnamese customers and with several SEZs and factories producing various products from garments to bicycles. This transformation relies on the relatively cheap Cambodian labor. Investors in the SEZs also benefit from the favorable generalized system of preferences regime of Cambodia in the European Union market and the United States. Most products are exported through air and maritime transport hubs in Ho Chi Minh City, which is only 70 km away. Rapid population growth has put severe strains on the municipality’s urban and transport infrastructure and on its quality of life.
29. Four SEZs, all developed by the private sector, are operating in Bavet. Two of these SEZs, the Manhattan–Bavet SEZ (180 ha) and the Taiseng–Bavet SEZ (130ha), are fully operational and employ more than 30,000 workers. The Taiseng–Bavet SEZ has 22 operational factories and more are still under construction. The Manhattan–Bavet SEZ houses 26 factories (10 more approved) producing a wide assortment of products such as garments, footwear, plastic and polypropylene bags, home accessories, bicycles, electronics, decorative lights, umbrellas, and handicraft products. It has its own customs and logistics facilities and a one-stop-shop service. The Dragon–Bavet SEZ and the Automobile Industry Complex SEZ are more recent and are under construction. Figure 4 presents the concept plan for Bavet BEZ up to 2030.

![Figure 4: Concept Plan for Bavet Border Economic Zone, 2030](image_url)


2. Problems and Opportunities

30. The large number of industries based in Bavet mainly rely on labor-intensive manufacturing, and they are located close to Ho Chi Minh City. These industries further benefit from Cambodia's favorable generalized system of preferences regime and tax privileges associated with the investments in SEZs. While important for investors, these advantages are not guaranteed over the medium and longer term. Remaining competitive and moving up the value chain are main challenges for Bavet. As has been experienced in Asia and other parts of the world, labor-intensive industries can easily relocate if faced with labor issues or increases in logistics costs.
31. Bavet town is basically designed along a single main road axis, which is increasingly becoming congested and suffers significant air pollution from heavy commercial vehicles going to the SEZs located next to the town center or plying to and from Phnom Penh. Development of the town based on expansion in a linear pattern is bound to increase road congestion on both sides of the border and threaten the existing road capacities. This will result in increasing delays and costs, and declining competitiveness.

32. The socioeconomic disparities in Bavet are also bound to increase as the growing number of workers rely on commuting, further contributing to road congestion and lowering productivity. This will make it more difficult to attract workers and, in particular, more skilled workers who are needed to move the industries in Bavet to higher levels of value-added production.

33. Diseconomies of scale will also occur as infrastructure planning struggles to catch up with new development. Although SEZs are required by law to provide all the necessary on-site utilities, the current land-use pattern and landholding restrictions constrain development. Consequently, problems concerning water supply, wastewater and solid waste management, drainage, and flood control are adversely affecting most SEZ operations and Bavet town in general. These problems, even in the short-to-medium term, could negatively impact on Bavet’s attraction as an investment hub and could lead to a real decline in the already stagnating tourism sector. Bavet and Moc Bai could become a transit economy, which is limited to the passage of goods and people between Phnom Penh and Ho Chi Minh City (Gilchriest, 2015).

34. In Moc Bai, there is a SEZ that is attracting investors, notably from the Republic of Korea, though to a much lesser extent than Bavet. The Tay Ninh Province of Viet Nam has a sizeable population of over 1,100,000 people and a work force of about 650,000. Although it has developed more slowly than Bavet, Moc Bai is an attractive location for foreign and Vietnamese investors partly because of its proximity to Ho Chi Minh City. There is great potential to create synergies between activities on both sides of the border. This will require closer coordination and cooperation in border infrastructure planning and in strategic business development.

3. Planning and Investment Priorities

35. Instead of limited improvements in border and urban development, a more holistic approach to planning should be considered, drawing on greater cross-border cooperation, better synergies between Bavet and Moc Bai, improved cross-border infrastructure, and more sustainable and integral forms of spatial planning. Identified as an opportunity by a SWOT (strengths, weaknesses, opportunities, and threats) analysis, a new expressway, planned from Ho Chi Minh City to Phnom Penh, should be seen as a catalyst to restructure the border area to achieve a more sustainable and balanced distribution of land uses. The planning of such an expressway presents an opportunity to create an additional border post and, therefore, relieve the existing border post of heavy industrial traffic. A portion of the expressway around Bavet and Moc Bai could be developed before completion of the full length expressway between Phnom Penh and Ho Chi Minh City.

36. The restructuring of the Bavet border town will require significant investments by the public and private sectors. These investments are best undertaken within a clear long-term vision and strategy to ensure that the developments of Bavet are sustainable and the town gradually develops into a major industrial center. Table 2 summarizes some of the main priorities.
Table 2: Planning Objectives and Priorities for the Restructuring of the Bavet Border Economic Zone

<table>
<thead>
<tr>
<th>Scope and Range of Priorities</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Decongest and upgrade the border area</strong>: (i) streamline cross-border customs procedures and improve infrastructure; (ii) create new border post for heavy industrial traffic, situated north of the current border gate; and (iii) redesign current border gate for light traffic and tourism.</td>
</tr>
<tr>
<td><strong>Restructure key urban industrial area</strong>: (i) cluster industries in specific area; (ii) connect industrial areas to new border gate, bypassing the urban area; and (iii) achieve economies of scale in utility infrastructure.</td>
</tr>
<tr>
<td><strong>Achieve better work–life balance</strong>: (i) introduce more housing and services; (ii) develop housing for special economic zone (SEZ) workers, which would help reduce commuting time and raise productivity; and (iii) undertake major improvements needed in urban services.</td>
</tr>
<tr>
<td><strong>Achieve better land-use distribution</strong>: (i) segregate industrial-related traffic and uses, (ii) upgrade the tourism area, (iii) establish buffer areas, and (iv) introduce controlled access on new road infrastructure.</td>
</tr>
<tr>
<td><strong>Reduce travel time</strong>: (i) initiate development of planned expressway and (ii) introduce possible future rail links.</td>
</tr>
<tr>
<td><strong>Complement existing regulatory role of border and/or pro-active facilities to support cross-border trade and investment</strong>: (i) build on critical mass of government services to include trade and investment advice centers, (ii) develop logistics and trade facilitation center, and (iii) initiate joint cross-border export processing zone.</td>
</tr>
<tr>
<td><strong>Upgrade human resources development and skills</strong>: (i) invest in vocational facilities for SEZ workers, through SEZ and private sector collaboration; and (ii) promote potential cross-border collaboration.</td>
</tr>
</tbody>
</table>


D. Case Study 4: Dong Dang–Lang Son (Viet Nam)–Pingxiang (People’s Republic of China)

1. Background and Purpose

37. The Dong Dang–Lang Son border-gate economic zone includes the town of Dong Dang and the city of Lang Son, with a land area of approximately 39,400ha. The population was reported at 193,961 in 2015 and is projected to reach 330,000 by 2030. The BEZ is increasingly becoming an important node on the North–South Economic Corridor and a trading route connecting Viet Nam and the southern region of the People’s Republic of China (PRC).

38. In 2008, approval was given for the “Master Plan on Viet Nam’s Border-Gate Economic Zones Development up to 2020” (Decision No. 52/2008/QD-TTg of the Prime Minister) in the context of (i) sustainably developing the border-gate economy and economic zones in association with building and developing friendly, stable, and sustainable political relations between Viet Nam and the PRC; and (ii) increasing international cooperation and attracting domestic and overseas investment through border-gate economic zones. The goals of the Viet Nam–PRC BEZs that affect Lang Son include:
• building and developing the BEZ as a trade, service, and tourist center in the northern mountainous region and key points along the Hanoi−Lang Son−Nanning corridor and strengthening development cooperation;

• making effective use of natural conditions and geographic position in developing trade and domestic and international services in order to boost economic development and economic restructuring of the BEZ in Lang Son Province;

• developing border-gate BEZ investments in association with planning and developing border-related urban and rural residential areas, and arranging and settling inhabitants of communes along the Viet Nam–PRC border;

• improving the road linkages from the BEZ in Lang Son Province to the PRC’s inland border gates and the BEZ equivalent in Pingxiang (PRC) to better promote development and connections within the region as well as nationally and internationally; and

• prioritizing investment in completing essential infrastructure, within the context of the BEZ master plans and development programs.

39. The Dong Dang–Lang Son BEZ includes two distinct planning concepts: tariff zones and non-tariff zones. Tariff zones include industrial warehouse zones, industrial processing zones, administrative zones, the associated supporting residential areas with different public facilities and open spaces, and areas for national defense and security. These zones are projected to reach 1,355 ha by 2020 and 2,075 ha by 2030. Nontariff zones are mainly for facilitating international trade, and are targeted to reach 810 ha by 2020 and 1,350 ha by 2030. The types of activities that may be developed in these zones include (i) production of export goods and goods for on-spot consumption and export; (ii) trade in goods; (iii) commercial services; (iv) investment promotion, trade promotion, product introduction, and trade fairs; and (v) representative offices of domestic and foreign companies.

2. Problems and Opportunities

40. The Dong Dang–Lang Son BEZ is a long-established cross-border and transshipment business environment. As the most used Viet Nam–PRC border crossing, it has the potential to expand and diversify into other border-related activities. The completion of the upgraded national highway connecting Hanoi with Lang Son and Dong Dang will further enhance investment opportunities in cross-border activities, services and logistics, tourism, and commercial and residential markets. The captivating lush landscapes and natural wonders of Viet Nam and its historic buildings, temples, traditional villages, and the rural hinterland provide opportunities to draw the private and community sectors to invest into the tourism development market.

41. However, potential economic growth may create additional pressures for meeting the demands for, and Viet Nam’s standards of, housing and public facilities for the existing and future population. Existing provision of sustainable urban utilities (including water supply, wastewater network system, and solid waste management) is relatively low and susceptible to watercourse pollution and ground contamination. Increasing economic growth—coupled with a shortage in provision of planned
and “serviced” development sites in the BEZ and a lack of good development control—may not only aggravate the existing problems but also create additional threats to the quality of the urban environment.

42. The structure of governance in Lang Son Province and in the BEZ provides a recognized baseline for managing the development of the BEZ, Lang Son City, Dong Dang town, and the rural hinterland. The master plan provides the context for inclusive planning and development of these areas and sets the condition for medium-term investment programming. Unfortunately, the capacity of the BEZ administration and the local government units is constrained by low skills base (i.e., skills deficiencies and low staff numbers); organizational constraints, including a lack of vertical integration in government to ensure national and provincial policy and planning alignment; and financial constraints, including a shortage of investment finance.

3. Planning and Investment Priorities

43. Although full prioritization of an inclusive medium-term program and investment framework cannot yet be realized, it is possible to introduce potential hard and soft sector components to form the foundations for an inclusive short-term priority investment program. As regards strategic planning and good governance, the recommendations are (i) to strengthen governance capacity, (ii) to review the master plan and include a strategic local economic development plan (LEDP) and a medium-term investment program, and (iii) to implement the newly completed Tourism Development Strategy to ensure better capacity in the provincial and local tourism offices and to attract more private sector and community participation. Specifically related to the border gate, it is recommended to (i) review the development planning and investment potential of the BEZ and prepare revised strategies; (ii) work on planning, design, and implementation of essential upgrading of cross-border facilities to overcome unsustainable operational conditions in Huu Nghi Crossing, Coc Nam Crossing, Tan Thanh Crossing, and Hong Phong Industrial Park; and (iii) explore potential for the provision of free trade facilities with private sector assistance in the short-to-medium term. Regarding Lang Son and Dong Dang urban communities, it is advised to concentrate resources in (i) developing urban roads and border zones connections, (ii) increasing housing opportunity in urban areas, (iii) strengthening vocational training review and college development, (iv) supporting urban utilities upgrading and new development, (v) promoting urban poverty alleviation measures, and (vi) establishing tourism development service centers at various tourist spots. Figure 5 presents the master plan for the overall development of the Dong Dang–Lang Son BEZ up to 2030.

“Serviced” development sites are inclusive of land formation, with basic services provision such as access road(s), drainage system, public utilities, street lighting, public landscaping, etc.
Figure 5: Dong Dang–Lang Son Master Plan, 2030

BEZ = border economic zone.

E. Case Study 5: Mong Cai (Viet Nam) - Dongxing (People’s Republic of China)

1. Background and Purpose

44. The Mong Cai border-gate economic zone (MCEZ) includes the whole of Mong Cai City and a significant part of Hai Ha district, with a land area of about 66,197 ha. The zone’s population reached 126,599 in 2014, and is estimated to increase to 200,000 by 2020 and to 350,000 by 2030. The MCEZ is an important economic corridor hub and trading route connecting Guangxi Zhuang Autonomous Region and southern PRC with Viet Nam. Mong Cai shares a border with Dongxing in the PRC, a developed city that has prospered through its cross-border location and where the realization of strong economic growth is supported by new housing, essential public facilities and utilities, and strategic road and rail infrastructure.

45. In 2015, approval was given for the “Master Plan for the Development of the MCEZ up to 2030 and Vision for 2050” (Decision No. 1626/QD-TTG of the Prime Minister). Thus, planning for the MCEZ is led by an ambitious master plan, which builds and develops the MCEZ as a center for trade, service, industry, and tourism and is intended to strengthen development cooperation in the Viet Nam-PRC coastal corridor (Figure 6). The plan is built around the following areas:

- prioritizing investment and development of the (i) planned border-gate transshipment and free trade facilities and (ii) planned industrial and business development, as proposed in the approved master plan;
- making effective use of the zone’s attractive landscapes, including the coastline and offshore islands, to boost the potential for sustainable tourism development in and around the MCEZ (i) through planning and development of the Tra Co Beach area to the southeast of Mong Cai for sustainable tourism and (ii) through eco-tourism in the offshore islands, mountains, and lake areas;
- developing border-gate investments in the MCEZ, alongside planning and development of related urban residential areas and the needed supporting public facilities, transport infrastructure, and utilities services;
- improving the strategic road and rail linkages from the MCEZ to Ha Long Bay, Hai Phong, and Hanoi in Viet Nam and the connections into Dongxing in the PRC;
- prioritizing investment for the completion of essential urban infrastructure, within the context of the approved MCEZ master plan and the associated development programs; and
- parallel upgrading of the outworn and poorly serviced urban areas in Mong Cai City and Hai Ha district with better water supply, wastewater system, and solid waste management, among others.

46. Key master plan investments include (i) a border-gate economic cooperation zone (BECZ), which is a mixed land-use area of some 1,350 ha, situated within the MCEZ and is a focal point of foreign economic relations and direct cooperation between Quang Ninh (Viet Nam) and Guangxi Zhuang Autonomous Region (PRC); (ii) Hai Ha Seaport Industrial Park (4,988ha), which is a multisector industrial park for heavy and light industries—Phase 1 (660ha), is under construction and includes the substantially serviced and partly occupied Texhong Industrial Park; whereas, the proposed Hai Ha Seaport, which is associated with the industrial park, has not yet commenced; and (iii) Hai Yen Industrial Park (182 ha), a diversified industrial park, which can accommodate consumer goods production.
2. Problems and Opportunities

47. There is no doubt that the long-established cross-border and transshipment business environment provides an economic baseline on which to expand and diversify into other border-related activities. The MCEZ offers serviced development land in a managed environment catering for the manufacturing and services sectors, and has been successful in drawing large-scale manufacturers in the textile sector. It has a relatively low employment cost base in comparison with Dongxing. The implementation of the border-gate economic cooperation zone and the associated new river bridge connection to Dongxing would likely increase MCEZ’s attraction. Moreover, the natural wonder of the beach and offshore island environments provides potential for investment in the tourism sector. Collectively, this will generate new employment opportunities for the existing urban and rural hinterland population and for migrants.

48. Unfortunately, the nature and scale of the regional transport infrastructure may deter additional large-scale economic activity. The strategic road connection from Mong Cai to Ha Long is far from ideal, and there is a need for modern freight and passenger railway connections into Mong Cai. Robust economic growth will place additional pressures on the need for substantial capital investment for urban
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infrastructure and public facilities to serve existing and new population. This will strain government investment in basic infrastructure and public facilities, which historically have lagged behind urban growth. At the same time, increased rates of urban development will result in additional threats to environmental quality and risks from climate change. Land-use planning and development controls are inadequate and ill-equipped to prevent unsustainable urban development.

49. The structure of governance in Quang Ninh Province provides a recognized baseline for managing the planning and development of Mong Cai. Its governance capability has been proven in other parts of Quang Ninh Province, specifically in Ha Long. Specialist units managing and promoting the MCEZ have an office presence both in Ha Long and in Mong Cai to provide expertise and continuity in the planning, design, and implementation of economic zones and industrial parks. However, issues relating to skills deficiencies, low staff numbers, and other organizational concerns hamper the capacity of the Mong Cai city and Hai Ha district administrations. All levels of government are constrained by inadequate finances, thus emphasizing the need to promote private sector participation in infrastructure and public facilities provision. Local government reforms, through a unified Mong Cai and Hai Ha governance, may be beneficial.

3. Planning and Investment Priorities

50. The MCEZ implementation is complex. The scale of its proposed development and investment demands an inclusive and carefully phased investment program that provides guidance on the priority plans and projects recommended for implementation in the short- and medium-term (up to 10 years). At the strategic level, this should include (i) a development review and the generation of an optimal development and financing strategy, leading to master plan updating; (ii) financing of key regional strategic transport infrastructure, including the completion of the Van Don–Mong Cai Expressway; and (iii) financing of border zone development priorities, including essential infrastructure in the border-gate economic cooperation zone, free trade area, and Hai Ha industrial park and seaport. The potential of the tourism sector, starting with Tra Co Beach and the offshore islands, should also be optimized. Utilities and public infrastructure should be planned, designed, and financed on an MCEZ-wide basis, incorporating the needs of the existing urban and rural communities, with particular reference to utilities infrastructure (i.e., water supply, wastewater and solid waste management) and public facilities (e.g., schools). Government investment should ensure that existing programs for poverty alleviation are prioritized and expanded to cover the whole MCEZ, and with particular regard to rural migrants. This implies the need for government-financed low-cost housing or dormitory accommodation; although, it is assumed that the majority of new housing will be financed by private sector investment along with other strategic facilities proposed by the MCEZ authority, including international convention or exhibition center, university, international school, vocational training college, hospital, and sports stadium.

F. Performance Opportunities and Constraints: Common Factors

51. Many of the baseline conditions for the development and expansion of economic zones are good and are getting better. Long-established cross-border and transshipment business environments provide the economic baseline on which to expand and diversify border-related activities. Government agencies, with assistance from the international donor agencies and the private sector, provide and finance essential strategic transport infrastructure. Examples are the expressway construction projects
between Hai Phong Port and Ha Long in Quang Ninh Province through to Mong Cai and from Hanoi to Dong Dang and Lang Son in Viet Nam via public–private partnership (PPP) mechanisms. Interest of private sector investors in the economic zones is well-recognized, especially where there is past or ongoing investment in free trade or logistics, manufacturing, and services sectors. This is best shown in the MCEZ, where large-scale manufacturing is established in planned and serviced environments, reflecting master plan intent. In other economic zones, development is sometimes strong, such as in Pakse, but located in largely unplanned environments, such as in Bavet and Poipet.

52. In general, the development potential in the BEZs and the related corridor towns is not fully realized, such as at Dong Dang–Lang Son and Poipet due to fundamental constraints, which, to varying degrees, affect all the economic hotspots and are consistent and reflective of the conclusions drawn by previous ADB and other donor agency studies (Chapter 2). Collectively, the constraint factors hinder problem solving in economic zone planning, investment, and optimal development and point to the need for inclusive planning, programming, and investment.
IV. FUTURE DEVELOPMENT AND INVESTMENT: ACHIEVING BETTER PERFORMANCE

A. The Need for Change

53. The conclusions drawn from previous Greater Mekong Subregion (GMS) border economic zone (BEZ) and corridor town studies and from the case studies here demonstrate the wide variations in development performance among BEZs. It is, however, clear that their economic and social values are not yet fully realized due to multiple and interconnected factors including nonoptimal governance and economic development; unrealistic and unenforceable master planning; poorly financed infrastructure, housing, and public facilities; and deteriorating environmental quality. The associated corridor towns are, therefore, not maximizing the potential benefits of their BEZ status.

54. Case studies in the PRC (Dongxing and Pingxiang in Guangxi Zhuang Autonomous Region) are exceptions, where BEZ and corridor towns development is relatively well advanced. The two cities are progressive and are designed around an inclusive development approach, responding to (i) implementation of an integrated master plan; (ii) strategic infrastructure investment and serviced land for trade, logistics, manufacturing, and services development; (iii) parallel housing and public facilities; and (iv) mechanisms and incentives to maximize private sector investment.

55. Unfortunately, good practices from the PRC have not always been replicated elsewhere. Intuitive forms of investment still dominate, which usually focused on the provision of hard infrastructure, such as the cases in Dong Dang–Lang Son (Viet Nam) and Poipet (Cambodia). These investments lack integrated planning and investment vital to achieving a sustainable and balanced corridor town status.

B. Inclusive Development

56. The need for change is obvious and compelling (i) to release the full economic and social development potentials of the BEZs and (ii) to ensure the associated corridor towns become primary beneficiaries of the development process. “Inclusivity” is the core policy driver in the pursuit of an optimal development model (ODM) for BEZ and corridor towns development and investment.

57. There are four interrelated and contributing modules to the ODM (Figure 7):

- Integrated governance and collaboration, which should be built around strengthening the coordinating capacity of governance and the transfer of policy and practice to local levels through a collaborative process, prioritizing private sector investment potential and community aspirations.

- Optimal economic and social development, which should be focused on a comprehensive assessment of economic development potential and the policies, plans, and investments required to realize that potential, thereby ensuring socioeconomic betterment in the corridor towns and the GMS corridors.
- Integrated planning and investment, which should form an essential baseline and working context for all the stakeholders—government agencies, private investors, and community interests. Master planning, local economic development planning, and the associated investment programs should form the foundation of a more realistic approach to integrated planning and investment.

- Sustainable environments, where the application of “green” principles will be essential to the success of the BEZs and the revitalization of the associated corridor towns and their rural hinterlands.

58. BEZ and/or corridor town policies, regulations, institutional structures, development plans, and investment programs are essential to the successful application of the ODM. Yet, their effectiveness is held back by a wide range of performance constraints, as identified in the case studies (Chapter 2). As rebooting or starting again is not an option, the ODM offers a more practical and affordable solution. Its implementation responds to a strategic vision, is focused on short- and medium-term realities (up to 10 years), and effectively builds on existing policies and programs where they are known to be successful.

59. Application of the ODM should be flexible, multiple, and inclusive to reflect and adapt to the varying needs and conditions of different countries across different geographies, economies, and
circumstances. In this light, BEZ and corridor town planning and development should be led by a broad vision and specific achievable targets for optimizing economic development and social cohesion in the existing and planned urban areas and their rural hinterlands. This shall be set within the context of a planning philosophy, which will vitalize and upgrade urban and rural communities in the BEZs and corridor towns. For environmental sustainability, “green” development principles and technologies will likewise be incorporated into development planning to minimize pollution and conserve and upgrade biodiversity and landscape quality.

60. The four ODM modules are described below. They form a foundation for a simplified performance framework, which identifies the most important planning, design, and implementation issues that need to be further addressed in support of a better BEZ and/or corridor town performance.

C. Integrated Governance and Collaboration

1. Border Economic Zone and Corridor Town Management

61. Good governance is a necessary commodity to the success of any BEZ and the associated corridor towns. But the achievement of the goals and objectives of BEZs and corridor towns is constrained by a variety of institutional and operational factors. The case studies discussed in Chapter 2 show that skills deficiencies and low staff numbers pervade all levels of local governance, including the provinces, cities, and districts. The situation is exacerbated in most BEZ or corridor situations by traditionally weak horizontal governance, which has not prioritized inclusive planning and investment programming. It fails to consider the need for better integrated management concepts to maximize coordination between BEZs at the local levels and the administrations of corridor towns. The case studies also indicate a lack of vertical integration in government that would ensure national and provincial policies, investment programs, and the implementing agencies are aligned.

62. These weaknesses in governance cross over national boundaries; although, in some BEZs and corridor towns, management capacity is much better than others. In Mong Cai, for instance, the Mong Cai border-gate economic zone (MCEZ) planning and development are promoted by provincial level governance using a strong management board, whereas city and district level responsibilities are geared toward project implementation. The competence in governance of the MCEZ and corridor towns is founded on past success story of the greater Ha Long Bay Area. As such, skills levels in Quang Ninh Province, specifically for the management and promotion of the MCEZ, are well developed. This is in sharp contrast with other BEZs and corridor towns, such as in Pakse and Lao PDR, where deficiencies in skills and insufficiencies in horizontal and vertical coordination (between national and local government agencies) on economic zone development are evident. Economic zones promoted by the private sector are also often disconnected from local development plans. Meanwhile, off-site environmental costs and social costs are borne by the surrounding municipalities, including solid waste collection (hazardous and toxic waste), wastewater management and treatment, watercourse pollution, and ground contamination.

63. One further constraint to maximizing the potential of the BEZs and corridor towns stems from local government boundaries. As these boundaries are not always aligned with the BEZ boundaries, complexities in governance and management arise and the likelihood of delays in project implementation is high. The Dong Dang–Lang Son BEZ demonstrates a worst-case scenario, where the
structure of governance encompasses five administrative components: (i) the Ministry of Planning and Investment of Viet Nam, (ii) Lang Son Province, (iii) Lang Son City, (iv) Dong Dang town, and (v) Cao Loc district. In this case, local reform can help alleviate the governance issue by combining Lang Son City and Dong Dang town into a unitary local authority under the provincial government.

64. At the Viet Nam–PRC borders, sociopolitical factors has impeded the maximization of trade and economic growth in the BEZs and corridor towns. However, collaboration arrangements are in place at the policy and planning levels (national and provincial governance) and at the administrative and technical levels. Recent initiatives in cross-border collaboration include the Mong Cai border-gate economic cooperation zone, which is planned as a focal point of foreign economic relations and direct cooperation between Quang Ninh Province (Viet Nam) and the Guangxi Zhuang Autonomous Region (PRC). Elsewhere, there is good potential for increased cross-border collaboration that optimizes synergies at the Bavet–Moc Bai and the Poipet–Aranyaprathet BEZs and/or corridor towns. At Poipet–Aranyaprathet, this includes Thai investment in a new road and river bridge connection at the periphery of the urban areas for better cross-border capacity and for decongesting the corridor towns.

2. Development Facilitation and Competition

65. The BEZs in each GMS country have the capacity to offer private investors an array of standardized investment incentives, which are normally established in the context of national policies and practices appropriate to the needs of each country. They include different variable tax incentives on goods and services, company and personal income taxes, and other services to assist business setup and day-to-day operations, particularly in the short-to-medium term. Various enabling mechanisms supplement these incentives to smooth the path for new businesses, including one-stop-shop concepts, land and planning aspects, and financial support for business start-up and investment in clean technologies. All BEZs in the case studies benefit from a wide range of investment incentives. Quang Ninh Province (including MCEZ) is particularly adept at using investment incentive mechanisms. On a country-by-country basis, there is concern as to the degree of standardization applied on BEZ incentives. To optimize development, there should be more flexibility for each BEZ in the application of enabling and incentive mechanisms to create a competitive edge.

66. However, fundamental development and investment constraints remain, and perhaps the most important of all is access to land. Most of the BEZs are reliant on land acquisitions by individual investors, industrialists or businesses and on subsequent designation of the acquired land areas as special economic zones (SEZs). This is the case in Cambodia (both Poipet and Bavet). In Pakse, land is provided by the province as its share in the investment of the SEZ projects under a public–private partnership (PPP) arrangement. All infrastructure and facilities have to be provided by the developers. This is a legitimate approach to BEZ development, as long as (i) it is set within the context of approved master plans, and (ii) it does not imply the need for unplanned infrastructure, housing, and public facilities investment. In Bavet and Pakse, the provincial and city or district authorities will have to add additional off-site investments.

67. To overcome the land acquisition constraints faced by private sector interests and to ensure that development land is available when needed, governments should be more proactive in the promotion and provision of serviced land environments for the development of trade businesses and the manufacturing, services, and logistics sectors. This will provide opportunities for the application of the PPP principles to secure private sector investment and for government to act as the facilitator in
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the acquisition and provision of the land component in compliance with approved master plans. In Viet Nam, this concept is applied on a large scale as part of the MCEZ proposals, where it has been partially successful in attracting textile companies to serviced land. However, application of the concept should be through incremental site development and should match real land-use demands in the short-to-medium term. Also, with reference to current Viet Nam government policy, there may be merits in PPP arrangements, which provide opportunities for private sector investors to lead the planning, design, implementation, and management of major parts of (if not the entire) economic zones.

3. Operational Aspects

68. At the operational level, trade and investment facilitation has historically been difficult, especially for small and medium-sized enterprises (SMEs) with weak capacities that restrict access to bank credit and to a secure and consistent investment (i.e., investment appears to be time consuming and risky). Opportunities provided by new information and communications technologies (ICTs) have also been reportedly slow. For example, constraints in the use of e-commerce, particularly in accessing markets at and beyond international borders, often lack a common ICT infrastructure and e-commerce platform. The analysis of the module on integrated governance and collaboration is summarized in Figure 8.

Figure 8: Module Analysis—Integrated Governance and Collaboration

![Figure 8: Module Analysis—Integrated Governance and Collaboration](image)

BEZ = border economic zone; CTDP = corridor towns development project; ICT = information and communications technology; PPP = public–private partnership.

Source: Project Management International Ltd. (PM Group) consultant team.

4 Viet Nam, through its Prime Minister’s Decision 380/QD-TTg, provides mandates for private sector planning, design, and implementation in three SEZs—North Van Phong SEZ, Van Don SEZ, and Phu Quoc Island SEZ—to enhance economic growth and attract foreign investors to the country.
D. Optimal Economic and Social Development

1. Economic Development

Optimal economic development is dependent on two interrelated key economic criteria—competitive strategic geographical location and unique economic endowment. The BEZ and corridor town case studies are in relatively remote locations in comparison with the economic zones that are close to the main urban centers and transport hubs, including deep water ports and international airports. Strategic road links are a first priority for BEZs and associated corridor towns. In fact, new highways are either under construction or are planned for all the BEZ and corridor town case studies. Good rail connections are also vital in the medium term, particularly for freight traffic as it is easier to upgrade the existing main narrow-gauge rail systems. It is, however, observed that the existing rail systems carry very small percentages of freight in comparison to road traffic. Remoteness also has a bearing on developing economic advantage, and the lack of strategic infrastructure reaching Mong Cai and the Dong Dang−Lang Son BEZs and corridor towns is an important constraint factor. These BEZs and corridor towns have long travel times to major centers of populations and markets in both Viet Nam and the PRC. Good transport and communications facilities and continuing advances in e-commerce should provide the foundations for promoting economic and/or competitive advantage. They should also respond to a variety of factors, including the potential for value chain synergies leading to (i) economic clustering built around selected manufacturing, services, and logistics industries; and (ii) local economic resources, including tourism and business agriculture, where community participation and investment will be an essential consideration.

Development planning and investment potential in BEZs and corridor towns are best optimized through economic analysis of corridor growth set alongside detailed investigation of localized development potential. Focus should be on optimal economic development options that take into account the wider GMS corridor context, the competitive environment, and local business opportunities. This approach has been applied, with some success, in Guangxi Zhuang Autonomous Region (Dongxing BEZ and Pingxiang BEZ) and, to some extent, replicated in the MCEZ, where earlier extensive examination and planning through international consultation at provincial and city levels provided the planning and development context for the preparation of the MCEZ master plan and investment program. Economic development planning and promotion are focused on selected high-profile industry clustering, matching corridor-related markets, business agriculture, and tourism, based on the provincial economy and local assets. However, the MCEZ is still relatively remote, hence its true potential is unlikely to be realized until the basic strategic road and rail connections on the Viet Nam side of the international border are established. Pakse has centered its economic development around agro-industry and tourism, areas where it has a comparative advantage in the GMS. This strategy involves close collaboration and coordination with Thailand and, in the future, with Cambodia. Other BEZs have shown that a more intuitive approach is the norm. But this is not maximizing short- and medium-term development potential, and may pose risks to longer-term economic development stability. Bavet is a case in point, where competitive advantage centered on labor-intensive manufacturing and thus cannot be guaranteed over the medium and longer term. In the textile sector, competition is fierce, undercutting is common, and new low-cost competitors can quickly replace the existing business centers. The recent decline of the textile industry in southern PRC is an example of this phenomenon.
71. Previous ADB initiatives in the BEZs and/or corridor towns and in Bavet and Poipet have included a local economic development plan (LEDP), which has pointed the way toward better urban spatial planning and investment programming in roads and urban utilities infrastructure to support the towns’ economic growth and improved environments. But experience elsewhere indicates that LEDP can best be applied through a broader definition, which covers the need (i) to be broad-based, inclusive of hard and soft components; (ii) to be capable of integration with other sector-based statutory and advisory plans; and (iii) to contain value-added components to attract local stakeholder interest and support.\(^5\)

2. Social Development and Poverty Alleviation

72. The strategic vision of transforming economic growth to improved standards of living in the BEZs and/or corridor towns may not be realized if planning and investment approach does not extend beyond the simplistic notion that economic development will automatically meet the specific needs of low-income groups and the socially disadvantaged within the corridor towns. Skills mismatch exists between the talents of urban and rural communities and the employment needs of potential border (or free) zones, manufacturing and services sectors, and the tourism industry. In-house training programs from big investors are standard but, beyond this, there is an increasing need to (i) better align and provide options in vocational training to facilitate maximum participation of the local population in BEZ development, (ii) improve collaboration between government agencies and private companies in skills development and vocational training, and (iii) ensure that gender equality objectives are met.

73. Socioeconomic development planning and investment programming in the BEZs and corridor towns should cater for the short-term and permanent employment of in-migrants. Bavet and Poipet (Cambodia) and Mong Cai (Viet Nam) BEZs already factored employment consideration in their development efforts, as these economic zones have been receiving significant numbers of employment migrants from adjoining provinces and elsewhere. Inclusive policies and investment toward the accommodation of employment-related in-migration are important, especially in areas with unclear provision of supporting housing or accommodation and other social services. Figure 9 presents the summary chart of the module analysis for optimal economic and social development.

E. Integrated Planning and Investment

1. Planning and Development

74. All the GMS countries have statutory planning systems, which incorporate master plans at least at provincial and city or district levels. Quality of the master plans varies dramatically from place to place and from country to country. Financial and professional resource constraints are critical factors affecting the relevance and quality of master planning. Due to the general shortage of urban planning specialists, master plans are largely unimplementable and often grossly out of date. This is often the case in Cambodia, Lao PDR, and Myanmar. The situation in Viet Nam is better as the master plans are relatively more up to date and preparation is often supported by consultant studies.

75. The master plans are often overoptimistic and unachievable, resulting in ill-timed and wasteful investment in urban infrastructure. On the one hand, this could lead to land speculation in urban fringe areas, loss of active agriculture land, incidence of abandoned land, and environmental decay. On the other hand, there may emerge fully serviced residential and industrial land, with little or no development take-up. This situation is at its worst where infrastructure provision is based on unrealistic target-based population growth numbers set out in the master plans, such as what happened in Dong Dang–Lang Son and Mong Cai in Viet Nam and in Poipet in Cambodia.
76. In broad terms, the master plans lack clarity in terms of economic and social direction, which is essential for sustainable economic development and for ensuring that BEZ-related corridor town population are the beneficiaries. Moreover, the links between master planning and effective investment are ambiguous; hence, the need for better specification and financing of achievable short- and medium-term projects. Master planning largely paints an attractive scenario for tourism development in the BEZ and corridor towns, since these areas have valid potential for beneficial and sustainable tourism. In Viet Nam, master plans are supported by sector-specific tourism development plans. The completion of cross-border strategic infrastructure is an essential baseline (i) for building government capacity in promoting and marketing tourism and (ii) for facilitating and working with private sector interests and local communities in the implementation of sustainable tourism. Nonetheless, caution is advised as past experience shows that (i) value and scale of tourism is overrated, and targets cannot be achieved; and (ii) some types of commercial tourism risk social degradation and exploitation. Examples are the early development in Lao PDR’s Mohan BEZ (i.e., the Lao PDR–PRC Mohan–Boten border) and in Cambodia’s Bavet BEZ.

77. In the implementation of master plans, a better understanding of the advantages of more effective development control planning is crucial. At present, the lack of effective development control regulations and decision-making structures failed to prevent scattered urban fringe development, which can damage landscape quality and is a potential pollution source. In addition, ad hoc BEZ development in industrial, logistics, and other land uses on scattered development sites put environmental sustainability at risk and is creating social disruption, such as those seen in Poipet. To varying degrees, this is true across all the case studies on BEZs and/or corridor towns (Chapter 2).

2. Infrastructure and Public Facilities

78. The strategic transport infrastructure plans, for both road and rail transport linkages, are not yet complete. From the case studies, the BEZs and/or corridor towns in Mong Cai and Dong Dang–Lang Son (Viet Nam), Bavet (Cambodia)–Moc Bai (Viet Nam), and Poipet (Cambodia)–Aranyaprathet (Thailand) are constrained this way. New and upgraded cross-border and transshipment facilities in these economic zones lag behind actual needs, resulting in economic inefficiencies to users and localized environmental pollution. In addition, development proposals of associated land uses of BEZs, such as the proposed free trade areas and industrial parks, are generally not supported by planned service and sites provision. Instead, BEZs often rely on speculative private sector initiatives, which, in some cases, totally hinder economic development (e.g., Dong Dang–Lang Son BEZ) and, in other areas, run the risk of unsustainable economic development (e.g., Poipet SEZ). In Pakse, cross-border transport with Thailand is not an issue due to a bilateral transport agreement between Lao PDR and Thailand. However, the development of several SEZs around Pakse will require substantial investment in transport infrastructure to reduce heavy cargo traffic passing through the city center. The Pakse–Japan SME SEZ provides a full range of utilities, while provisions of such utilities are planned for all the other SEZs in Pakse. For the BEZs and/or corridor towns, essential government investment in housing, public facilities, and utilities infrastructure has not kept pace with urban growth, such that (i) investments in the free trade businesses and the manufacturing and services sectors are not attractive; and (ii) socioeconomic threats, including the spread of informal housing and urban–rural degradation, are significant risk factors. Figure 10 summarizes the analysis of the integrated planning and investment module.
F. Sustainable Environments

79. The environments in all the BEZ and/or corridor town case studies are, to varying degrees, not sustainable. Essential government and private sector investments in sustainable wastewater and solid waste management and other environmental services lag behind actual forecast needs. New BEZ and corridor towns development and investment will be constrained or will pose additional environmental risks if these basic services are not adequately provided for. Also, unplanned development of all kinds in the BEZs and corridor towns will result in additional ecological impacts and biodiversity threats, particularly in mountain and hill terrain, watercourses, and coastal areas. Likewise, insufficient investment in climate change adaptation measures in parallel with BEZ and corridor towns development may place riversides, waterbodies, and other low-lying areas at risk. A comprehensive analysis of the module on sustainable environments is presented in Figure 11.
G. Achieving Better Performance

80. Table 3 shows a simplified performance framework, intended as a guide on the key issues to be addressed to ensure better performance and sustainability in the planning, design, and implementation of the BEZs and the upgrading and growth of the associated corridor towns.

Table 3: Simplified Performance Framework

<table>
<thead>
<tr>
<th>Integrated Governance and Collaboration</th>
<th>Border Economic Zones and Corridor Towns Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Review governance and organizational structures of border economic zones (BEZs) and corridor towns in each country as a baseline for improved management capacity at provincial and city or district level.</td>
<td></td>
</tr>
<tr>
<td>2 Prioritize increased human resource capacity and skills development in the management of BEZs and corridor towns, with emphasis on economic development planning, trade facilitation, marketing, and promotion.</td>
<td></td>
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<tr>
<td>3 Review the effectiveness of international cross-border collaboration (including Viet Nam–People’s Republic of China) and invoke measures to better optimize the value of the BEZs and achieve better cross-border investment balance.</td>
<td></td>
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<tr>
<td>4 Review the advantages of complimentary unitary local governance in support of cost-effective development in the BEZs and corridor towns.</td>
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### Development Facilitation and Competition

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<tbody>
<tr>
<td>1</td>
<td>Emphasize the importance of advanced serviced site provision as an inducement for investment in essential cross-border, transshipment logistics and free trade facilities, industrial parks, and commercial tourism.</td>
</tr>
<tr>
<td>2</td>
<td>Optimize individual BEZ capability and initiative to attract private sector investment through unrestrictive use of enabling mechanisms and financial incentives at local levels.</td>
</tr>
<tr>
<td>3</td>
<td>Review the need for additional service support to overcome known trade and business constraints, including application of e-commerce, with emphasis on the needs of small and medium-sized enterprises.</td>
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### Optimal Economic and Social Development

#### Economic Development

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<tbody>
<tr>
<td>1</td>
<td>Ensure that planning and development of BEZs and corridor towns are led by comprehensive local economic development plans, which are better focused on competitive advantage, taking into account the potential for economic clustering and local economies.</td>
</tr>
<tr>
<td>2</td>
<td>Optimize the value of private sector investment in the BEZs and the use of public-private partnerships, including essential cross-border, transshipment logistics and free trade facilities, industrial parks, and commercial tourism.</td>
</tr>
<tr>
<td>3</td>
<td>Optimize the value of private and community partnerships in bettering rural economies, with particular regard to community, ecology, agri-tourism, and business agriculture and aquaculture.</td>
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#### Social Development and Poverty Alleviation

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<tbody>
<tr>
<td>1</td>
<td>Introduce parallel social development framework planning geared toward the needs of low-income groups and the socially disadvantaged. Ensure local communities are the beneficiaries of BEZ implementation.</td>
</tr>
<tr>
<td>2</td>
<td>Overcome skills deficiencies by developing collaborative education and vocational training concepts in conjunction with employers’ needs, joint ventures, and financial support in the BEZs and corridor towns.</td>
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<tr>
<td>3</td>
<td>Introduce forward planning and investment for accommodation and public facility provision to cater for in-migration resulting from economic growth in the BEZs and corridor towns.</td>
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### Integrated Planning and Investment

#### Planning and Development

<p>| | |</p>
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<tbody>
<tr>
<td>1</td>
<td>Review master planning concepts and apply in BEZ context. Ensure economic and social direction, realistic medium-term growth targets, and related development programming. Look to potential incorporation of local economic development plans.</td>
</tr>
<tr>
<td>2</td>
<td>Review tourism development concepts in BEZs and corridor towns, such that planning, design, and investment are related to competitive reality, and adjust master plans and/or tourism development plans accordingly.</td>
</tr>
<tr>
<td>3</td>
<td>Review the policy and planning mechanisms and institutional arrangements to secure better development control.</td>
</tr>
</tbody>
</table>
### Infrastructure and Public Facilities

<table>
<thead>
<tr>
<th></th>
<th>Prioritize investment and completion of new and upgraded strategic road and rail transport infrastructure.</th>
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<tr>
<td>2</td>
<td>Prioritize investment in essential new and upgraded cross-border and transshipment facilities.</td>
</tr>
<tr>
<td>3</td>
<td>Ensure short- and medium-term BEZ and corridor town planning better realizes the need for parallel housing, public facilities, and essential infrastructure provision.</td>
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</tbody>
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### Sustainable Environments

<table>
<thead>
<tr>
<th></th>
<th>Prioritize the provision and/or completion of sustainable wastewater management, solid waste management, and drainage in and around the existing corridor towns and villages.</th>
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<tbody>
<tr>
<td>2</td>
<td>Place importance on ecological issues and threats and biodiversity in the planning and development of the BEZs and corridor towns, and ensure better ecological protection through master plan reviews.</td>
</tr>
<tr>
<td>3</td>
<td>Increase investment in climate change resilience and adaptation measures in parallel with BEZ and corridor towns development, including riversides, waterbodies, and other low-lying areas at risk such as the coastal areas in the Mong Cai border-gate economic zone.</td>
</tr>
</tbody>
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Source: Project Management International Ltd. (PM Group) consultant team.
IV. ADB: IMPLICATIONS FOR CORRIDOR TOWNS DEVELOPMENT PROJECTS

A. Corridor Towns Development Projects: The Context for Investment in the Selected Border Economic Zones

81. The simplified performance framework is used to define a set of logical steps and measures, which can lead to better development of border economic zones (BEZs) and/or corridor towns to be specified in the fifth, sixth, and seventh corridor towns development projects (CTDPs). The recommendations are generally applicable to BEZs and CTDPs, but with specific reference to the individual economic hotspots illustrated earlier (Chapter 2).

B. Optimizing Economic Development: Local Economic Development Plans and Inclusive Medium-Term Investment Programming

82. Previous CTDPs have focused on urban infrastructure improvements but have been somewhat piecemeal in design, leaving some towns with over half of the needed infrastructure with no commitment to a second project phase. While the quality of life for some residents has been improved, the broader impact of project investments in terms of stimulating economic growth, private investment, and job creation has been less than anticipated. Therefore, a more comprehensive, multisector approach in formulating future technical assistance projects for BEZs and CTDPs is needed.

83. Some of the weaknesses of CTDPs include the following: (i) projects with a heavy bias toward the provision of hard infrastructure, where a wider vision of hard and soft intervention would be more beneficial; (ii) the relationship of local urban priorities to the corridor’s wider economic perspective, including the associated economic zones, is not realized; (iii) the relationship of local priorities to the need for a comprehensive approach to poverty alleviation and other social development objectives is mostly not realized; (iv) the “green city agenda,” particularly in the urban fringes, is often not fully considered, leading to poor agriculture land management and urban–rural blight; and (v) there is a need for more sustainable levels of post-project capacity building and finance to ensure sufficient project maintenance.

84. It is recommended that selection of project components for investment support under the project preparatory technical assistance (PPTA) for the Greater Mekong Subregion (GMS), including CTDPs and GMS tourism projects, commences with multisector strategic planning studies, which include review of existing statutory city master plans or development plans. The review of existing plans should critically assess, update, and improve these plans, where needed, and incorporate investments proposed under the newly planned ADB-financed interventions. In exceptional circumstances, where there is no master plan or the master is grossly out of date, a new master plan can be made a prerequisite of the PPTA, which will be prepared by a consultant team or other eligible parties.

85. The nature and scope of the local economic development plans (LEDPs) should be expanded in support of the CTDPs to ensure that recommendations provide the foundations to (i) maximize economic development potential and assist economic zone expansion, (ii) achieve parallel social
development and poverty alleviation, and (iii) incorporate parallel capacity building to maximize market potential in the corridor towns and associated economic zones areas. It is essential, therefore, that the LEDPs should (i) be broad-based and inclusive of hard and soft components, (ii) be capable of integration with other sector-based statutory and advisory plans, and (iii) contain value-added components to attract local stakeholder interest and support. More specifically, the LEDPs should include a range of soft measures, including recommendations on (i) investment incentives for private investors; (ii) support for promoting micro, small, and medium enterprises through business development services and credit; (iii) skills training for the potential workforce; and (iv) assistance to disadvantaged groups, such as ethnic minorities, to be engaged in economic activities. The objectives, planning process, and program components of LEDPs are discussed below (Box).

Box: Local Economic Development Plans

Objective
The purpose of local economic development planning is to strengthen the economic capacity of a local area to improve its economic outlook and the quality of life for all. It is a process by which public, business, and nongovernment sector partners work collectively to create better conditions for economic growth and employment generation.

The Five-Stage Planning Process
The strategic planning process for preparing local economic development plans (LEDPs) involves five stages: (i) organizing the effort, (ii) local economic assessment, (iii) strategy making, (iv) strategy implementation, and (v) strategy review.

Typical Program Components of Local Economic Development Plans

- **Improving the local business climate.** This covers assessment of local business enabling environment to determine the performance and effectiveness of the investment climate. The government unit should aim to become responsive to the needs of businesses and put in place mechanisms and incentives that improve the functioning of existing businesses.

- **Investing in hard infrastructure.** This includes investment in the physical environment for businesses, making it more attractive for new businesses, business relocation, and retention. The LEDP can help government agencies prioritize infrastructure investments according to needs, potential for cost-recovery, and opportunities for leveraging additional resources.

- **Investing in site and services premises for businesses.** This may include new buildings, adaptation of vacant or derelict buildings, and change of use. Typically, this would be set in the context of developing industrial, logistics, business parks, or science parks.

- **Investing in soft infrastructure.** This involves improving the commercial environment for businesses and may include skills training, enterprise training, financial assistance, and community project assistance.

- **Encouraging local business growth.** This means providing support and incentives for local business growth, including technical assistance, financial advice and assistance, skills training, and provision of sites and premises.

- **Promoting inward investment.** This refers to provision of hard and soft infrastructure, including a range of competitive enabling mechanisms and incentives to attract new businesses.
• **Strengthening sector and business cluster development.** This means supporting interfirm collaboration, institutional development, and specific industrial sectors; as well as optimizing value chain economies and investment potential in cluster and corridor concepts.

• **Developing regeneration strategies.** This encompasses plans and programs targeting rundown and obsolete areas, such as town centers and obsolete industrial areas.

• **Integrating low-income and socially disadvantaged persons.** Measures are targeted at groups of individuals such as ethnic minorities, urban and rural poor, redundant workers, and unemployed youths.

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### C. Project Component Selection and Prioritization

86. Project components contained in the GMS CTDP and tourism-related technical assistance projects are preselected by the government authorities. Preselection results are difficult to change once the PPTAs commence, even though the project components are later proven to be of poor value for money. They may either fail in contributing to economic growth, or fail to significantly add social value and/or address poverty and the needs of the socially disadvantaged, or even block the inclusion of other subsequently identified and better hard and soft sector components. Thus, the technical assistance process has frequently resulted in weak hard infrastructure subprojects under the project loans. Selected road development proposals in some of Viet Nam’s corridor towns, such as Bac Giang in Corridor Towns Development Project 2 (CTDP2) and Tam Ky in the Secondary Cities Development Project (SCDP2), typify this situation. Therefore, it is recommended that selection of project components follows a more comprehensive, multisector strategic planning exercise.

87. It is possible to undertake LEDPs (and strategic planning assessments), or assist and provide advice in determining the subproject components for support, prior to finalizing the design of a PPTA or, alternatively, during Phase 1 at the initial stage of a PPTA. The alternative to undertake LEDP during Phase 1 is preferred as a financially and administratively easier way forward. Phase 1 (PPTA) LEDPs only require short-term (1-2 months) professional support from development economists and urban and regional planners, who would engage with key stakeholders including representatives of local and central government, the private sector, traders, and local communities. The outcomes would then determine (i) the types and prioritization of investment subprojects required over the medium term to stimulate socioeconomic development of the BEZ and/or CTDP towns and cities, including urban infrastructure improvements; and (ii) the prioritized project components for conceptual design feasibility and/or safeguards assessments in Phase 2 of the PPTA. Figure 12 shows an example of a project component selection process.
D. Multisector Investment Programming

88. The achievement of economic and social betterment, supported by LEDPs, will lead to more inclusive project development, expanding beyond the traditional hard infrastructure projects in the previous CTDPs to incorporate other components of the development sector. These other components—including economic planning, social revitalization, urban regeneration or urban conservation, and tourism—should have good economic development prospects and community development potential. But, more importantly, they should create opportunities for attracting private sector investment. The PPTAs need to be more inclusive and possibly cater for a more open-ended and cross-sector approach to project financing from the participating governments and from within ADB. In terms of ADB financing, it calls for a more regular use of multisector planning, design, and implementation of PPTAs. This can involve the inclusion of selected transport, tourism projects, community-based projects, and business agriculture, among others, within the next round of CTDPs.

89. LEDPs, and the overarching master plans generating investment priorities over a medium-term or longer time frame, would likely require a phased approach to the proposed investments, based on
progress in institutional reforms and capacity building, regulatory reforms, and other preconditions for successive project interventions. In this regard and under some specific country conditions, modalities such as the multitranche financing facility can be considered as an appropriate means of providing the longer-term development support required in selected BEZs and/or CTDPs. The current ADB project in the Guangxi Zhuang Autonomous Region is a case in point.  

E. Ensuring Sustainability: Capacity Building

1. Project Preparation

The preparation of the LEDPs (and master plan reviews), leading to a more inclusive approach to PPTA preparation, entails a parallel process of capacity building for stakeholders (primarily managers and professionals) within the BEZ and CTDP administrations, including participating local communities and potential private sector interests. Capacity building commitment should support the recommended upfront work, such as (i) the preparation of LEDPs, (ii) better control on the quality and location of new development, and (iii) actions against illegal development.

2. Operations and Maintenance

Operations and maintenance (O&M) in the BEZs and CTDP case studies and elsewhere in the GMS economic corridors illustrates the difficulties that provincial and local governments face in planning and implementing sustainable O&M programs, including for ADB projects. A worst-case scenario is undertaking a second round of investment project where O&M of first round project failed. Examples include:

- Previous land fill projects, which turned into unsustainable dumpsites in post implementation and are then subsequently refinanced. Obsolete dumpsites in Lao PDR and Cambodia are indicative of this problem.
- Previously designed new roads and public spaces, which were damaged and have to be reconstructed and refinanced. Examples include roads and drainage provision in parts of Lao PDR.

It is a fundamental challenge to find solutions to the outstanding O&M problems to ensure project loans are better supported. Attention should be given to (i) higher levels of financing for O&M as part of project loans and counterpart funding, and (ii) higher levels of capacity building and training for O&M-related provincial and local authorities and any associated private and community investors, where there are public–private partnerships (PPPs), and private–community partnerships (PCPs), etc. For projects with government-financed (counterpart funding) capacity-building component, such as in Viet Nam, project loans should require strong O&M guarantees.

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