

TAR: STU 35460

ASIAN DEVELOPMENT BANK

**TECHNICAL ASSISTANCE
(Financed by the Japan Special Fund)**

FOR

**FACILITATING ECONOMIC COOPERATION IN EASTERN PARTS OF INNER
MONGOLIA AUTONOMOUS REGION, PEOPLE'S REPUBLIC OF CHINA
AND MONGOLIA**

December 2001

ABBREVIATIONS

ADB	–	Asian Development Bank
JSC	–	joint steering committee
PRC	–	People's Republic of China
TA	–	technical assistance
TRADP	–	Tumen River Area Development Programme

NOTE

In this report, "\$" refers to US dollars.

I. INTRODUCTION

1. Although the People's Republic of China (PRC) and Mongolia share a common border of about 4,600 kilometers, there are few collaborative economic development initiatives. In 2000, both countries expressed strong interest in exploring possibilities for economic cooperation, particularly as a means of fostering economic development in remote border areas. The two countries requested the Asian Development Bank (ADB) to provide technical assistance (TA) to help formulate a strategy that can be followed to initiate cooperation, particularly in an area covering the three provinces in eastern Mongolia and the Xinganmeng Prefecture in the eastern part of Inner Mongolia Autonomous Region, PRC. On 21 December 2000, ADB approved a TA¹ for the strategic study. The strategic study was conducted during May to August 2001 with full participation of the governments of the PRC and Mongolia.

2. The strategic study identified the technical and institutional deficiencies as well as the priority development projects for initiating economic cooperation in the subject area. It was pointed out that, to move economic cooperation from discussion to concrete activities, the prerequisites are to develop an institutional framework to coordinate collaborative activities and to start working together on modest yet concrete issues. To facilitate the implementation of such initial activities based on the recommendations of the strategic study, the two governments requested ADB to provide follow-on TA.² This report builds on the strategic study and is based on a series of consultations with the governments of the PRC and Mongolia. The TA framework is in Appendix 1.

II. BACKGROUND AND RATIONALE

3. The region examined under the strategic study covers about 350,000 square kilometers comprising the Xinganmeng Prefecture in the Inner Mongolia Autonomous Region, PRC; and the three provinces in eastern Mongolia, namely, Dornord, Hentii, and Sukhbaatar. The region was once identified by the Tumen River Area Development Programme (TRADP)³ as the location for one of the potential alternative transportation corridors linking the Asian railway system with the European railway system through PRC, Mongolia, and the Russian Federation. On both sides of the border, the region is endowed with some deposits of oil, coal, and metal and nonmetal mineral resources. Economic development of the region is, however, left behind in both countries because the area is remote and physically isolated from the major economic centers. In the PRC, Xinganmeng Prefecture belongs to one of the poor provinces/autonomous regions identified for special assistance under the national Government's "go west" strategy. In Mongolia, the three provinces have an average per capita gross domestic product of \$140, which is much lower than the national average of \$400. Both governments regard economic cooperation as an effective means to break the physical isolation of the subject region so as to realize its economic potential for growth and poverty reduction.

4. The strategic study highlighted the commonality and complementarity between two sides of the border in the subject region. The study noted that the prospects for exploiting

¹ TA 5969: *Strategic Study on Development Options for Economic Cooperation Between the People's Republic of China (PRC) and Mongolia in Eastern Parts of Inner Mongolia Autonomous Region, PRC and Mongolia*, for \$250,000, approved on 21 December 2000.

² The TA first appeared under its original title "Development Program for Economic Cooperation between the People's Republic of China (PRC) and Mongolia in Eastern Parts of Inner Mongolia Autonomous Region, PRC and Mongolia" in *ADB Business Opportunities* (Internet Edition) in September 2001.

³ TRADP is a subregional cooperation program in northeast Asia involving PRC, the Russian Federation, Mongolia, People's Democratic Republic of Korea, and the Republic of Korea with support from the United Nations Development Programme.

mineral resources deposits, and the well-preserved ecosystem and natural beauty of the area are good, and close coordination is needed in developing green food production, mining industry, international tourism, and environmental protection. The rapid development of the transportation system in the PRC also provided the subject region a good opportunity to break its physical isolation from the world market. The strategic study confirmed the medium- to long-term strategic potential for developing a transportation corridor linking Asia and Europe through the region, as once suggested by TRADP. Such a route will not only benefit the project area but also facilitate intercontinental trade as a whole. The strategic study highlighted the prerequisites that will make such a capital-intensive investment viable, including, among others, sufficient anticipated traffic of goods and passengers, long-term low-cost financing, and the policy and institutional readiness of all the countries involved to implement the project.

5. The strategic study noted that the existing situation in the subject region is far from satisfying these conditions. The basic framework for economic cooperation developed under TRADP needs to be supplemented by appropriate operational mechanisms incorporating field-level coordination to implement the cross-border development activities in a phased manner. Without such an operational mechanism, the two countries have difficulties in reaching an agreement on the location and financing scheme for a simple bridge across the 40-meter-wide border river in the subject region. Currently the exchange of goods and people can take place only during winter when the river is frozen. There is no formal trade between the two countries in the subject area. There is no institutional structure available on either side of the border to plan and coordinate the development activities that may mutually benefit or have adverse cross-border effects. The market potential for most of the mineral resources in eastern Mongolia remains unverified. Without a common understanding of the potentials of the mining sector, it is difficult for both governments to agree to a development strategy for the transportation sector. It will also be difficult for the two governments to undertake a coordinated approach in attracting long-term investment for mineral resources exploitation and transportation development.

6. The findings and recommendations of the strategic study enabled the two governments to recognize that economic cooperation in the subject area needs to be promoted in a phased manner. At the initial stage, operational priority should be given to constructing a simple border bridge equipped with border facility to allow for year-round trade and traffic of people. With minimum investment, this joint activity will enable both sides of the border to benefit immediately from economic cooperation. At the same time, a joint environmental protection plan needs to be prepared to guide the two governments to manage the environmental impacts arising from the enhanced cross-border activities. For the medium-term development prospect, the two governments need to jointly review the export potentials of the mineral resource deposits in eastern Mongolia based on available studies and information. The shared view on the potentials of the mining sector will also help the governments develop a medium-term plan for developing transportation in the area. It is envisaged that by implementing those relatively simple projects, the two countries will be able to build up the institutional structure, the policy environment, and the technical readiness that are conducive to developing more sophisticated international projects.

7. The strategic study noted that disparities in policy requirements, processing procedures, technical standards, financing capacity, and institutional setups between the two countries, compounded with lack of an institutional mechanism for coordination, will be the major constraints to implementation of cooperation projects. Experiences gained in implementing the strategic study shows the need for a joint institutional structure for face-to-face consultation and coordination on these issues. Similarly, within each country there is a need to establish a

multiagency mechanism to coordinate internal procedures to allow smooth cross-border cooperation. Despite their common interest and willingness, the two countries need international experiences and technical support to help facilitate the process of economic cooperation.

8. The TA will help the two governments to address the poverty concerns in the subject remote region by enhancing economic cooperation. In particular, the TA will assist the two governments to address the technical and institutional complexities involved in implementing cross-border development activities. The TA will help the two governments become better prepared in both institutional capacity and technical readiness for more effective participation in subregional cooperation in northeast Asia, including TRADP. The TA is consistent with ADB's operational strategies for the two countries.

III. THE TECHNICAL ASSISTANCE

A. Objective

9. The TA will assist the governments of the PRC and Mongolia to jointly implement the initial activities in promoting economic cooperation in the subject region. The TA will also help the two governments establish an institutional structure to coordinate the cross-border development activities.

B. Scope

10. The TA will assist the two countries to reach operational consensus on economic cooperation by jointly implementing the four priority activities that have been identified by the strategic study:

- (i) Formulating a construction plan for the border bridge, supported by appropriate feasibility study for the bridge and associated border facilities, for increased trade and traffic of people including tourists in the border area. Based on best international practices, the feasibility study will help the two governments identify a mutually agreed-upon location, the technical standards, the financing scheme, and the implementation plan for the border bridge and related facilities to allow early construction.
- (ii) Preparing a joint environmental protection plan for the project area. This plan will help the two governments identify the potential environmental risks involved in the opening up of the cross-border point and prepare mitigation measures in advance to protect the fragile ecosystem, in view of the envisaged increase in cross-border economic activities with the construction of the border bridge and other development activities.
- (iii) Jointly reviewing the market potentials of the mineral resources including petroleum resources in eastern Mongolia. Based on the data and studies readily available, the review will help the two governments and the private sector understand the economic value and market potential of the mineral resources identified, and determine the institutional and policy constraints that may affect foreign direct investment for development.
- (iv) Preparing a strategy paper for transportation infrastructure development in the subject area. The TA will help the two governments prepare an integrated

transportation strategy for the area, taking into account particularly the potential traffic for export of the mineral resources from eastern Mongolia through the PRC transportation system to the world market.

To facilitate these four priority tasks, the TA will give assistance by providing professional advice and organizing conferences and workshops for the establishment and operation of a two-layer bilateral institutional structure to coordinate the implementation of cross-border development activities.

C. Cost Estimates and Financing Plan

11. The TA is estimated to cost \$626,000 equivalent, comprising \$366,600 in foreign exchange costs and \$259,400 equivalent in local currency costs. ADB will provide \$500,000 equivalent to cover the entire foreign exchange costs and \$133,400 equivalent of the local currency costs. The TA will be financed on a grant basis from the Japan Special Fund, funded by the Government of Japan. The governments of the PRC and Mongolia will finance the local currency costs equivalent to \$63,000 each, or a total of \$126,000 equivalent (about 20 percent of the total TA costs) to cover in-kind expenditures for counterpart services, office accommodation, and office supplies. Appendix 2 gives the details of the cost estimates and financing arrangements.

D. Implementation Arrangements

12. ADB will be the Executing Agency for the TA. The two countries will establish a joint steering committee (JSC) to provide oversight and policy guidance in implementing the TA. In the PRC, the government of the Inner Mongolia Autonomous Region will be the key counterpart for TA implementation, under the overall coordination of the State Development Planning Commission supported by the Ministry of Finance. In Mongolia, the Ministry of Infrastructure, supported by the Ministry of Finance and Economy, Ministry of Environment and Natural Resources, and Ministry of Industry and Trade, will be the national coordinator for TA implementation. Under the oversight of JSC, each country will establish a multiagency working group to provide technical guidance and operational support for implementation and coordination within each country.

13. The TA will be implemented over a 10-month period starting from May 2002. It will require inputs of about 11 person-months of international and about 12 person-months of domestic consulting services. Appendix 3 gives the outline terms of reference for the consultants. An international consultant firm will be engaged in accordance with ADB's *Guidelines on the Use of Consultants*, using the simplified technical proposals procedures. ADB will select and engage the domestic consultants in accordance with the *Guidelines on the Use of Consultants* and other arrangements for selecting and engaging domestic consultants. The consultants will arrange the conference and workshops as forums to allow interaction and consultation among the members of the JSC and the working groups.

IV. THE PRESIDENT'S DECISION

14. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance, on a grant basis, in an amount not exceeding the equivalent of \$500,000 for the purpose of Facilitating Economic Cooperation in Eastern Parts of Inner Mongolia Autonomous Region, People's Republic of China and Mongolia, and hereby reports such action to the Board.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Targets	Monitoring Mechanisms	Assumptions and Risk
A. Goal To promote sustainable development of the eastern parts of Inner Mongolia, PRC, and Mongolia through strengthened cooperation	<ul style="list-style-type: none"> - Accelerated economic growth through provision of border facility, better utilization of local resources, and improved access to markets - Reduction of poverty - Improved environmental management 	<ul style="list-style-type: none"> - Regular review of the socioeconomic and environmental statistics 	<p>The recommendation in the final report prepared under the TA will be practical and can be implemented.</p> <p>The governments will adopt and implement the recommendations.</p>
B. Purposes <ul style="list-style-type: none"> - To assist the two governments to reach operational consensus on economic cooperation by jointly implementing the four priority activities - To assist the two governments to establish a joint institutional structure to address the complexity of international cooperation 	At the end of the technical assistance (TA), the two governments will endorse the final report prepared.	<ul style="list-style-type: none"> - Frequent review of the governments through the joint steering committee and working groups - Governments' review and clearance of the draft final report 	<ul style="list-style-type: none"> - The two governments are in general agreement in selecting priorities and the approach of the TA. - The government delegates at the joint steering committee and the working groups can guide the consultants and clear the final report on behalf of the governments.
C. Outputs 1. The final report of the TA will comprise the following: <ul style="list-style-type: none"> a. a feasibility study for the border bridge, with border facilities b. a joint environmental protection plan c. an evaluation report of the market potential of mineral resources in eastern Mongolia d. strategy paper for development of transportation 	The draft final report will be ready for presentation at the second joint steering committee meeting.	<ul style="list-style-type: none"> - A joint steering committee to provide guidance and coordinate cross-border activities - A multiagency working group in each country to provide technical and operational guidance - Consultants' weekly progress reports to ADB and the joint steering committee 	<ul style="list-style-type: none"> - The joint steering committee can be established to provide timely guidance and necessary coordination support for the consultants. - The working group can be established to effectively coordinate the actions of the different agencies under the guidance of the joint steering committee.

(Reference in text: page 1, para. 2)

Design Summary	Performance Targets	Monitoring Mechanisms	Assumptions and Risk
D. Activities <ol style="list-style-type: none"> 1. Prepare a feasibility study for a border bridge, with associated border facilities 2. Formulate a joint environmental protection plan 3. Evaluate the investment and market potential for the mineral resources in eastern Mongolia 4. Prepare a strategy paper for infrastructure development in the project area 5. Two international conferences for the joint steering committee on policy coordination 6. Four workshops for the working groups for technical and operational coordination 	<p>An inception report will be available after the first joint steering committee meeting.</p> <p>The environmental protection plan, the evaluation report of the mineral resources, should be available together with the interim report before the second round of working group meetings.</p> <p>The draft final report should be available for presentation at the second joint steering committee meeting.</p> <p>The final report should be finalized within a week after receiving comments/confirmation from the two governments.</p>	<ul style="list-style-type: none"> - Consultants' weekly progress reports to ADB and the joint steering committees 	<ul style="list-style-type: none"> - The governments will provide the consultants with access to the data and documents needed for the TA. - The joint steering committee and working groups will provide timely guidance and necessary coordination support for the consultants.
E. Inputs <p>Level of Effort</p> <ol style="list-style-type: none"> 1. International consultants 2. Domestic consultants <p>Costs</p> <ol style="list-style-type: none"> 1. Consultants 2. Implementation 3. Workshops 4. Contingencies 5. Total ADB Budget 6. Governments' counterpart support 	<p>11 person-months</p> <p>12 person-months</p> <p>\$379,900</p> <p>\$33,600</p> <p>\$63,400</p> <p>\$23,100</p> <p>\$500,000</p> <p>Counterpart staff and office space with basic office facilities at capital or in the field when and where needed during implementation</p>	<ul style="list-style-type: none"> - Consultants' reports 	<ul style="list-style-type: none"> - Timely recruitment and deployment of consultants - Competent consultants - Timely establishment of the joint steering committee - Timely establishment of the working group - Adequate and timely government counterpart support

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Foreign Cost	Local Cost	Total Cost
A. Asian Development Bank Financing ^a			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants (11 person-months)	275.6	0	275.6
ii. Domestic Consultants (12 person-months)	0	62.7	62.7
b. Travel			
i. International	36.0	0	36.0
ii. Local	0	5.6	5.6
2. Communications, Local Transportation, and other Administrative Expenses	10.0	3.6	13.6
3. Conference/Workshop			
a. Conference for Joint Steering Committee ^b	25.0	10.0	35.0
b. Workshop for Working Group ^c	0	28.4	28.4
4. Reports Reproduction, Shipment, and Translation	0	20.0	20.0
5. Contingency	20.0	3.1	3.1
Total (A)	366.6	133.4	500.0
B. Government Financing			
<i>Mongolian Government</i>			
6. Project Offices	0	33.0	33.0
7. Counterpart Staff	0	30.0	30.0
<i>PRC Government</i>			
8. Project Offices	0	33.0	33.0
9. Counterpart Staff	0	30.0	30.0
Total (B)	0	126.0	126.0
Total	366.6	259.4	626.0

PRC = People's Republic of China.

^a Financed by the Japan Special Fund.

^b Two conferences for joint steering committee, one in Mongolia and one in the PRC. This item includes the travel costs of the government delegates.

^c Four workshops for working groups, two in Mongolia and two in the PRC. This item includes the travel costs of the government delegates.

Source: ADB Estimates.

(Reference in text: page 4, para. 11)

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. The TA will require a team of about 13 consultants. The four international consultants will be experts in international cooperation and border issues, transportation planning, environmental management, and mineral resources evaluation. They will be supported in the People's Republic of China (PRC) by four Chinese domestic consultants with expertise in transport economics, civil engineering, financial analysis, and environmental management. In Mongolia, the international consultants will be supported by five Mongolian domestic consultants with expertise in transportation economics, civil engineering, financial analysis, environmental management, and mineral resources development.

2. Under the guidance of the Asian Development Bank (ADB), the consultants will work closely with the joint steering committee and the working groups to be established by the governments of the PRC and Mongolia.

A. International Consultants

1. International Cooperation and Border Issue Specialist (Team Leader)

3. The team leader will have the following responsibilities:

- (i) Provide overall guidance for the team of consultants, including preparing the inception report, interim report, and final report; and interacting with ADB and the governments, coordinating assignments of each team member, and controlling the quality of the products of the team.
- (ii) Lead the team to prepare a feasibility study for the border bridge and the associated border facilities.
- (iii) Advise the two governments on the design standards, institutional arrangement, cooperation and coordination scheme, and financing mechanism for constructing the border bridge and the associated border facilities.
- (iv) Advise the two governments on general policy and operational matters concerning international cooperation involving the two countries, including, in particular, the development of international tourism in the project area.
- (v) Present the draft final report of the team to ADB and the governments.
- (vi) Finalize the final report by incorporating the comments of ADB and the governments.

2. Transportation Specialist

4. The transportation specialist will be responsible for the following tasks:

- (i) Undertake the feasibility study for the border bridge, including selecting the optimal location of the bridge, projecting cross-border traffic, and planning and managing cross-border traffic.

(Reference in text: page 4, para. 13)

- (ii) Provide guidance and oversight for the domestic consultants and maintain quality control on the technical aspects of the border bridge feasibility study.
- (iii) Advise the two governments on planning and managing the people traffic resulting from the rapid expansion of the tourism industry in the project area.
- (iv) Based on the evaluation of the market potential of the mineral resources, prepare a strategy paper for transport infrastructure development in the project area, with a special focus on exporting the verified mineral resources from eastern Mongolia through the PRC to the world market. This will include a study of the option to construct a transmode facility at the border to link the road transport in Mongolia to the railway system in the PRC.

3. Environmental Management Specialist

5. The environmental management specialist will have the following responsibilities:

- (i) Guide the border bridge feasibility study to make sure that construction of the bridge and border facilities will meet the environmental protection requirements.
- (ii) Work together with the domestic consultants to prepare an environmental protection plan, with focus on managing the environmental impacts of the increased exchange of goods and people after the completion of the border bridge.
- (iii) Advise on the development of ecotourism in the project area.
- (iv) Give a preliminary assessment of the potential environmental impact of developing the mineral resources in the project area.

4. Mineral Resources Specialist

6. The mineral resources specialist will be responsible for the following:

- (i) Work with the domestic consultant to conduct an evaluation study of the mineral resources including petroleum resources in eastern Mongolia, with focus on their economic value and export potential. This will include an analysis of the effective demand for the resources, transportation routing, and other factors (including the major competitors) that affect the market potential of the major resources.
- (ii) Analyze the policy and institutional constraints in Mongolia, if any, that may affect foreign investment for developing the resources.
- (iii) Prepare an evaluation report for the joint steering committee and working groups.

B. Domestic Consultants**1. Transportation Specialists**

8. The transportation specialists (one each from the PRC and Mongolia) will be working with the team leader and the international transportation specialist to prepare traffic projections for the feasibility study for the border bridge, and to prepare the strategy paper for transportation infrastructure development. The transportation specialists are also responsible for identifying the difference in technical standards in transportation planning and management between the two countries and will recommend the coordination mechanism to ensure compatibility.

2. Civil Engineers

9. The civil engineers (one each from the PRC and Mongolia) will be responsible for the technical feature of the border bridge and border facilities. They will identify the differences in design standards in civil engineering between the two countries and recommend feasible technical options to reconcile the differences.

3. Financial Analysts

10. The financial analysts (one each from the PRC and Mongolia) will prepare the financial analysis for the feasibility study for the border bridge and the associated border facilities.

4. Environmental Specialists

11. The environmental specialists (one each from the PRC and Mongolia) will be responsible for environmental assessment for the border bridge feasibility study and ensure that the border bridge and associated border facilities will be designed and constructed in line with the environmental protection guidelines of their national authority. They will also help the international environmental management specialist to prepare the environmental protection plan.

5. Mineral Resources Specialist

12. The mineral resources specialist (one from Mongolia) will work together with the international consultants to survey and evaluate the mineral resources in eastern Mongolia.