

2.7 Regional Development integrated with CBTI Development

Impact of East-West Economic Corridor on Savannakhet Province

Cross-border barriers along the east-west corridor have significantly decreased since 2000. The corridor's primary impact is shorter travel time. Before, it took about 12 hours from Khanthabouly (Savannakhet) bordering Thailand to Densavanh bordering Vietnam. After widening and improving National Road (NR) No. 9 with financing from the ADB and Japan grant aid, travel time has been cut back to three hours. In addition, the local populace's accessibility to education and medical services has improved. It is reported that children in rural areas can now attend junior high schools, while previously they could only access elementary schools.

After the completion of the regional economic corridor, investment in Savannakhet province, particularly FDI, has also increased. This has in turn led to the creation of jobs and thus improve socio-economic development in border areas, decreasing the number of households living below the poverty level from 37,282 in 1998 to 24,400 in 2004.

Lao Bao Special Economic Zone Development

Quang Tri province along the east-west corridor was a war zone during the Vietnam War. During the war from 1954 to 1975, the people of Quang Tri suffered a heavy loss of life and property. Even long after the war, it had been left behind by Vietnam's economic development. Since the 1990s and after the east-west economic corridor was identified in the GMS development framework, the development potential of NR9 rapidly increased.

In this context, the Lao Bao Special Economic and Commercial Area (LSECA) was established in 1998 as the first special economic zone in Vietnam. Preferential treatment was provided for LSECA locators, including the exemption from VAT, export/import tax, and special consumption tax. Corporate tax was also waived for the first 4 years upon location, discounted by half for the next 9 years, and by 10% for the following years. Half of the personal income tax of laborers was also waived and the lease on land was exempted for the first 11 years (Investment Environment in Vietnam, JOI, 2005). A total amount of US\$ 25 million was invested for economic infrastructure such as electricity, water supply and telecommunication. This industrial estate with an area of 15,800ha has been developed at the border.

As a result, 45 projects with a total amount of VND 1,900 billion or US\$ 120 million was invested in the area for 8 years before 2006²¹). Among these projects, 23 have started their operations and 6 are under construction. Those already operating include tire plants and rubber factories with Thai capital. There is a proposal to develop logistics facilities to meet increasing cargo demand including transit ones, which is listed in the GMS Development Matrix made by the ADB.

Savan-Seno Special Economic Zone Development

Savannakhet city in Savannakhet province, located at the eastern end of Lao PDR along the east-west corridor, is the third-biggest city in Lao PDR. Savannakhet province has the largest share of rice production in the country and has rich natural resources such as

²¹ In Huong Hoa district where Lao Bao locates, output-base production value has increased by 25% from 2000 to 2001 (Socio-Economic Statistical Data of Rural Districts, Statistical Publishing House, 2002)

minerals, which is becoming its largest base for export.

Lao's first special economic zone is planned along NR9 in Savannakhet province and will be completed by 2011. It will be under the responsibility of the Savan-Seno Economic Zone Authority established in 2003. The completion of the east-west corridor provided northeastern Thailand with a direct access to Danang Port in Vietnam. The development of the economic zone aims to bring the economic benefits of developing the regional economic corridor and addresses concerns about increased transit traffic with no benefit for Lao PDR.

The Savan-Seno Special Economic Zone, which was proposed in a JICA study²²⁾, is composed of two industrial estates, namely Site A with an area of 305ha adjacent to the Second Mekong international Bridge and Site B with an area of 20ha located in Seno 28km east of Savannakhet at the junction of NR9 and NR13, the north-south axis in Lao PDR.

Both industrial estates will function as export processing zones, free trade zones, and free service and logistics centers. Preferential treatment, the best in Lao PDR, is provided to investors, including exemption from corporate tax for the first 5 to 10 years in proportion to the export ratio (in case of manufacturing companies), exemption from import tax and consumption tax, as well as a personal income tax discount of 5%. Land lease period is allowed for a maximum of 75 years, with it's a free lease for the first 12 years if the total lease period is over 30 years (based on the Results of Site Visit of Logitem, JOI, 2005, and IDJ 2006).

At present, land acquisition is ongoing and no project has started yet. However, the completion of the east-west corridor has already had some impact in Savannakhet province, including a rapid increase in foreign direct investment in the last few years. It is reported in the ADB that the total FDI increased to US\$ 207 million in the 2001-2005 period from US\$ 17.9 million in the 1995-2000 period.

Moc Bai Special Economic Zone Development

Moc Bai district, bordering Cambodia, is located on the second east-west corridor of the GMS development framework. With a high development potential and convenient location, i.e. 70km from Ho Chi Minh City, early progress has been observed in infrastructure development, including the ADB-financed widening of NR22 linking Moc Bai and Ho Chi Minh.

The Moc Bai Border Economic Zone was established in 1998 and completed in 2004. With a total area of 21,280ha, it has three border gates, the main one in Moc Bai and the other two in Phuoc Chi and Long Thuan. Preferential treatment to attract private investments includes a 50% reduction in land rentals, low tax rates on expatriating profits, and simple licensing procedures. As a result, the zone has attracted 27 domestic investors with 38 projects at a total capital of over VND 5.4 trillion (or US\$ 350 million) over the last two years.

One of the zone's most ambitious investment projects is the Hiep Thanh Trading Complex, with an area of 48ha and a total capital of VND 376 billion or US\$ 23.5 million. It comprises

²² Four candidate sites for industrial estates were proposed in JICA-conducted study, of which site A and B were selected.

a housing complex and shopping mall. A new road will soon be built to connect it directly to Cambodia. The zone also has a duty-free supermarket opened in 2005 and a mini supermarket, attracting 3,000-4,000 shoppers daily from both countries. It is reported that these commercial and industrial developments have had a large impact on the area such as the expansion of employment. For example, most of the 310 workers now employed in the duty-free supermarket worked previously as porters.

On the other hand, the Moc Bai Border Economic Zone has so far failed to attract foreign investments due to poor infrastructure, such as transport access. The provincial government therefore intends to develop basic infrastructure, such as roads, water, and electricity. The priority will be given to upgrading a 25-kilometer dilapidated power grid, improving water supply up to a daily capacity of 4,000 m³, and installing 28km of water pipeline.

2.8 Key Development Projects in the Greater Mekong Subregion

In the Greater Mekong Subregion, the key development projects with donor assistance are summarized by sector in tables 2.8.1 and 2.8.2, based on the ADB GMS Development Matrix and the project lists of other international agencies.

The trends in development assistance among the major donor agencies are summarized as follows:

(1) JICA: 1) Transport 24%, 2) Agriculture 23%, 3) Water Supply and Sewerage 18%.

(2) JBIC: 1) Transport 33%, 2) Energy and Mining 31%, 3) Health 11%.

(3) ADB: 1) Education 18%, 2) Environment 17%, 3) Transport 16%.

(4) WB: 1) Agriculture 20%, 2) Energy and Mining 19%, 3) Transport 17%.

(5) Others: 1) Tourism 29%, 2) Environment 16%, 3) Agriculture 12%.

The transport sector is ranked within the top three of all key donor agencies, showing that priority has been placed on the sector. Focus is also given on education, environment, and tourism by the ADB and the World Bank.

Table 2.8.1 Number of Projects of Key Donor Agencies by Sector ¹⁾

	Sector														
	Agriculture, Fishing, and Forestry	Economic Policy and Finance	Education	Energy and Mining	Environment	Health, Nutrition, Population, and Other Social Services	Industry and Trade	Information and Communications	Multisector	Public Administration, Law, and Justice	Tourism	Transportation	Urban Development	Water, Sanitation, and Flood Protection	Total
Donor															
JICA	82		36		2	29		10		30	4	86	16	64	359
JBIC	29	33		135		49		23				145		19	433
ADB	39	20	49	23	45		38	8			6	43			271
WB	73	18	23	68	2	23	14	11	3	42		61	6	13	357
Others ²⁾	48	38	18	46	62			23			116	43			394
Proposed ³⁾	39	28	52	29	37		83	45			25	217			555
Total	310	137	178	301	148	101	135	120	3	72	151	595	22	96	2369

Source: ADB, *GMS Development Matrix*, 2006, website of JICA, JBIC and WB

Note 1) Coverage of data is as follows: JICA from 1975, JBIC from 1969, ADB and others from 1995, WB from 1950, to present.

2) Including projects of ASEAN, bilateral, UNESCAP, MRC, and other multilateral donors, which are listed in the ADB GMS Development Matrix.

3) Project proposed in the ADB GMS Development Matrix.

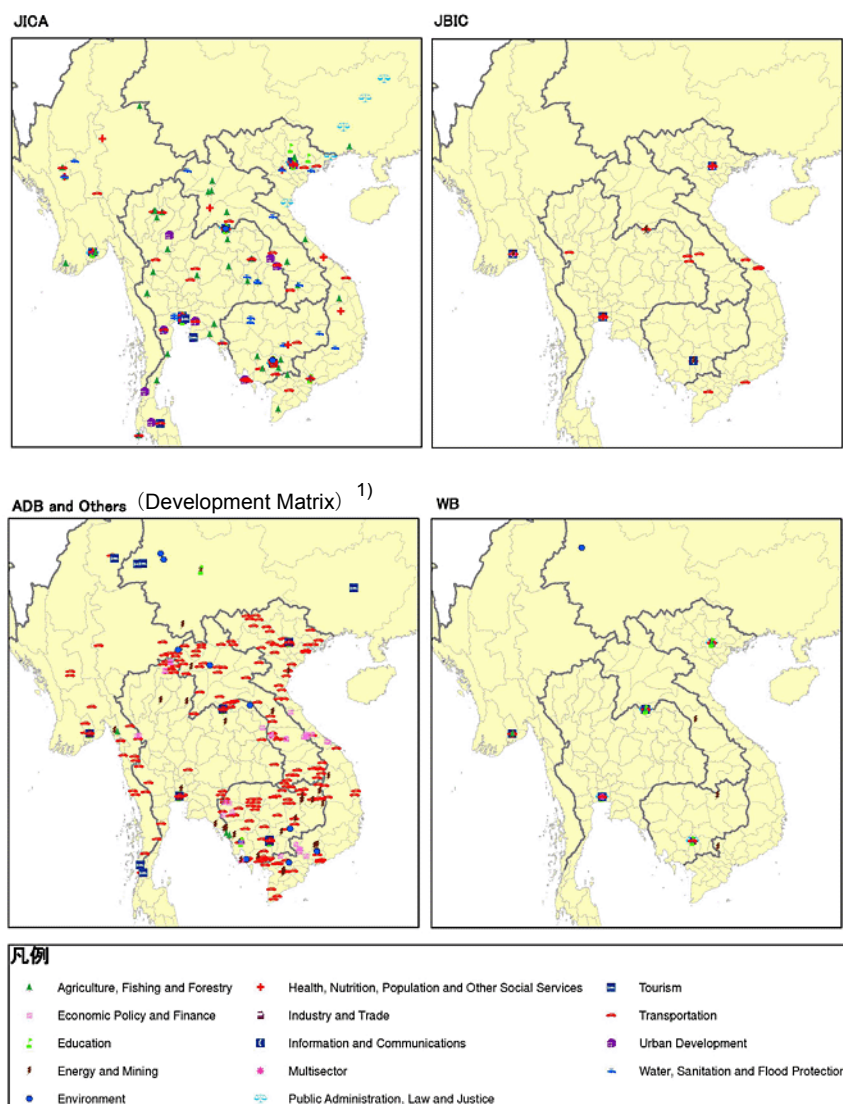
Figure 2.8.1 shows the project locations of key donor-assisted projects by sector. It shows that JICA- and JBIC-assisted projects are equally distributed in CLMV countries and Thailand, while ADB-assisted projects are more focused on Cambodia, Lao PDR, and Vietnam.

Table 2.8.2 Project Share of of Key Donor Agencies by Sector

	SECTOR																
Donor	Agriculture, Fishing, and Forestry	Economic Policy and Finance		Education	Energy and Mining	Environment	Health, Nutrition, Population, and Other Social Services		Industry and Trade	Information and Communications	Multisector	Public Administration, Law, and Justice	Tourism	Transportation	Urban Development	Water, Sanitation, and Flood Protection	Total
JICA	23%		10%			1%	8%		3%		8%	1%	24%		4%	18%	100%
JBIC	7%	8%		31%		11%		5%					33%		4%		100%
ADB	14%	7%	18%	8%	17%		14%	3%				2%	16%				100%
WB	20%	5%	6%	19%	1%	6%	4%	3%	1%	12%			17%		2%	4%	100%
Others	12%	10%	5%	12%	16%			6%				29%	11%				100%
Proposed	7%	5%	9%	5%	7%		15%	8%				5%	39%				100%

Source: ADB, GMS Development Matrix , 2006, website of JICA,JBIC,WB

Figure 2.8.1 Location of Key Donor-assisted Projects in the GMS



1) Including projects financed by multiple donors and local governments.

3. Issues of CBTI Development for GMS Countries

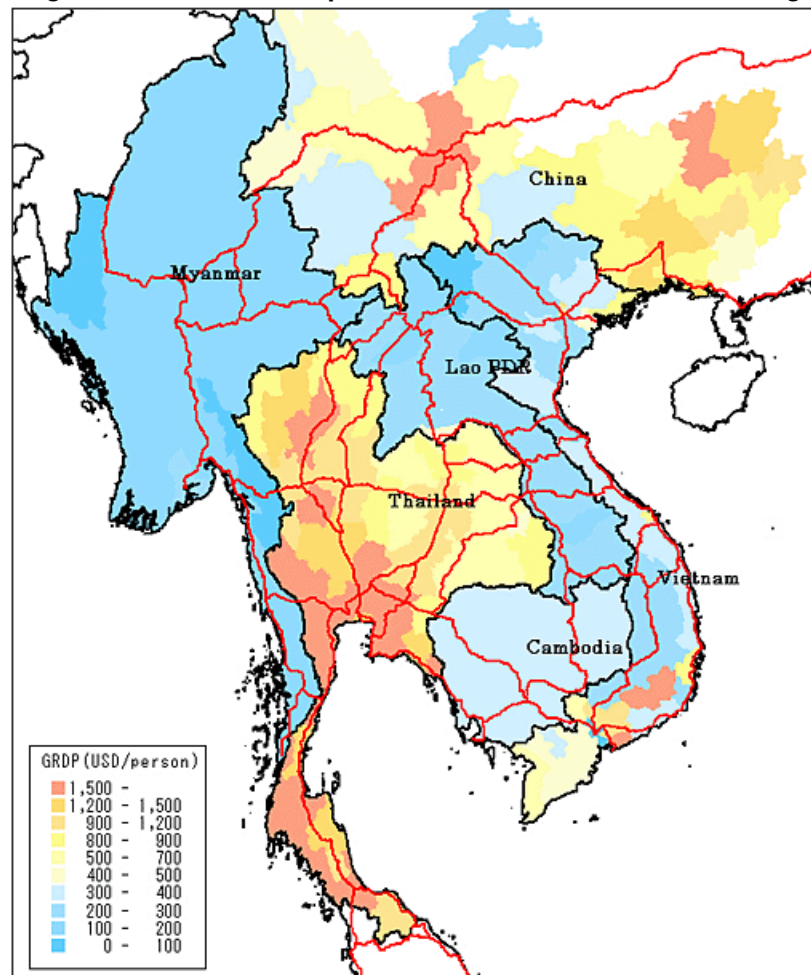
3.1 Narrowing International, Regional, and Ethnic Disparities

1) International and Regional Disparities

Figure 3.1.1 shows the distribution of the per-capita GRDP in the GMS countries. GDP levels are distinctly high in Thailand, and more or less equivalent levels are found in the Yunnan Province and the Guangxi Zhuang Autonomous Region in China. Vietnam's urbanized regions, which include Hanoi and Ho Chi Minh, show relatively high income levels in sharp contrast to the frontier regions.

The issue of primary importance in the GMS is reflected in Lao PDR and Cambodia, who are surrounded by Thailand, China, and Vietnam on one side, as well as Myanmar in the west. These three countries are classified as among the lowest income countries (the frontier regions of Vietnam must be added as well). The economic gap has widened perceptibly in recent years between these poorest countries and the rest of the GMS countries. It is therefore absolutely necessary to push their entire economies to alleviate widespread poverty and narrow the economic disparities in the GMS.

Figure 3.1.1 Per-capita GRDP in GMS Countries and Region



Source: Formulated by the Study Team based on existing data.

Notes: 1) Per-capita GRDPs are shown for Cambodia. GRDP for Lao PDR and Myanmar was estimated by the study team from its total GDP. GRDPs for China, Thailand, and Vietnam were estimated based on GPP (Gross Provincial Product).

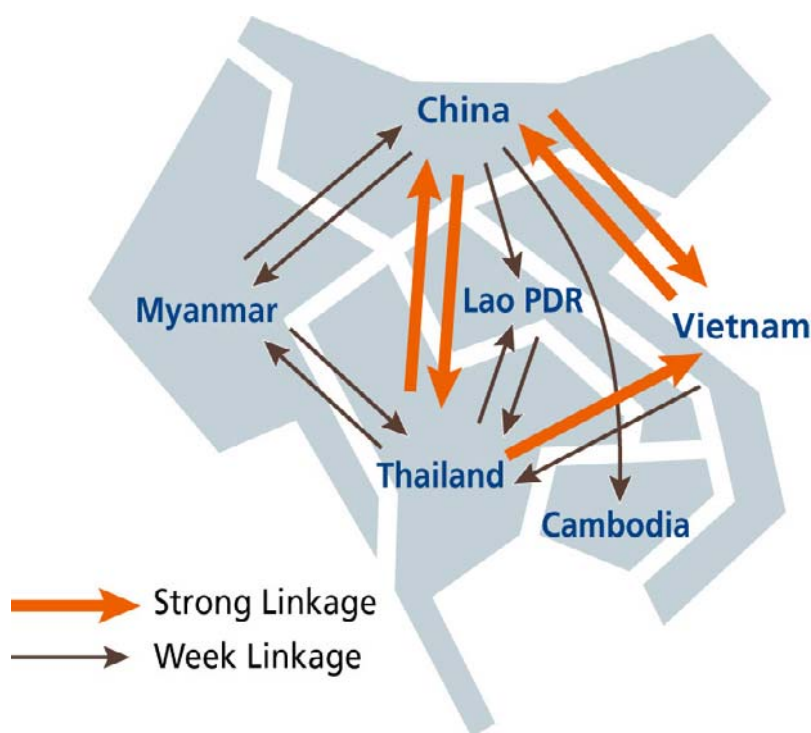
2) Cambodia: 2004, Vietnam: 2004, Thailand: 2003, Yunnan: 2003, and Guangxi Zhuang Autonomous Region: 2005.

3) Per-capita GRDP for Myanmar was calculated from 2004 GDP and 2005 population and GRDP.

4) Per-capita GRDP for Lao PDR was calculated from 2003 GDP and 2002 population.

The structure of trade in the GMS region as discussed in the preceding chapter is schematically presented in Figure 3.1.2. The basic structure is a triangle of active trade among China, Thailand, and Vietnam, with Lao PDR, Cambodia, and Myanmar barely hanging on to one or two of these more developed countries. The importance of CBTI development and CBTA implementation is to be found in the trade activation and expansion of the three low-income countries in the triangle and the uplifting of their entire economies. Indeed, a number of regional development projects, most notably special economic areas, have already been launched in GMS frontier regions. Private sector interests are increasingly focusing on the development of cross-border corridors for freight traffic along the axes of Thailand – Lao PDR – Vietnam, Thailand – Cambodia – Vietnam, and elsewhere. It is crucial to support and expedite these emerging efforts at narrowing regional disparities. As will be discussed in detail in Chapter 6, CBTI development and CBTA implementation are expected to sizably increase the potentials of GRDP growth in the respective GMS countries.

Figure 3.1.2 Schematic Trade Structure among GMS Countries



2) Ethnic Disparities

Cross-border transportation caters to the flows of trade and is deeply entangled in the power play of local interests. Lucrative gains from trade almost necessarily fall into the hands of the socially powerful and, in multi-ethnic societies, often into the hands of the ethnic group of largest representation. Table 3.1.1 shows the public sector ethnic distribution in the frontier region of Vietnam bordering Lao PDR (Lao Bao – Dansavanh). Quang Tri Province is the Vietnamese side of the cross-border corridor. At the provincial level, public sector employees overwhelmingly belong to the majority ethnic group of the Kinh. The representation of this group gradually decreases as the level of administrative units go down in frontier communes, but suddenly jumps up in the vicinity of the Lao Bao SEZ border crossing gate. This shows that the ethnic majority at the provincial level and at

border crossing gates is directly reflected in the enclave of trade-related gains and power.

Table 3.1.1 Ethnicity Distribution among Public Sector Employees along the Cross-border Corridor in Quang Tri Province, Vietnam

Level	Ethnic Minorities ¹⁾	Ethnic Majority ²⁾
Quang Tri Province	●	●●●●●●●●●●
Huong Hoa District	●●●	●●●●●●●●
Frontier Communes	●●●●●●●	●●●●
Lao Bao SEZ Border Crossing Gate	●●	●●●●●●●●

Source: Janmejay Singh, "Reviewing the Poverty Impact of Regional Economic Integration in the Greater Mekong Sub-region", ADB, 2006.

Note: 1) Pako, Van Kieu, Tay, Nung, and H'mong.

2) Kinh.

Similar ethnic disparities are found in the employment of labor. Ethnic minorities are often discriminated in the formal sector employment and are left to engage in informal economic activities. In this regard, it is important to rectify discriminatory employment regulations and customs and promote the transparency of the formal sector recruiting process. It might be necessary in certain cases to initiate the intervention of the national government or international organizations.

3.2 Changing Role of Road Transport in Long Distance Freight Traffic

Cross-border transport is often discussed in the context of roads. Regarding long distance traffic, however, it is necessary to consider the competition provided by water transport, most notably sea transport. Traditionally, Indochinese coastal shipping linking China, Vietnam, Thailand, and Myanmar has played a crucial role in regional freight traffic. In recent years, the gradual development of inland road networks in the GMS countries has reduced the extreme hazards of yesteryears that used to discourage cross-border land transport. Especially notable was the yen-credit-financed completion of the Second Mekong Bridge between Thailand and Lao PDR in December 2006. The bridge finally linked up the long-awaited east-west economic corridor that extends from Myanmar to Vietnam across the Indochinese Peninsula. Spurred by this breakthrough, an increasing number of interests have begun to converge toward the development of freight logistics network across the GMS countries. In response to the request of Japanese companies located in these countries, Japanese logistics companies recently conducted a survey on a number of cross-border road links, and their findings are summarized in the following paragraphs and tables 3.2.1~3.2.3.

Table 3.2.1 Comparison of Land and Sea Transport between Bangkok and Yangon

	Route	Distance (km)	Travel Time (hr)	Transport Condition	Estimated Transport Cost (US\$)
Land Transport	Bangkok – Mae Sot	490	12	excellent	290
	Myawadi – Kawkaeik	75	4	very poor	440
	Kawkaeik – Yangon	380	15	satisfactory	
	Total	945	3 days		730
Sea Transport	Bangkok – Bangkok Port	20 – 30	1 – 2	excellent	80
	Bangkok Port – Yangon Port	4,000	20 days	—	1,000
	Yangon Port – Yangon city	20 – 30	1 – 2	satisfactory	50
	Total	—	approx. 1 month		1,130

Source: Based on Sankyu Co, Ltd., “Significant Impact to Shorten the Travel Time”, *JETRO Sensor*, Feb. 2006. (in Japanese)

Note: Cost of land transport is for chartering a 10-wheel 10-ton truck. Cost of sea transport is for chartering a 20-foot container. Customs, port charges, and other related cost items are not included.

Table 3.2.2 Comparison of Land and Sea Transport between Bangkok and Hanoi

	Route	Distance (km)	Travel Time	Transport Condition	Estimated Transport Cost (US\$)
Land Transport	Bangkok – Mukudahan	680	15 hours	excellent	460
	Savannakhet – Densavanh	250	5 hours	excellent	250
	Lao Bao – Hanoi	660	14 hours	satisfactory	1,400
	Total	1,590	3 days		2,110
Sea Transport	Bangkok City – Bangkok Port	20 – 30	1 – 2 hours	excellent	100
	Bangkok Port – Hai Phong Port	—	8 – 12 days	—	800
	Hai Phong Port – Hanoi	120	3 – 4 hours	satisfactory	100
	Total	—	approx. 2 weeks		1,000

Source: Based on Sankyu Co, Ltd., “Logistics in Indochina after completion of the Second Mekong Bridge and East-west Economic Corridor”, *Economic and Investment Seminar in Lao PDR*, Oct. 2006 (in Japanese)

Note: Cost is for chartering a 20-foot container for both land and sea transport. Customs charges are not included.

Table 3.2.3 Inter-city Container Cargo Transport in Indochina

Route	Land Transport			Sea Transport		Remark
	Km	Day	Cost (US\$)	Day	Cost (US\$)	
Guangzhou – Hanoi	1,190	2	3,000	4 – 6	1,500	40ft container, including customs
HCMC – Hanoi	1,600	3 – 4	1,200	4 – 6	750	40ft container, domestic cargo
Bangkok – Hanoi	1,555	3 – 4	4,200	10 – 15	2,000	40ft container, including customs
Bangkok – HCMC	913	2	1,390	2 – 3	560	10t truck and 20ft container, excluding customs
Bangkok – Yangon	945	3	730	30	1,130	10t truck and 20ft container, excluding customs

Source: “East-West Economic Corridors developed by Japan”, NNA, Feb. 2007.

A. Bangkok-Yangon Route

Land transport takes only three days instead of approximately one month by coastal shipping and its cost can be lower than sea transport. However, road conditions are extremely poor, the institutional setup for cross-border traffic is uncertain, and the security risks are considerable in Myanmar. Accordingly, most cargo depends on sea transport on this route. However, if and when land transport infrastructure is upgraded in Myanmar together with a concomitant improvement in customs and other institutional arrangements, as well as security along the route, cross-border land transport would stimulate large potentials of inland growth.

B. Bangkok-Hanoi Route

Partly assured by the recent opening of the Second Mekong Bridge, land transport is expected to become more promising on this route, a view shared by many local companies including the Japanese. Cross-border land transport will reduce travel time to three or four days from approximately two weeks by coastal shipping. However, the cost of land transport is more than double that of sea transport. Coastal shipping is thus more advantageous in bulk transport. However, cross-border land transport excels in the convenience of door-to-door transport and speed of delivery. The state of road development along this route is on the whole satisfactory. Emergency transport between Bangkok and Hanoi has so far been provided by air, but it takes at least three days for door-to-door services because of the infrequency of air cargo service in addition to being very expensive. This means though that cross-border land transport will soon be able to compete with aviation. The remaining issues that have to be addressed are the need to simplify customs clearance because the route connects three countries (Thailand, Lao PDR, and Vietnam) and the likely cargo imbalance (cargo movement from Thailand to Vietnam will be much larger than that from Vietnam to Thailand).

C. Other Routes

The route connecting southern China (Guangzhou) to Hanoi is similar to the Bangkok-Hanoi route mentioned above. Road infrastructure is more or less satisfactory, and although the cost is much higher than coastal shipping, the demand is substantial enough to favor the shortening of travel time provided by cross-border land transport. Meanwhile, coastal shipping is still advantageous in the Bangkok-Ho Chi Minh route. If a bridge crossing the Mekong River is constructed in Neak Loeung and if the customs clearance system is improved in Cambodia, the route will eventually have the prospect similar to the Bangkok-Hanoi and the Guangzhou-Hanoi routes.

As indicated above, a new complementary relationship is about to emerge between sea and land (road) transport regarding long distance freight traffic. While long distance transport may favor a shift from road to sea (or other) transport, it may be expected of GMS countries to eventually shift from sea to land transport. At the same time, if the development of port-related infrastructure, the rationalization of maritime shipping, and the modernization of railways are realized in the future, it might be possible to expect a modal shift back to sea transport again.

All cross-border routes in the GMS countries are in need of institutional improvement in customs clearance and related matters. In addition, the promotion of appropriate competition and complementarity among transport modes is important to ensure a wider range of modal choice for users.

3.3 Reduction of Institutional Cross-border Resistance

The development of roads and bridges has been steady in the GMS countries, partly financed by the ADB, JBIC, and other external donors. In recent years, more advanced countries, like China and Thailand, have begun to fund similar developments in the rest of the GMS countries. It is clear that the physical (infrastructural) component of cross-border resistance has been steadily and surely being eroded. In contrast, there still remain many institutional constraints, beginning from customs procedures in the respective GMS countries. It is no exaggeration to say that the institutional component is now the primary source of cross-border resistance. While institutional component largely consists of CBTA stipulations, bilateral MOUs, and official statutes of each country that formally define and regulate the institutional arrangements between and among GMS countries, it also includes informal-occasionally, even illegal-arrangements that seriously constrain cross-border trade flows. The following is a brief description of the examples about constraints on the CBTA implementation and barriers due to the informal arrangements, which were reported during field interviews on cross-border freight traffic.

International Transit Cargo through Lao PDR

In Lao PDR, an institutional framework for international transit cargo has already been established, which is available for any authorized international transporters in principle. However, the following procedures are required to arrange international transit, which take more than twice the actual transport time and large amount of efforts.

- (i) In prior to transportation of cargos, it requires to submit an application and get permission for international transit at the central customs office in Vientiane. It usually takes 3 to 7 days.
- (ii) Transporters have to show the original documents of the permission when passing the cross-border point, i.e. they need to send it from Vientiane to the cross-border point. Since no courier service is available in Lao PDR, they have to arrange transportation by themselves.

Moreover, customs procedure at the central customs office in Vientiane can be carried out only by an authorized Lao freight forwarder, which are dominated by only 2 or 3 forwarders. Therefore, most of foreign transporters who carry out international transit transport rely on those Lao forwarders for customs formalities. On the other hand, there is another mechanism where such an advance procedure at Vientiane can be exempted if a transit charge is paid at the cross-border gate at a cost of 3 to 10 % of invoice value. However, it is only that import tax is collected in the form of “transit charge”, which is contrary to CBTA framework.

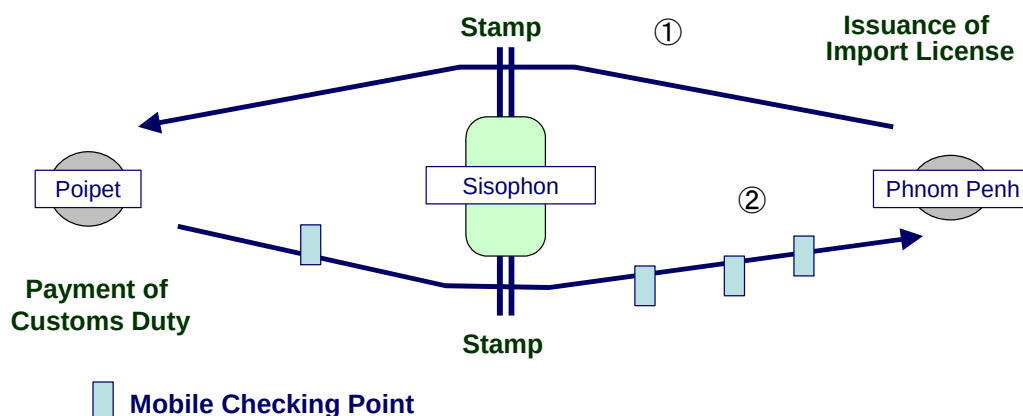
Even after an international transit framework has officially been established, Lao government requires a prior application and permission at the central office. It is mainly because there is a large risk for the Lao customs due to the lack of a guarantee system for international transit cargo. In order to promote smooth international transit, establishment of a guarantee system, including an authorized guaranteeing body is urgently required.

Case of Cambodia- Thailand Border

The import process through Poipet in Cambodia from Thailand begins by the acquisition of an import license from the central customs office in Phnom Penh. The license is then submitted to the branch customs office in Sisophon to get an official stamp subject to a fee.

The importer then shows up in Poipet with the stamped license and an empty truck, pays the customs duty, transships the Thai cargo to his truck, goes back to the branch office to get another stamp on the license for a fee, and finally transports the cargo to Phnom Penh. There are many “informal mobile checkpoints” on the route from Sisophon to Phnom Penh, and the importer has to pay a small fee at every mobile checkpoint he encounters. This is the reason why Thai cargo trucks do not venture into Cambodian territory.

Figure 3.3.1 Import Procedure at Cambodia-Thailand Border



Mobile checkpoints are clearly illegal and meant to provide pocket money for local officials. The practice is petty graft, but constitutes a serious institutional bottleneck when Thai vehicles are inhibited from operating inside Cambodia. Furthermore, the formal procedure of customs clearance is not completed at Poipet at the border. The requirement of obtaining import licenses in Phnom Penh is definitely contrary to the stipulation of the CBTA, which Cambodia formally signed, requiring customs clearance to be completed at the border.

The complete implementation of the CBTA stipulations is being bogged down by a complex knot of constraints. The protection of domestic importers and transport operators is the official policy stance, but this is belied by the rampant nepotism and graft. The customs procedure involves inspection and tends to breed arbitrariness of judgment in favor of acquaintances and personal connections. It is important to clear the customs procedure of such subjectivity. Moreover, there is the problem of divergence and contradiction between CBTA stipulations on one hand and the national statutes as well as ordinances or bilaterally signed agreements (e.g. road agreements) on the other. The implementation of many a CBTA stipulation falls behind schedule for this reason. In the case of Thailand, for instance, some stipulations are thought to infringe on the constitution and other domestic laws and regulations, and their implementation is at a standstill for the time being. Domestic legal enactments needed to implement CBTA stipulations are affected by the slow pace of legislation.

Table 3.3.1 summarizes the customs procedures in five GMS countries. Thailand and Vietnam have succeeded in simplifying the procedure to a significant extent. Lao PDR allows the completion of customs clearance at border gates except for transit cargo. In other countries, the procedures are more complicated. In Cambodia, the customs procedure cannot be completed at the border gates, whereas in Myanmar border clearance requires documented past trade performance through the respective border gates.

Table 3.3.1 Outline of Customs Procedures in Five GMS Countries

Country	Venue of Customs Clearance	Needed Time*	Inspection	Entry of Foreign Vehicles	Remark
Thailand	Completed at the border	Few hours to 1 day	Designated cargo only	Laotian vehicles with prior registration are allowed to enter.	Clearance inspection limited to designated cargo since Aug. 2003.
Cambodia	Completed at Phnom Penh Customs Office (imports of US\$300 and above and all exports)	1.5 to 3 days	Entire cargo	Allowed up to cargo transshipment points at the border.	Import license obtained at the central customs office in Phnom Penh and submitted to the branch customs office at the border. Transit cargo not allowed to enter.
Lao PDR	Completed at the border (except for transit cargo)	0.5 to 1 day	Entire cargo	Thai vehicles with prior registration are allowed to enter. Vietnamese vehicles with prior permission on destination are allowed to enter.	Import application needed in Vientiane for import items with preferential customs duty granted to foreign investment. Import license required for all import items.
Myanmar	Completed at the border (requires past export records at said border gate)	2 to 3 days	Entire cargo	Allowed up to cargo transshipment points at the border.	Import license required on all import items
Vietnam	Completed at the border	1 to 2 days	Entire cargo	Allowed up to cargo transshipment points at the border.	Import items for bonded factories are cleared at the customs office in charge of the respective factories.

Source: Based on Sankyu Co. Ltd.'s "Toward Institutional Improvement to Facilitate Customs Formalities", *JETRO Censor*, Feb. 2006. , with some updating.

Note* The time needed for clearance can be reduced by prior registration in the five countries.

3.4 Mitigation of Negative Impacts Associated with Cross-border Freight Traffic

The expansion of cross-border freight traffic and the related regional growth, as triggered by the progress of CBTI development and CBTA implementation, are expected to bring an enormous impact on the economy of each GMS country. While the border areas are likely to reap sizable benefits from this economic activity, a rosy future entirely free of negative repercussions is not possible. Major negative impacts are as follows.

- (1) Widening of disparities (international, regional and ethnic).
- (2) Straw effects¹⁾ in areas and countries along the border crossing routes.
- (3) Spread of HIV, avian influenza, and other infectious diseases.
- (4) Human trafficking, smuggling of narcotics and arms, and spread of terrorism.
- (5) Deterioration of traffic safety (increase in traffic accidents).

The widening of disparities has already been discussed in Chapter 3.1. The other negative impacts are summarized in the following paragraphs.

Straw Effects in Areas and Countries along the Routes

This negative impact will most likely be found in Lao PDR and Cambodia both of which are wedged in between Thailand, Vietnam, and China. Being transit countries for cargo intended for the three more advanced GMS countries, Lao PDR and Cambodia, with less resources and low economic competitiveness, will suffer from worsening traffic safety levels and the deterioration of the natural environment as a result of growing flows of transit cargo. This and the increasing concern among the peoples of these two countries that only the powerful foreign companies will reap all the benefits of cross-border trade expansion are major reasons these countries are very slow in implementing CBTA stipulations on cross-border customs clearance and international transit arrangement.

It is difficult to quantify straw effects, but some manifestations have already been reported. It is said, for instance, that approximately 100,000 Laotians migrated from Savannakhet to Thailand in search of jobs. This implies that every Laotian household in Savannakhet has one member working in Thailand. Laotians employed in Thailand are estimated to reach some 200,000.²⁾ Their earnings certainly contribute to the economy of their native village but not to industrial development in Lao PDR. The problem is that they are mostly low-wage workers in the informal sector of Thailand.

It requires a wide-ranging policy framework to defuse or alleviate this straw effect. Integrated regional development that includes human resources development and skills training, as well as the development of logistics terminal and industrial estates, is needed in Lao PDR and Cambodia. It might be possible in the beginning to attract foreign investment by taking advantage of their low wages. Along with CBTI development and CBTA implementation, GMS governments and external donors are required not only to support the development of cross-border corridors and surrounding frontier regions but to launch a variety of programs that will effectively expedite the empowerment of the people, the absorption of the informal to the formal sector, and so on. These programs must be accompanied by appropriate regulations and interventions, but it is important above all to maintain transparency and equity in such programs, regulations, and interventions.

¹ Straw effect is that regional economy has deteriorated albeit trading has become facile.

² Both figures are taken from an ADB publication, *Reviewing the Poverty Impact of Regional Economic Integration in the GMS*, Manila, 2006.

Spread of HIV, Avian Influenza, and Other Infectious Diseases

It is well known that the spread of HIV and AIDS has closely followed the progress of economic integration in the GMS. It was reported, for instance, that the number of HIV-positive persons and AIDS patients sharply rose in Savannakhet while the Second Mekong Bridge was under construction. Construction laborers were mostly single males or married men unaccompanied by their families, and the transmission of HIV and AIDS was rapid through contact with prostitutes.³⁾ It was also reported that the persons identified as HIV-positive in Lao PDR numbered 1,470 in 2004 and that half of them had had the experience of working in Thailand.⁴⁾ The victims were poor people of negligible educational background.

Alleviation of this negative impact requires a wide range of supportive activities such as educational programs, publicity, and regular monitoring as well as medical treatment of patients. At the construction site of the Second Mekong Bridge (financed by the yen credit of JBIC), the International Planned Parenthood Federation (IPPF) and its Thai chapter, Planned Parenthood Association of Thailand (PPAT), undertook various activities to this effect. The IPPF/PPAT efforts were partly financed by the AIDS Trust Fund of Japan and this was the first attempt that was carried out in conjunction with a yen-credit project. The survey conducted during the construction found that 92% of the laborers came to understand AIDS after the IPPF program (the percentage was 62% among local inhabitants).⁵⁾

Human Trafficking, Drug and Arms Smuggling, and Terrorism

Human trafficking is also deeply rooted in the problem of poverty. According to the report on Laotian villages, those who wanted to work outside their own countries were often victimized. A third of them were given lies about their earnings or forced to work in a job different from the initial promise (e.g. prostitution in the case of women).¹⁾

Smuggling of narcotics is also related to poverty. Couriers are mostly those who cannot find legitimate jobs for one reason or another. Border regions are closely associated with illegal narcotic dealing and use. It was reported, for instance, that a quarter of the local population in frontier villages of Cambodia are habitual users.¹⁾

Cross-border illegal dealing of arms and movement of terrorists are a serious political menace from the viewpoint of any government, because they threaten national law and order. Although not officially announced, Southeast Asian governments have begun to share terrorist-related information after the Bali incidents in 2002 and 2005. The terrorist menace is not considered very serious among the GMS countries except for Thailand with its peninsular Islamic minorities.

The issue of illegal trade in narcotics, arms, and human beings calls for a wide range of measures that are similar to combatting straw effects and the spread of HIV/AIDS mentioned above. Sustained efforts will be necessary to create and provide legitimate employment opportunities, educational and training programs for empowerment, monitoring of and intervention into the informal sector, and so forth.

³ Based on Manoshi Mitra, "Reviewing the Poverty Impact of Regional Economic Integration in the Greater Mekong Sub-region", Second Regional Policy Formulation Meeting on "Social and Environmental Impacts of Economic Corridors", Mekong Institute, 2006

⁴ *Mainichi Shimbun*, Mar. 1, 2007.

⁵ *Mainichi Shimbun*, Feb. 26, Feb. 27 and Mar. 1, 2007.

Deterioration of Traffic Safety (Increase in Traffic Accidents)

This problem is not limited to the border areas but concerns all transport corridors that service cross-border freight traffic. Indeed, the safety problem is worse in urban areas where normal traffic is already heavy even before the advent of heavy-duty trucks that cross the borders. Moreover, the inter-country differences in transport regulations, such as right-side or left-side passage and many other traffic control rules, vehicle standards, road and bridge standards, and so on, have opened up a new dimension to traffic safety management in the GMS region.

Table 3.4.1 shows the traffic accidents in five GMS countries. Deaths caused by traffic accidents are relatively frequent in Thailand and Vietnam. Mainly because of the lower rate of automobile ownerships in the other three countries, traffic accidents are considerably fewer and limited to a small number of cities.

Table 3.4.1 Traffic Accidents in GMS Countries, 2003

Country	Population (000)	Police Statistics		Estimate		Estimated Death per 1000 Pop.
		Death	Injury	Death	Injury	
Lao PDR	5,661	415	6,231	581	18,690	0.102
Cambodia	13,531	824	6,329	1,017	20,340	0.075
Myanmar	49,463	1,308	9,299	1,308	45,780	0.026
Thailand	63,145	13,116	69,313	13,116	1,529,034	0.207
Vietnam	81,314	11,319	20,400	13,186	30,999	0.162

Source: ASEAN,

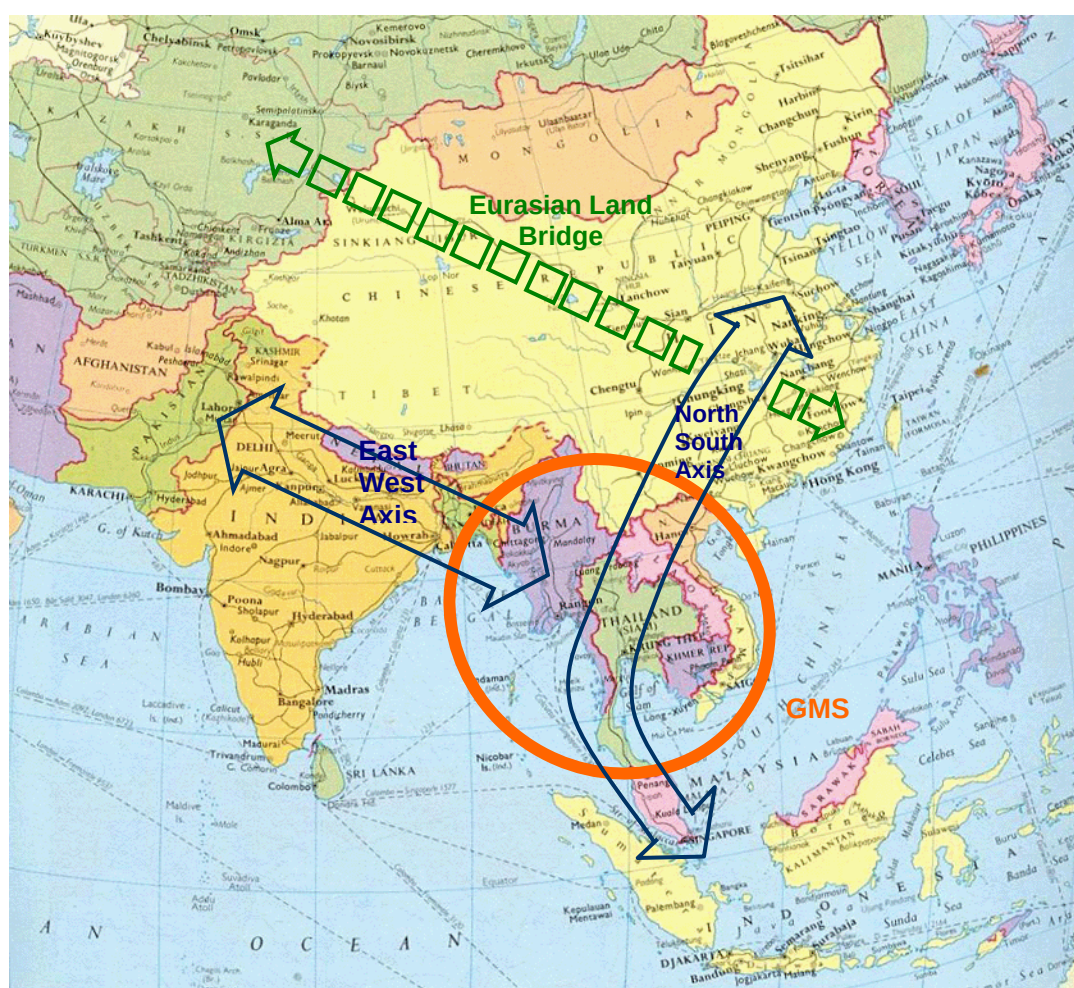
The situation will drastically change with the increase in cross-border freight traffic. Heavy-duty vehicles (e.g. 40-foot container trucks) are likely to cause serious and fatal accidents along the corridors, as well as damage road surfaces and roadside structures in mountainous and urban areas. The situation will be aggravated when vehicles from other countries are involved in accidents. It will thus be necessary to prepare clear guidelines on traffic safety and to develop an effective cross-border insurance system.

3.5 Toward a “Seamless Asia”

1) Concept of a “Seamless Asia”

Along with the innovations in transport means and globalization / regionalization, there is growing support for the concept of a “Seamless Asia”. The dramatic rise of China and India in recent years has apparently provided the impetus for such a concept. A similar idea has become a hot topic for discussion in Japan as well, mainly from the viewpoint of fostering international competitiveness.⁶⁾ Various proponents of the “Seamless Asia” concept do not specifically deal with the issue of cross-border transport infrastructure yet, but their arguments can be expressed in terms of land transport on the map in Figure 3.5.1.

Figure 3.5.1 Conceptual Axes of Land Transport in Asia



Note: Prepared by the Study Team.

The north-south axis is by far the most talked about corridor in specific terms. and indeed many concrete steps are being taken to promote infrastructural development and logistics improvement, which this Study also focuses on. From the center of the north-south axis begins the east-west axis, which crosses Myanmar, India and further west toward Bangladesh. This axis is as yet hardly worthy of being called the “regional corridor.” The countries and regions along the way are divided and isolated from one another primarily by a variety of political and social rivalries. The concept of the Eurasian Land Bridge is proposed and pursued by China with emphasis on railway. It will originate from Lianyun

⁶ Asian Gateway Strategy Conference, *Asian Gateway Concept: Interim Report on Discussions*, Tokyo, 2007. (In Japanese)

Port of Jiangsu Province and passes Xi'an, Urumchi and Central Asia, ultimately reaching the Netherlands in Europe.

2) **Problems of Transport Networks**

The cross-border transport concept in the Greater Mekong Subregion covers part of both the north-south and the east-west axis. The problems of transport networks are summarized for each mode.

Roads: The Himalayas separates China from India, with no direct road link between the two. India can be reached through Pakistan via the Kharakhorum Highway, but Khunjurab Pass is 4,800m above sea level and most of the highway is closed during winter. Another possibility of access from the Chinese side is to pass the GMS countries and reach India via Myanmar and Bangladesh. However, the routes between Thailand and Myanmar, between Myanmar and India, between Myanmar and Bangladesh, and between Bangladesh and India are either undeveloped or ill-maintained. Coupled with the problems in law and order as well as social instability, this access is severely limited. In sum, network bottlenecks abound in the east-west axis.

Railways: Compared with roads, the density of railway lines is very low, with too many missing links to form a network. Moreover, the rail gauge varies. The Chinese gauge is mostly 1,435mm, with dual gauges of the same and 1,000mm near the border to Vietnam. The Indian gauge is 1,676mm. The 1,000mm gauge prevails in Bangladesh, Thailand, Vietnam, and Malaysia. The Trans-Asian Railway Plan envisions an integrated Eurasian network, but its progress has been more or less limited to the north-south axis. The countries in the east-west axis (Myanmar, Bangladesh, and India) have not even signed a formal international agreement.⁷⁾ The missing railway links on the east-west axis are between India and Myanmar and between Myanmar and Thailand (ideas about their construction have been floating around for sometime). The missing links from China to Singapore are between Cambodia and Vietnam and between Cambodia and Thailand. The railway construction for these links is now partly in the pipeline.⁸⁾

Maritime Shipping: Maritime shipping still plays the most important role in international logistics in Asia. However, there are few ports that have sufficient depths and are adequately equipped with port facilities. Existing ports in northern and central Vietnam, in Cambodia, and Myanmar are off the trunk shipping routes and rely on feeder transport from hub ports. The shipping routes⁹⁾ along the coasts of the Malay and the Indochinese peninsulas are losing their competitive edge, mainly because they require longer time to reach destinations than cross-border land transport.

Aviation: Air transport is the mainstay of passenger travel in GMS countries. Many airports are in operation, with Singapore and Bangkok as leading regional hubs. The number of airline passengers has been increasing rapidly, especially after the adoption of the open-sky policy that encouraged the operation of low-cost carriers (LCCs). At the same time, accidents of varying magnitude are on the rise, chiefly due to the use of antiquated flight control equipment. Freight transport is minimal partly because of the limited regular service and partly because of the required customs, immigration, and quarantine procedures. Within the GMS region, delivery takes at least two days from origin to destination, thus lacking the competitive edge over the other modes. Air freight is

⁷ 17 countries signed the UN-ESCAP-sponsored international agreement in Oct. 2006.

⁸ Regarding the routes inside Cambodia, the feasibility study was already completed with assistance of China and ADB.

⁹ The Yangon – Bangkok and the Bangkok – Hanoi routes, among others.

occasioned only on emergencies.

3) GMS Cross-border Transport: Its Significance and Advantages

Cross-border transport infrastructure in the Greater Mekong Subregion is expected to play a strategically important role in the realization of “Seamless Asia,” since the subregion is situated at the intersecting point of the north-south and the east-west axes (see Figure 3.5.1). Indeed, CBTI development and CBTA implementation in the subregion will substantially reduce travel distances between China and India, thereby facilitating a much closer and more expanded exchange of people, services, and products not only between these two countries but also among those along the cross-border transport corridor.

The benefits that can be realized through a “Seamless Asia” are explained below.

(1) Route Development to Reduce Transport Time

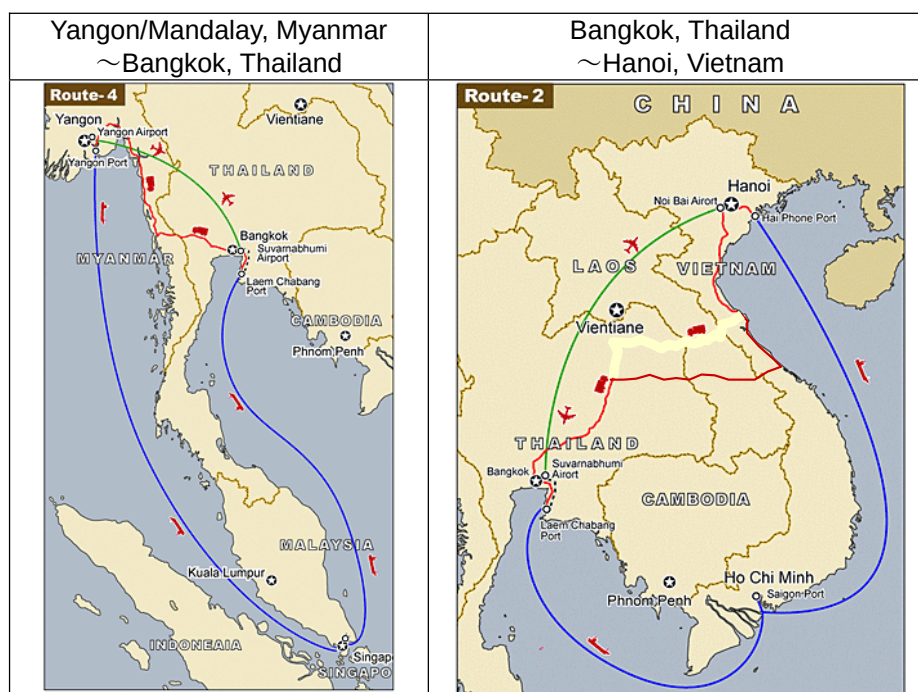
(i) From Yangon / Mandalay, Myanmar, to Bangkok, Thailand

Coastal shipping around the Malay Peninsula takes approximately 1 month (20 days from port to port with a distance of some 4000km). Cross-border land transport takes 3 days (actual travel distance of 945km and actual travel time of more or less 30 hours). Transport time can be reduced to a tenth of that of coastal shipping’s (see Figure 3.5.2).

(ii) From Bangkok, Thailand, to Hanoi, Vietnam

Coastal shipping with transshipment at Saigon Port takes about 10 days. Land transport takes 3 days, crossing the newly opened Second Mekong Bridge (actual travel distance of 1,580km and actual travel time of more or less 36 hours). Transport time can be reduced to less than a third of that of coastal shipping.

Figure 3.5.2 Land Routes Likely to have Shorter Transport Times



Source: JETRO, *ASEAN Logistics Network Map*, Tokyo, 2006.

(2) CBTI/CBTA Implementation to Enhance Transport Reliability and Convenience

In Japan, railways carried the bulk of freight until the 1960s. Along with the steady

development of highways, and partly aided by the frequent strikes of railway workers, freight distribution was mostly taken over by road transport. The development of roads allowed more appropriate modal choices in logistics. In fact, all freight was not shifted to road transport. The buildup of trunk highways increased the efficiency of transport between major nodes of logistics and the reliability of transport enabled the optimization of industrial supply management, as exemplified by the just-in-time system. The establishment of logistics parks and factories around major highway intersections further increased freight transport by road.

International freight transport in the Greater Mekong Subregion has long been dependent on coastal shipping. The ongoing progress of CBTI development and CBTA implementation will thus enable a substantial reduction of transport time on important corridors and provide the convenience of door-to-door transport. The accessibility to alternative routes will also allow more appropriate modal choices by transport operators, and this will surely constitute the beginning of an entirely new approach to transport optimization in the Greater Mekong Subregion. Early CBTI development and CBTA implementation are vital in this process of transformation.

(3) Opening up Regional Development Potentials in the Greater Mekong Subregion

International logistics is already on the rise between China's Yunnan Province and Vietnam's Hanoi in the north and between Bangkok of Thailand and Ho Chi Minh of Vietnam in the south. Such north-south trade flows can be more strongly connected with a strategic regional development in Lao PDR, Cambodia, central Vietnam, and Myanmar along the east-west axis.

Road transport mainly along the ongoing development of the Asian Highway is very likely to bring a decisive impact to the Greater Mekong Subregion, namely reduction of travel time on land, convenience of door-to-door transport, possibility of alternative routing, efficient distribution of consumer goods, restructuring of industrial production based on international division of work among the GMS countries, sizable expansion of ocean-going export via international ports in the neighboring countries, and so on.

Container transport by trailers, which excel in the convenience of door-to-door delivery, is likely to grow in leaps and bounds, if the reliability of road transport rises in the process of integrated development toward "Seamless Asia." General cargo transported by conventional trucks can raise its efficiency by gradually upgrading the service level in response to the demand increase, namely introducing charter services between major nodes of supply and demand, replacing them by liner services and then switching to consolidation.

Long distance freight transport that crosses more than one international border and takes a few days to reach destination involves the business risk of fewer backhaul cargo. The health risk of long distance drivers is another hazard. It is desirable to relay the drivers in midpoints. It is more realistic and sound for international logistics business to set up a pair of nodes across the border with 500 to 1,000km between them, and engage in cross-border transport between the two nodes.

It will be necessary to identify such strategic nodes in places where major cross-border corridor routes intersect and to plan and implement regional development in their nearest hinterlands with growth potentials, partly for stimulating the local demand for freight transport.

3.6 Toward Comprehensive Improvement of Logistics: Strengthening International Competitiveness in Logistics

1) Present Policy Efforts on Logistics

Globalization of the world economy in general and the growing cross-border trade in particular are making people recognize the importance of logistics, especially the urgent need of improving its efficiency and service level. The improvement of logistics has been a topic well discussed at ASEAN working group meetings and elsewhere. Coupled with the technical cooperation from Japan and international organizations, the public and the private sectors of GMS countries are becoming increasingly aware of the issue of logistics and what it entails in envisioning their future economic prospects.

Increased awareness notwithstanding, a comprehensive policy framework is yet to emerge, partly because logistics encompasses diverse interests of the public and the private sectors. In the public sector, at least the ministries of transport and commerce, with their myriad subsidiary agencies, and customs houses (usually of the ministry of finance) are directly concerned with the issue. The private sector comprises freight forwarders, trucking companies, shipping companies, importers, and exporters, and their respective associations. In order to deliberate on the international agreements formalized at the GMS or the ASEAN level, each country has already set up its National Transport Facilitation Committee (NTFC). However, institutional development and the progress of policy formulation vary from one GMS country to another, and there is this almost chronic problem of inadequate inter-agency coordination in each country.

In Cambodia, for example, the Ministry of Commerce is the chief player regarding the logistics issue, whereas the Ministry of Transport strictly concerns itself with transport. In Myanmar, where the economy is under tight government control, the Ministry of Commerce plays the dominant role. In Lao PDR, the NTFC was placed under the Ministry of Transport which plays a leading role in formulating policy instruments. In Cambodia, moreover, the simplification of customs and other border crossing procedures are at a standstill due to the persistent resistance to it on the part of customs officials and others.

2) Formulation of Comprehensive Master Plan for Logistics Improvement

It is likewise becoming increasingly important to upgrade the efficiency, accuracy, and speed of logistics to enhance the international competitiveness of GMS countries in the face of globalization and diversification of market needs. Along with the recent progress of cross-border infrastructure development, land transport is emerging as a viable alternative to coastal shipping. It is now possible to devise and provide a new system of logistics service which is more suited to the rapidly evolving demand structure.

The formulation of a comprehensive master plan is now crucial to attain the needed efficiency, accuracy, and speed of logistics and thereby raise the international competitive edge of the Greater Mekong Subregion. In addition to developing cross-border transport infrastructure, such as roads, ports and railways, it is essential to take a united action in putting into effect such institutional improvements as the simplification and speedup of border procedures as well as a freer mutual inter-country entry and operation of cargo trucks and trailers. Just as essential is the upgrading of the quality and qualification of logistics service providers. The master plan formulation is important not only because it will provide the basis of a common understanding and commitment but also to occasion the chance of effectively harmonizing different opinions and interests toward an agreement. The prospective master plan should cover the following topics and issues:

- (1) Present status of and issues in freight transport (modal share, infrastructure).
- (2) Present status of and issues in international and domestic logistics business.
- (3) Industrial structure and demand for freight transport (trends of trade structure in the Greater Mekong Subregion, the ASEAN, and the world),
- (4) Development planning and implementation of logistics facilities and services (ports, roads, railways, and airports and their respective service levels, including multimodal transport).
- (5) Institutional development (simplification of customs clearance and other border crossing procedures, introduction of ICTs).
- (6) Human resource development for logistics business (licensing qualification, training, promotion of business associations).

A policy and planning framework intended for logistics among the GMS countries is practically nonexistent. There is no body or forum which devotes itself to the deliberation on logistics issues. Even if a National Transport Facilitation Committee was established under the leadership of one ministry or another, the committee lacks the power to coordinate with or influence the other ministries. The first step is for all the related ministries and agencies to discuss and share a common understanding of urgent issues facing logistics. Considering the diversity of players related to logistics, it is desirable to set up a forum at a level higher than the ministerial level.¹⁰⁾

¹⁰ In Thailand, a logistics body was set up directly under the Prime Minister for this purpose.