



Reducing poverty through greater trade and economic growth



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Australian Government
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Australian Aid for Trade in the Mekong

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and economic growth

August 2010



The Friendship Bridge between Thailand and Laos, built with Australian aid funding, was the first major bridge across the Lower Mekong, and continues to be a vital link between the two countries.

Overview

The countries that lie along the Mekong River and its tributaries are known collectively as the “Mekong subregion”. Australia is contributing around \$275 million this year in grant aid to these countries.

Around \$170 million of our support is “Aid for Trade”, with a focus on improving Mekong subregional connectivity to reduce poverty through increased trade and economic growth. ‘Connectivity’ encompasses road infrastructure, energy links, and improvements to the ‘software’ of trade. Improving connectivity makes it easier for the poor to access new markets and reduces the cost of trading across borders.

The Aid Program’s investments in improved Mekong connectivity build on Australia’s support for wider Asian economic integration, as well as Australia’s close trade and investment links with Mekong countries. It also extends Australia’s impressive record of support for Mekong connectivity through the Aid Program. This includes pioneering infrastructure projects like the My Thuan Bridge (opened in 2000), which was the first bridge across the Mekong River in Vietnam, and the Friendship Bridge between Thailand and Laos, which was the first major bridge across the lower Mekong (opened in 1994).

Australia’s support to developing trade and connectivity is a key element of approximately \$275 million in aid being provided this year to the Mekong subregion

The Hon Bob McMullan MP, Parliamentary Secretary for International Development Assistance, celebrating the 15th anniversary of the opening of the Friendship Bridge with Lao and Thai officials



What does Australia support?



The Australian Aid Program currently funds almost \$170 million in Aid for Trade projects to strengthen regional integration and increase connectivity between Mekong countries.

Transport infrastructure

The majority of Australia's support is being invested in improving trade-related road and rail infrastructure in Vietnam, Cambodia and Laos. This support is spread across six projects, with Australian funding totalling \$127.8 million.



In Cambodia, Australia's aid is helping to rehabilitate the national rail network, improving connections between major cities, ports, rural areas and border crossings. Another project is improving the maintenance of national roads and supporting the implementation of Cambodia's national road safety action plan.

The Southern Coastal Corridor project in Cambodia and Vietnam is constructing a new highway between two of the most productive areas of the Mekong: the Delta region of southern Vietnam and Thailand's Eastern Seaboard, passing along Cambodia's coastline. A separate project in Cambodia is improving the maintenance of rural roads, increasing the long-term value of road infrastructure projects.

In Vietnam, a major project with the World Bank focuses on improving road and waterway links between Mekong Delta communities, increasing their ability to trade with other countries and the rest of Vietnam.

In Laos, a major road upgrade project in the country's north will make it easier for Laos to trade with Thailand, its primary export market.

Energy infrastructure

In excess of \$30 million supports the spread of electricity to isolated rural communities, as well as the efficient use of this electricity. This will increase economic opportunities for the rural poor and their integration into the wider Mekong subregion. Three separate energy projects are underway in Cambodia, Laos and Vietnam.



Australian-funded projects are upgrading national and secondary roads in Cambodia, Laos and Vietnam

Selected Australian Aid for Trade projects in the Mekong subregion





Lengthy delays at border crossings significantly increase the costs of trade in the Mekong

The Mekong River and water resources

Ensuring cooperation in the shared use of the Mekong River itself is essential for improving regional integration. This is the focus of the Australian Mekong Water Resources Program. Through this Program, Australia supports the Mekong River Commission's work on navigation. With Australian funding, the Commission helped Cambodia and Vietnam agree a new Treaty on Waterway Transportation in 2009, which allows freedom of navigation for river-based traffic between the two countries.

Maximising gains and minimising risks

Australia's transport and energy funding makes a direct contribution to more than \$1 billion of infrastructure projects led by the Asian Development Bank and World Bank. However Australia brings more than funding alone to these partnerships with the Banks: the Aid Program provides expertise and experience on a range of issues, including trade facilitation and policy reform, promoting gender equality, the links between HIV transmission and infrastructure, and strong monitoring and evaluation. A key objective is to improve the effectiveness of project implementation and ensure that increased trade contributes to positive development outcomes.

As well as addressing these issues through individual infrastructure activities, Australia funds separate projects on HIV transmission and infrastructure (\$6 million), and implementation of the Mekong Cross-Border Transport Agreement (\$2.3 million). Subject to feasibility, Australia is likely to start a new, comprehensive trade facilitation program with the Asian Development Bank in late 2010, aimed at addressing the key practical and regulatory constraints to greater cross-border trade in the Mekong.

Australia also funds Aid for Trade programs bilaterally in Vietnam and Laos. The objective of each of these programs is to increase the capacity for the two countries to participate in regional and global trade.

Significant return on trade and transport facilitation reform

The benefit of strengthening transport and trade facilitation is significant. In much of the Mekong, infrastructure improvements have led to a situation where there is potential for significant reduction in the time and cost of trading goods across borders. However, constraints in the "soft infrastructure" of trade are an impediment to Mekong countries achieving these potential gains. Better trade and transport facilitation (the process of streamlining customs procedures, approval documentation, border inspections, and related procedures) will be required to improve this "soft infrastructure". There is considerable scope for improvement in these areas, with research showing the average time taken to complete an export transaction in Mekong countries is between 3.5 and 10 times as long as in Singapore, the South East Asian benchmark in this field.*

* Centre for International Economics, Economic Benefits of Trade and Transport Facilitation in the Greater Mekong Subregion, August 2010

Australia and the wider region

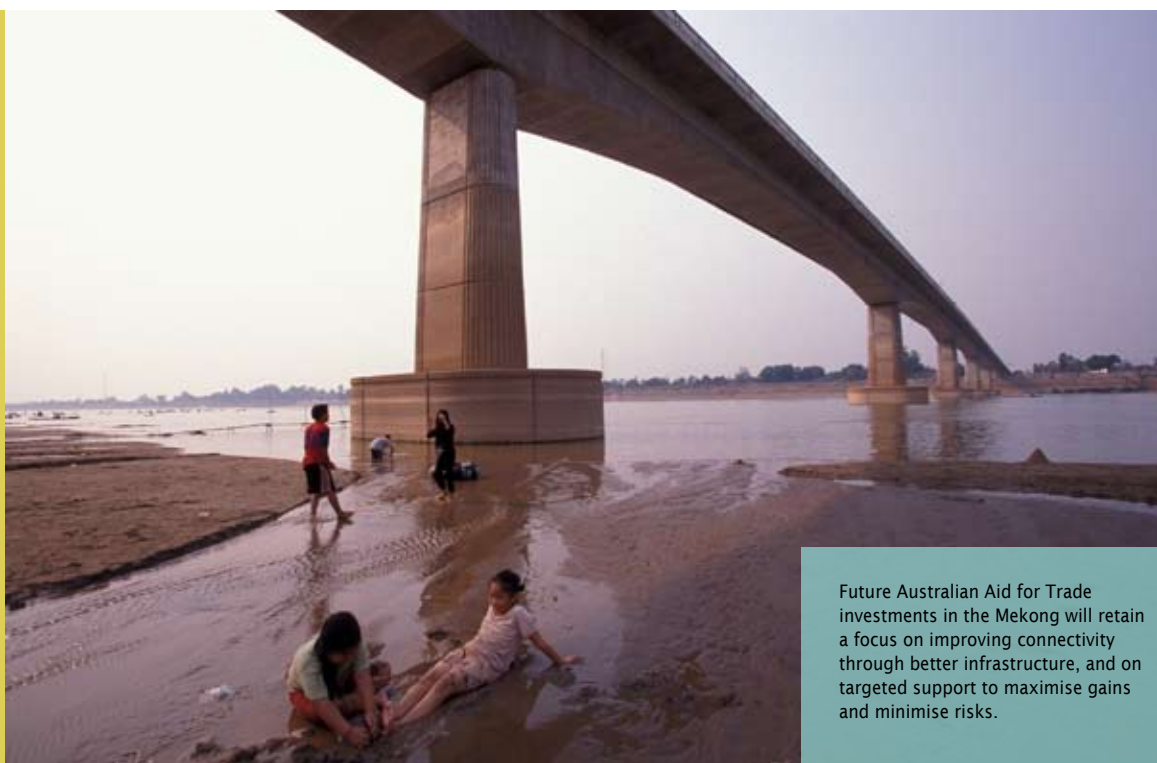
Australia's support to integration in the Mekong subregion is situated in a context of wider support to ASEAN economic integration. This includes considerable support to ASEAN's Economic Community agenda, especially through Phase II of the ASEAN-Australia Development Cooperation Program and the ASEAN-Australia-New Zealand Free Trade Agreement Economic Cooperation Work Program. Australia also supports regional economic integration through Asia Pacific Economic Cooperation (APEC) programs, as well as funding research undertaken by the Economic Research Institute for ASEAN and East Asia (ERIA).

The Lork-Ha Tien crossing between Cambodia and Vietnam will be upgraded under the Australian-funded Southern Coastal Corridor project



Summary of Mekong Connectivity Projects as of July 2010

Project	Lead partner	Australian funding (AUD million)	Approx. total funding (USD million)
Vietnam: Mekong Transport Infrastructure Development	World Bank	33.0	207.7
Vietnam: Southern Coastal Corridor	ADB	33.1	208.7
Vietnam: Rural Energy Distribution	World Bank	3.5	207.1
Vietnam: Central Mekong Connectivity Development Project (Cao Lanh bridge)	ADB	2.1	tbc
Cambodia: Southern Coastal Corridor	ADB	10.3	18.7
Cambodia: Road Asset Maintenance	ADB	6.0	40.8
Cambodia: Rural Energy Services	World Bank	12.3	45.8
Cambodia: Rail Rehabilitation	ADB	25.0	142.1
Laos: Northern Transport Network Improvement Project	ADB	18.8	88.5
Laos: Rural Electrification	World Bank	15.0	85.0
HIV and Infrastructure	ADB	6.0	5.0
Cross Border Transport Agreement	ADB	2.3	2.3



Future Australian Aid for Trade investments in the Mekong will retain a focus on improving connectivity through better infrastructure, and on targeted support to maximise gains and minimise risks.



For more information see:

Mekong Connectivity Statement 2008-2009

Mekong Subregion Strategy 2007-2011

Australian Government Trade and Development Statement

> Available at www.aisaid.gov.au

