




Australian Government  
AusAID

# Mekong connectivity statement 2008-09

October 2009



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## Abbreviations

<b>ADB</b>	<b>Asian Development Bank</b>
<b>CBTA</b>	<b>Cross Border Transport Agreement</b>
<b>GDP</b>	<b>gross domestic product</b>
<b>GMS</b>	<b>Greater Mekong Sub-region</b>

## Summary

Evidence over the long term has shown that economic integration with global and regional economies underpins durable development and allows countries to take better advantage of global growth.

This reflects the Australian experience.

A study released in 2009 by the Centre for International Economics, *Benefits of trade and trade liberalisation*, measured the impact of trade liberalisation on the Australian economy over the past 20 years. The study found that lower tariffs and import quotas had helped to boost GDP by between 2.5 and 3.5 per cent over the period, which equated to a rise in gross national income of 1.8 per cent.

But countries need to do more than open their markets: they need to address critical supply-side constraints. This includes investing in economic infrastructure to generate new trading opportunities and create employment.

Australia is investing around \$150 million in a number of transport and energy projects in the Greater Mekong Sub-region (GMS) under co-financing arrangements with the World Bank and Asian Development Bank (ADB). Our goal in investing in these projects is to create better conditions for trade in the GMS region.

Improved roads, new bridges, wider canals and faster handling of cargo at border points will fuel economic growth. Improving energy infrastructure will deliver higher standards of living to households and help improve business efficiency. Australia's transport and energy investments are part of a bigger picture: a unified transport network and a single energy market for the GMS.

The list of funded transport and energy activities and a report card on progress are at Appendix A. The progress of each activity is discussed in the annual program performance report for the relevant bilateral program.

# The Greater Mekong Sub-region

The Greater Mekong Sub-region comprises the five Mekong countries and two southern provinces of China. It has a combined population of nearly 320 million and a land mass the size of Western Australia.

Economic growth in the GMS is anchored in greater connectivity across the region.

Over the past 15 years, intra-GMS trade has boomed. The 'openness ratio' has doubled in most GMS countries since 1992. Poverty has fallen across the sub-region.

Thailand and Vietnam enjoy the largest dollar value in trade flows. The major export market for Laos and Cambodia is Thailand. Vietnam is a major growing market for Cambodia.

Nine transport corridors overlay the GMS (see Appendix B); these are the arteries of trade in the sub-region.

In 1992 the ADB launched the GMS Program, which is aimed at mobilising resources to upgrade these economic corridors. The focus is on infrastructure. The World Bank also has a GMS program, implemented in close consultation with the ADB. Australia works with both institutions to pursue our development objectives.

A mid-term review of the GMS Strategic Framework 2002–12 found that the GMS Program continues to be relevant and applicable. While good progress has been made in 'hardware' aspects of cooperation, additional effort is required on the 'software'. Trade facilitation, private sector participation, labour migration, and communicable disease surveillance and control will be stepped up. Closer monitoring and evaluation will be critical during the second half of the program to prove impact.

Vietnam is the largest recipient of aid-for-trade assistance (\$US1.2 billion in 2006). China, Cambodia and Laos also receive significant official development assistance flows for aid for trade. Thailand and Burma receive moderate assistance.

# Transport infrastructure

Australia is investing \$101.3 million in transport infrastructure. We are working with the ADB and the World Bank to connect the rural poor in the Mekong Delta to new markets. We are linking the Mekong Delta to Bangkok. New highway investments will connect landlocked Laos to its biggest trading partner, Thailand. Cambodia's internal road network is being upgraded. And we are speeding up the passage of goods through borders by cutting customs red tape and creating single windows for the passage of goods.

## Mekong Delta

The Mekong Delta is the fastest growing region in Vietnam. It is a major source of food production and industrial output. But there are critical supply-side constraints to linking producers and consumers. In order to connect the rural poor living in the Delta to new markets, Australia is contributing \$33.0 million (out of a total project value of US\$208.0 million) to the World Bank Mekong Transport Infrastructure Development Project, which aims to increase the efficiency of multi-modal transport and logistics services.

Australia's investment focuses on connecting feeder roads and waterway networks to main transport corridors, including:

- > upgrading 315 kilometres of secondary roads and 118 bridges to all-weather standard
- > extending two feeder canals to a total length of 58 kilometres
- > improving provincial port facilities and rural landing stages including new wharfs, storage facilities and rice-drying facilities.

## Linking the Mekong Delta to Bangkok

Bangkok and Ho Chi Minh are the two economic powerhouses of the Mekong. These two cities trade extensively with each other and house the region's critical trade infrastructure. For example, the five biggest container terminals in the Mekong are located in Thailand and Vietnam. Laem Chabang terminal and the Khlong Toey terminal are both proximate to Bangkok and move more than five million containers every year. Saigon and New Saigon ports near Ho Chi Minh move well over a million containers annually.

The main route for the transport of cargo by road between Ho Chi Minh and Bangkok is the Southern Coastal Corridor, which runs from the southern tip of Vietnam along the coast through Cambodia to Bangkok.

The ADB is investing US\$227.0 million to upgrade this corridor. Australia is contributing \$43.5 million to improve transport infrastructure and border crossings, including:

- > upgrading 96 kilometres of national highway and two bridges in Vietnam



- > upgrading 15 kilometres of national highway in Cambodia
- > establishing new border facilities at Preak Chak and Koh Kong (both in Cambodia).

## Connecting Laos to Thailand

The economic development challenge facing Laos is gaining access to regional markets; its biggest trading partner is Thailand.

The Northeastern Corridor runs from the coast of Vietnam to Luang Prabang in Laos and on to Bangkok. The ADB-managed Northern Transport Network Improvement project will improve the stretch of the highway linking the Luang Prabang area with the Thai border. A better road will facilitate increased tourism and reduce the costs of exporting agricultural goods.

Australia's investment of \$18.8 million (out of a total project value of US\$88.5 million) in this project will upgrade 83 kilometres of national highway and 100 kilometres of rural feeder roads.

## Cambodia—an important link country

Cambodia is an important link country that faces similar institutional constraints to Laos. The ADB-managed Road Asset Management Project is supporting the Government of Cambodia to undertake periodic maintenance of its 950-kilometre national and provincial road network.

National roads 5 and 6 are particularly important to regional connectivity as they form part of the Southern Corridor linking Ho Chi Minh to Bangkok. Australia's investment of \$6.0 million (out of a total project value of US\$58.4 million) will fund civil works, the monitoring of impact and the development of a road safety plan. The capacity of the Ministry of Public Works and Transport to improve management and maintenance of the road network is also being supported.

## Improving cross-border trade

The collective impact of the infrastructure investments described above will be reduced by poor facilities and weak human capacity at border crossing points.

In order to maximise the benefits of trade along these corridors, the ADB initiated the Cross Border Transport Agreement (CBTA) to improve the transit of goods and services at strategic border points.

Australia has invested \$2.3 million in the CBTA to reduce the non-physical barriers to the cross-border movement of goods, vehicles and people. The CBTA is being piloted in four locations (see box below). The status of GMS member state ratification of the terms of the CBTA is summarised at Appendix C.

Activities funded by Australia include:

- > training of customs officials at borders and development and implementation of a Customs Transit System (one common set of paperwork)
- > provision of ICT equipment to facilitate single window/single stop arrangements.

There are early signs of success.

The processing time for cargo trucks crossing the Dansavanh – Lao Bao border has been reduced from four hours to 70 minutes, and for passenger cars from two hours to 30 minutes.

Trilateral agreement has been reached between Thailand, Vietnam and Laos on an open traffic and customs transit arrangement. Trucks can now move goods across the full length of the East–West Economic Corridor (which runs from Da Nang in Vietnam to Mae Sot in Thailand) without transshipment.

The three countries are also implementing a ‘CBTA Fast Track’ arrangement at four border sites along the corridor to facilitate the passage of trucks holding CBTA road permits and GMS Customs Transit System documents.

### **CBTA pilot sites**

Lao Bao (Vietnam) – Dansavanh (Lao)  
Mukdahan (Thailand) – Savannakhet (Lao)  
Lao Cai (Vietnam) – Hekou (PRC)  
Aranyaprathet (Thailand) – Poipet (Cambodia)

# Managing risks and sharing benefits

Greater connectivity brings risks. And we cannot assume that economic growth will always reach the poorest. For these reasons Australia is working to ensure that key issues such as gender equality, HIV control and human trafficking are addressed.

## Gender

We bring to our partnerships with the ADB and the World Bank a strong focus on gender equality. We have worked to increase the gender sensitivity of projects at the design phase. Through participation in review missions and by mobilising technical experts we seek to ensure that the economic benefits of increased trade and connectivity are equitably shared between women and men. While specific actions are calibrated to local settings, examples include:

- > development of gender strategies to assist women to secure better access to livelihood-generation activities
- > the equal involvement of women and men in resettlement planning, implementation and compensation
- > joint registration of land rights in the names of the husband and wife in instances where land is acquired
- > targeting female-headed households for extension of the electricity grid
- > collecting sex disaggregated data for monitoring purposes.

## HIV control

Improved connectivity and regional integration bring with them attendant increases in vulnerability to human trafficking, trade of illicit goods and substances, and particularly the spread of HIV.

Transport sector activities therefore have the potential both to act as a vector in the transmission of HIV and to provide opportunities to promote awareness and roll out prevention and support services. Australia has developed with the ADB a \$6.0 million HIV/AIDS risk mitigation technical assistance program. A range of activities will be implemented to reduce HIV risk behaviours among the construction workforce, sex workers, commercial and entertainment establishments, and affected local communities, particularly the vulnerable poor, women, and ethnic and migrant populations. At a programmatic level, efforts to mitigate the threat of HIV spread are also pursued through the United Nations Regional Task Force on Mobility and HIV Vulnerability Reduction in South-East Asia and southern provinces of China.

## **Human trafficking**

Improving connectivity and opening up borders will increase labour migration and the potential for human trafficking. Increasing migration of women and young people in particular intensifies the risks of trafficking in illegal and exploitive work situations. In recognition of this risk, all transport infrastructure projects funded by Australia include the development and implementation of context-specific human trafficking awareness and prevention programs. Activities will be implemented in construction camps, towns and rural surrounds of the project area.

## Power trade in the GMS

Establishing a regional system enabling trade in power is a major challenge for the countries of the GMS. The Intergovernmental Agreement on Power Interconnection and Trade, signed in September 2003, established the regulatory, institutional and commercial framework for power trade in the sub-region. But a full-blown power trade system is some years away.

Australia is working with the World Bank to improve the efficiency of national electricity grids and extend renewable energy to remote areas. Capacity building is also being provided to help national electricity authorities make the transition to commercial operation. These investments will have short- to medium-term impacts on poverty reduction and will better position GMS countries to link with a future regional energy network.

We are investing \$27.3 million to extend the reach of the World Bank's Asia Sustainable and Alternate Energy program in Laos and Cambodia.

In Cambodia, Australia's contribution will:

- > provide electricity to an additional 13 000 households and small enterprises through construction of new 22-kilovolt lines and installation of distribution transformers in rural areas in five provinces
- > leverage approximately US\$10 million of new investments in rural electrification from the private sector through support for a risk-sharing facility
- > increase the number of households and small-scale industries using improved biomass stoves
- > improve regulatory guidelines and procedures for the energy sector through reform of the Electricity Authority of Cambodia.

In Lao PDR, Australia's contribution will:

- > provide electricity to an additional 11 500 households in 170 villages in five provinces in central and southern Laos
- > extend solar power to 20 000 households (120 000 people or 2 per cent of the population) through financing the purchase of 5000 solar home systems
- > reduce non-technical losses of electricity by installing meters and pre-paid meters for 9000 government customers
- > extend credits to eligible households to finance the one-time connection charge to buy house wiring and meters
- > deliver public sector energy savings of up to 15 per cent through an energy awareness program
- > complete feasibility studies for two high-value hydropower sites to be developed in rural areas.

In Vietnam, we are investing \$3.5 million in the World Bank's Rural Energy Distribution Project to increase the efficiency and service capacity of the country's three largest power companies. Australia's contribution will fund technical assistance to improve the companies' financial management practices, investment and financing decisions, monitoring and reporting on performance, and participation in further reform of the power sector, and to enable completion of the Government of Vietnam's program of universal electrification.

# Future directions

## Infrastructure

Australia is giving consideration to supporting the construction of the Cao Lanh Bridge in Vietnam. Our approach to Cao Lanh is explained in the annual program performance report for the Vietnam bilateral program. If we proceed to support the construction of the bridge it will form an integral part of our efforts to improve connectivity in the Mekong Delta.

Options for rehabilitating the national rail system in Cambodia are under active consideration, and a decision will be taken early in 2009-10. Further discussion on this option can be found in the annual program performance report for the Cambodia bilateral program.

## Cross Border Transport Agreement

We propose to begin negotiations with the ADB on the terms of a multi-year funding arrangement for Australian support to the CBTA.

## Power trade

No additional investments in the energy sector are planned at this stage. Our focus will be on bedding down our current work in Cambodia, Laos and Vietnam.

## Mechanisms for engaging with implementing partners

An annual dialogue with the World Bank to discuss Mekong development issues was initiated in 2008. A second dialogue is expected to be held in the last quarter of 2009.

Discussions on project progress with the ADB take place at country level or through the ADB's headquarters in Manila. Ad hoc regional meetings with ADB staff are held from time to time; the last such meeting was in February 2009.

## Appendix

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### A GMS transport and energy activities



**Table A1: Quality at implementation criteria by activity**

Initiative	Quality at implementation criteria						
	Partner	Relevance	Effectiveness (achievement of objectives)	Efficiency (implementation progress)	Monitoring and evaluation	Sustainability	Gender equality
Vietnam: Mekong Transport Infrastructure Development	World Bank	(Green)					
Vietnam: Southern Coastal Corridor	ADB	(Green)					
Vietnam: Rural Electricity Distribution	World Bank						
Cambodia: Southern Coastal Corridor	ADB	(Green)					
Cambodia: Road Asset Maintenance	ADB		(Green)			(Green)	
Cambodia: Rural Energy Services	World Bank		(Green)				
Laos: Northern Transport Improvement Project	ADB	(Green)					
Laos: Road Maintenance Program Phase 2	World Bank	(Green)	(Green)		(Green)	(Green)	
Laos: Rural Electrification	World Bank	(Green)					
HIV Mitigation in Infrastructure	ADB	(Green)	(Green)	(Green)			(Green)
CBTA	ADB	(Green)	(Green)			(Green)	
<b>Average</b>		<b>4.7</b>	<b>4.0</b>	<b>3.4</b>	<b>3.7</b>	<b>3.8</b>	<b>2.6</b>

Note: Activities managed in Bangkok, Cambodia and Laos used the new template for assessing quality at implementation (with the exception of the Cambodia Road Asset Maintenance program, which was completed in November 2008, which included two new criteria: relevance and gender equality. Quality at entry scores are used for Cambodia: Rural Energy Services and the CBTA.

**Definitions of rating scale**

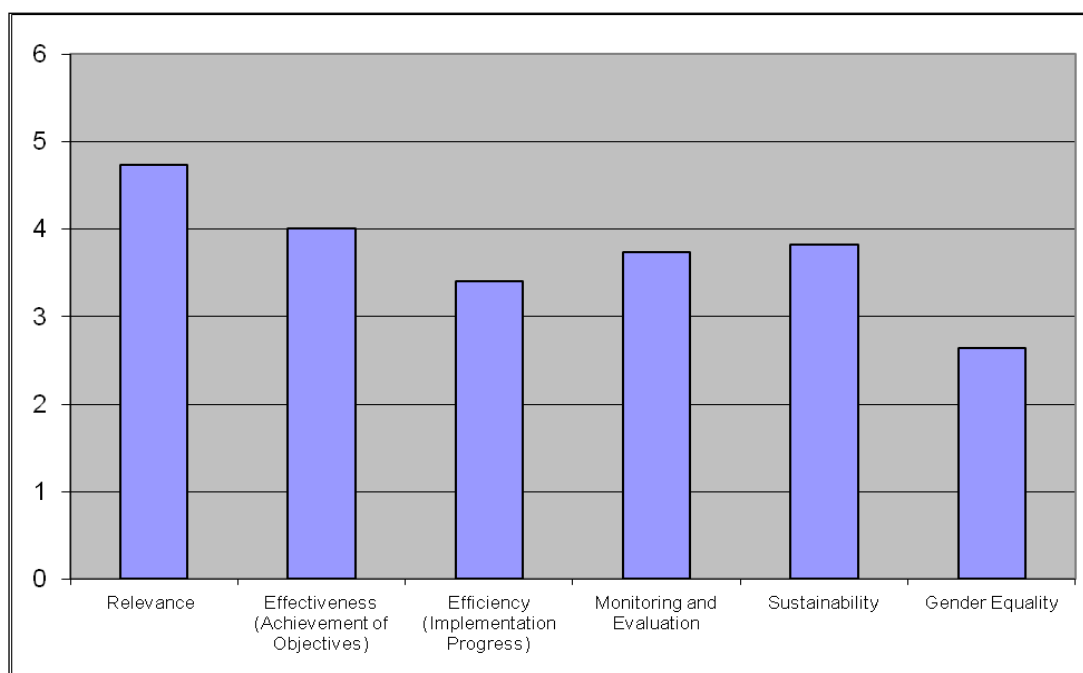
**Satisfactory (4, 5 and 6)**

6 (Green)	Very high quality
5 (Green)	Good quality
4	Adequate quality; needs some work to improve

**Less than satisfactory (1, 2 and 3)**

3	Less than adequate quality; needs significant work
2	Poor quality; needs major work to improve
1	Very poor quality; needs major overhaul

**Figure A1: Quality at implementation criteria average across all activities**



## Appendix

### B GMS transport corridors



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## Appendix

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### C Status of CBTA annex and protocol ratification by GMS country (as at 20 April 2009)

**Table C1:**

Description/title	Cambodia	People's Republic of China	Lao PDR	Myanmar	Thailand	Vietnam
Carriage of Dangerous Goods	(Green)	(Green)	(Green)			(Green)
Registration of Vehicles in International Traffic	(Green)	(Green)	(Green)		(Green)	(Green)
Carriage of Perishable Goods	(Green)	(Green)	(Green)		(Green)	(Green)
Facilitation of Frontier-Crossing Formalities	(Green)	(Green)	(Green)			(Green)
Cross-Border Movement of People	(Green)	(Green)	(Green)		(Green)	(Green)
Transit and Inland Clearance Customs Regime	(Green)	(Green)	(Green)			
Road Traffic Regulation and Signage	(Green)	(Green)	(Green)			(Green)
Temporary Importation of Motor Vehicles	(Green)	(Green)	(Green)			
Criteria for Licensing of Transport Operators for Cross-Border	(Green)	(Green)	(Green)			(Green)
Conditions of Transport	(Green)	(Green)	(Green)			(Green)
Road and Bridge Design and Construction Standards	(Green)	(Green)	(Green)		(Green)	(Green)
Border Crossing and Transit Facilities and Services	(Green)	(Green)	(Green)		(Green)	(Green)
Multimodal Carrier Liability Regime	(Green)	(Green)	(Green)		(Green)	(Green)
Licensing of Multimodal Transport Operators for Cross-Border Transport Operations	(Green)	(Green)	(Green)		(Green)	(Green)
Container Customs Regime	(Green)	(Green)	(Green)			
Commodity Classifications Systems	(Green)	(Green)	(Green)		(Green)	(Green)
Criteria for Driving Licenses	(Green)	(Green)	(Green)		(Green)	(Green)
Designation of Corridors, Routes and Points of Entry and Exit	(Green)	(Green)	(Green)		(Green)	(Green)
Charges Concerning Transit Traffic	(Green)	(Green)	(Green)		(Green)	(Green)
Frequency and Capacity of Services and Issuance of Quotas and Permits	(Green)	(Green)	(Green)			

(Green) Ratified      Signed