CHAPTER 5
THE **REGIONAL** DIMENSION

SUMMARY

International experience has demonstrated that regional trade integration can serve as a powerful catalyst to economic growth. However, developing countries sometimes face particular capacity constraints that limit their ability to capitalise on the full potential from such processes. For example, poor cross-border infrastructure may prove to be a particular challenge for low-income developing countries. This highlights the need for more and better aid to address such binding constraints to regional trade integration, a point increasingly affirmed by partner countries and donors alike.

More partner countries are specifically addressing regional issues in their trade and regional strategies, though challenges still remain in strengthening regional capacity. Most also participate in dialogues and initiatives aimed at promoting regional integration. Further, in their responses to the 2009 partner-country questionnaire, they have identified a number of common priorities for regional integration, including transport infrastructure, trade facilitation, competitiveness and export diversification, as well as capacity for regional trade negotiations.

Donors have also generally acknowledged the importance of regional integration in their aid-for-trade strategies. They report a rising demand for regional aid for trade, and their growing willingness to respond with additional support for corresponding activities. Criteria guiding decisions on whether to allocate additional support include, in particular, regional proximity to the donor country and relevance to current regional trade negotiations and agreements.

South-South co-operation has become an important element in promoting regional integration initiatives. In the present round of aid-for-trade monitoring, four providers of South-South co-operation (Argentina, Brazil, Chile and China) report on the assistance they provide in the area of trade capacity building for regional integration.[1]

This chapter presents three case studies as examples of regional aid-for-trade efforts. These are: i) a recently launched pilot programme to improve the trade and transport corridor in the Southeastern region of Africa aimed at promoting a freer flow of goods and people; ii) a regional integration project to boost inter-connectedness among the countries in Mesoamerica through improvements in transport infrastructure and the regulatory environment; and iii) an economic corridor development project in the Greater Mekong sub-region of Asia to enhance physical links and promote closer economic ties among countries in the sub-region. All three case studies illustrate how aid for trade is used to tackle both common and region-specific challenges.

Finally, donors and partner countries face a number of common challenges. Most partner countries affirm that they benefit from regional aid for trade and that their binding regional constraints are being addressed. However, regional integration efforts are often hampered by a lack of co-ordination between donors and partners. To strengthen regional capacity and improve effective participation in the regional and multilateral trading systems, further co-ordination is needed on aid for trade.

INTRODUCTION

According to the WTO, some 230 regional trade agreements (RTAs) were in force in 2008, and this number could rise to almost 400 by 2010.[2] This surge in regionalism is linked to the increasing importance of cross-regional relationships within the broader context of globalisation, driven by growing trans-border flows of goods, services, capital and labour.

Regional integration can play a critical role in strengthening the competitiveness of developing countries in the multilateral trading system. Addressing supply-side constraints at the regional level – such as transport infrastructure, trade facilitation and the harmonisation of standards – can encourage economies of scale, and increase access to regional and global markets. Regional co-operation and action is essential for tackling challenges that are cross-border in nature; and it is particularly critical for landlocked or small island developing countries whose access to regional and global markets often hinges on the infrastructure and policies of neighbouring countries (Collier, 2006).

Against this backdrop, the Aid-for-Trade Initiative places a strong emphasis on promoting regional economic integration. Nevertheless, the first monitoring survey failed to provide a clear picture of trends at the regional and sub-regional level. To elicit this kind of information, partner countries and donors were asked to assess in more detail the challenges of providing regional aid for trade. In addition, regional development banks – natural partners for addressing regional constraints – were invited to provide case studies of regional infrastructure corridors.

The rest of this chapter is organised as follows: the next section discusses partner-country needs for regional aid for trade (the "demand side"). This is followed by a section that looks at the donor response (the "supply side"), and by a section that describes efforts to match demand and supply with a focus on implementation challenges and good practices. Three case studies of regional aid-for-trade initiatives undertaken in Africa (COMESA-EAC-SADC), Asia (ADB) and Latin America (IADB) are presented in the subsequent section. The final section provides concluding comments.

THE DEMAND FOR REGIONAL AID FOR TRADE

Regional trade capacity challenges are addressed in partner countries' trade strategies and…

Most partner countries (61 of 78) report that they address regional trade-capacity challenges both through their national trade strategies and through the regional strategies of their respective regional economic communities (RECs) (Figure 5.1). Another 9 partner countries (*e.g.* Belize, Botswana, Iraq, Maldives, Panama, St. Vincent and the Grenadines, Senegal and Vanuatu) do not address regional challenges in their national strategies, while 7 (*i.e.* Bolivia, Colombia, Jamaica, Liberia, Swaziland, the Bahamas and Ukraine) were unable to specify either way.

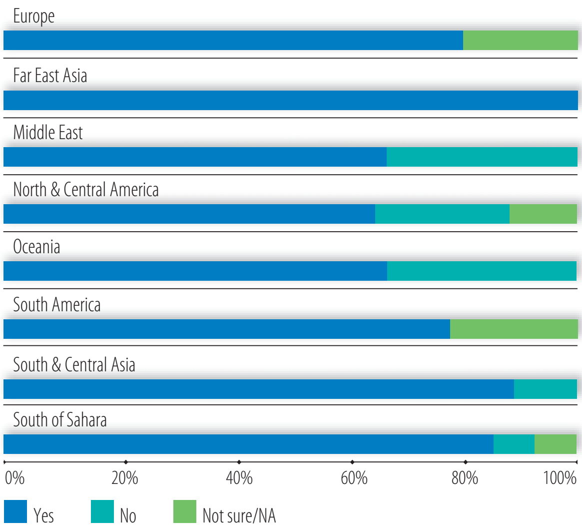
Partner countries that address regional issues in their national strategies list a number of different challenges and objectives. Madagascar, for example, observes that active participation in regional integration commissions is an important element of its national trade policy. A key objective of the Philippines' National Development Plan is to negotiate and join regional free trade agreements. Tonga's National Export Strategy aims to overcome constraints related to SPS and TBT measures, while Nicaragua is focused on expanding the scope of regional trade initiatives, by further harmonising and reducing tariffs, and on facilitating the cross-regional transit of merchandise.

For an increasing number of partner countries, a regional trade negotiation agenda is key to resolving regional integration challenges and a main priority of their national trade strategies. For example, Sri Lanka addresses regional trade issues through the Asia-Pacific Trade Agreement (APTA), the South Asian Free Trade Agreement (SAFTA) and other regional initiatives. Mauritius' regional strategy is multi-layered covering sub-regional, regional and cross-regional levels. Cape Verde's priority is to develop strategy for regional integration through the Economic Community of West African States (ECOWAS), with support from the EIF.

…through regional integration initiatives

Nearly all partner countries participate in regional integration initiatives (Figure 5.2) – ranging from RECs, to RTAs, to full-fledged customs unions. For instance, Lesotho advances its regional economic interests through participation in both the Southern African Customs Union (SACU) and the Southern African Development Community (SADC). Moldova works within the Commonwealth of Independent States (CIS), CEFTA and the EU programmes. Azerbaijan's wider aid-for-trade agenda (*i.e.* infrastructure and trade facilitation) is also being addressed in the context of RTAs.

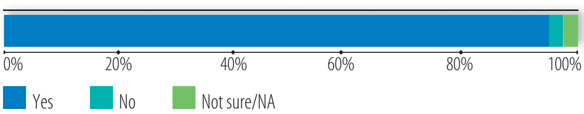
Figure 5.1 Addressing regional challenges through trade strategies



Source: OECD-WTO Partner Country Questionnaire

Many partner countries view regional integration as a major challenge. Assessing the potential benefits of regional integration efforts is seen as a crucial first step before partner countries can engage in concrete initiatives. For example, the Comoros expresses concern about the limited value of joining the Common Market for Eastern and Southern Africa (COMESA) given its distance from other COMESA economies and the lack of economic complementarity. Other partner countries worry about the challenge of harmonising national and regional policies after joining a regional accord. Niger's main capacity challenge, for instance, is harmonising its policies and regulations with those of the West African Economic and Monetary Union (WAEMU) and the Economic Community of West African States (ECOWAS).

Figure 5.2 Participating in regional integration efforts



Source: OECD-WTO Partner Country Questionnaire

In Africa, many partner countries belong to one or more sub-regional integration arrangements, such as COMESA, ECOWAS, SADC, SACU and WAEMU. The ECA and the AfDB are also regarded as key regional partners on the continent. In the Middle East, a number of partner countries participate in the Arab League Economic and Social Council, the Aghadir Agreement, the Euro-Med meetings and the Euro-Mediterranean Union.

In Latin America and the Caribbean, partner countries participate in a variety of sub-regional bodies, such as Mercosur, the Andean Community and CARICOM, as well as in region-wide arrangements, such as the Association for Latin America Integration (ALADI), the Union of South American Nations (UNASUR) and the Latin American Pacific Arc (*Arco del Pacífico*).[3] IADB also plays a partnership role across Latin America and the Caribbean. In Asia, the main sub-regional bodies include the Association of Southeast Asian Nations (ASEAN) and the South Asian Association for Regional Co-operation (SAARC), while in the Pacific the main platform for discussing regional integration initiatives is the Pacific Islands Forum. Both the ADB and UNESCAP play central roles in promoting economic integration and co-operation in the Asia-Pacific region.

Partner countries identify similar priorities

Partner countries identify a number of common priorities for regional integration, including infrastructure, trade facilitation (especially SPS, TBT and customs issues), competitiveness, export diversification and regional trade negotiation capacity. Barbados makes the point that many of its national priorities mirror those of the Caribbean region as a whole, given the similar size and vulnerabilities of neighbouring countries. These same commonalities are observed across a number of regions and sub-regions.

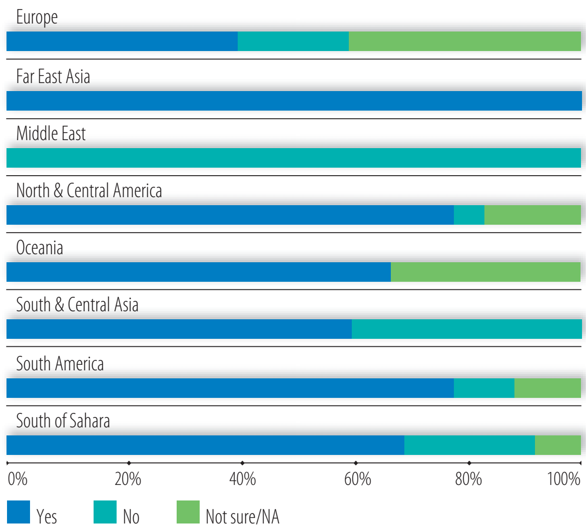
Many partner countries view human, institutional and productive capacity building as key regional needs – a result which reflects the finding in Chapter 3 that assistance for regional trade policy and regulation has nearly doubled since the last report. Forming a customs union (*e.g.* in Central America), negotiating RTAs (*e.g.* the EU-ACP EPAs), developing regional strategies, or harmonising national legal frameworks, are some of the many regional policy and institutional challenges that are highlighted.

A number of partner countries also identify infrastructure as a regional priority. Uganda, a landlocked LDC, highlights the challenge of achieving harmonised standards and building shared infrastructure with its regional partners. Cameroon focuses on the need for regional transport corridors and stronger enforcement of rules of origin. Tanzania's regional priorities include trade negotiations, quality improvement and cross-border infrastructure. In the case of Mauritius, a small-island developing state, its main infrastructure challenges were addressed regionally through the establishment of a shipping line and warehousing system.

Most partner countries benefit from regional aid for trade…

More than two-thirds of partner countries (54 of 79) report that they benefit from regional aid-for-trade programmes (Figure 5.3). The remaining countries either do not currently benefit from regional aid for trade (16) or are unable to report on this question because of a lack of information (9). The latter could reflect the fact that regional programmes are rarely country-led, so national authorities are not always kept well informed. This underlines the need to strengthen synergies and co-ordination between national and regional efforts, and to raise further the priority of regional challenges in national planning.

Figure 5.3 Partner countries benefit from regional aid for trade



Source: OECD-WTO Partner Country Questionnaire

…particularly in infrastructure and capacity for trade negotiations.

Partner countries across regions report receiving regional aid for trade mainly for infrastructure and for trade negotiations capacity building. In Africa, for example, regional aid for trade tends to be directed towards cross-border infrastructure (*e.g.* transport corridors), trade facilitation and capacity to meet quality standards (*e.g.* UNIDO's quality programme for East and West Africa). Interestingly, while infrastructure is a key priority for many African countries, most perceive it as mainly a national, rather than a regional, issue. Indeed, capacity building – especially support for RECs (*e.g.* ECOWAS, WAEMU, COMESA, SACU) – is typically considered the starting point for regional assistance.

South-South co-operation

The rise of a number of emerging economies as major players in the world trading system has helped to stimulate demand for South-South co-operation. With the growing importance of intra- and cross-regional trade, South-South co-operation is now an important item on the agenda of developing countries, as well as a valuable tool for achieving the MDGs and promoting global interdependence. The increase in South-South co-operation means that there are additional financial resources[4] and a wider range of options available to partner countries for addressing their development needs. South-South co-operation also offers another way of equipping developing countries to deal with the adverse effects of the current global economic crisis; indeed, the crisis may actually reinforce and accelerate the logic of South-South co-operation.

Southern actors, as members of the developing world, often have a clearer understanding of the opportunities and challenges facing other developing countries. They also often have deeper knowledge of their regions and more familiarity with local technological requirements and specific cultural and political conditions. This explains the tendencies of Southern actors to emphasise geographic proximity as a key determinant of their bilateral or regional development co-operation. The main exception is China which has provided assistance to more than 100 developing countries throughout Africa, Asia, Latin America and Oceania.

In 2003, Brazil, India and South Africa set up a trilateral development forum[5] to promote South-South dialogue and co-operation. Among other things, the forum encourages the sharing of information, best practices, technologies and skills among developing countries. Another goal is to help developing countries form common positions on issues of international importance.

As part of the 2009 survey, providers of South-South co-operation were offered a choice of responding to the donor questionnaire or to a specially tailored South-South co-operation questionnaire (see Note 1 of Chapter 4). The objective of the latter was to elicit more information about South-South practices and programmes, as well as the thinking that lies behind them. Argentina, Brazil, Chile and China – countries which have long played an important role in development co-operation – responded to the South-South questionnaire.[1] China, for example, has been providing assistance for over half a century, while Argentina has been involved in South-South co-operation for 15 years. Each of these countries brings a unique experience as both an aid recipient and a developing-country success story, allowing for a rich dialogue between peers.

For the four respondents, trade-related activities are implemented as part of an overarching South-South co-operation policy. They emphasise that this policy is rooted in the principle of ownership and alignment, the notion that needs and priorities must be identified by partner countries themselves (*i.e.* they must be "demand-driven"). Brazil, for example, notes that South-South development co-operation should not be seen as traditional ODA, but rather as an exercise in promoting partnerships and solidarity among developing countries. These countries also share the general view that development assistance should not interfere in the internal affairs of partner countries.

The main focus of South-South co-operation is human and institutional capacity development. The four providers of South-South co-operation broadly share the same motivations: i) to contribute to economic and social development; ii) to transfer technology, expertise and knowledge; iii) to exchange experiences in areas of mutual interest and benefit; iv) to address shared strategic challenges; and v) to strengthen bilateral relations. South-South trade co-operation also tends to be focused on the same areas: i) capacity building for trade negotiations; ii) support for trade-related infrastructure in neighbouring countries; and iii) assistance to strengthen competitiveness.

Strengthening regional integration is an important objective for Argentina, Brazil and Chile which are all active in supporting the productive sectors – especially export-promotion agencies – in neighbouring countries. In recent years, Brazil has greatly expanded South-South co-operation initiatives in Latin America and Sub-Saharan Africa (through triangular co-operation activities). Argentina's and Chile's trade-related technical co-operation is directed mainly towards neighbouring Central and South American countries.

Information on Brazil's South-South co-operation projects is stored in two project databanks (SAP and SGPFIN), which contain the profile of each project and are used to manage the financial side of its South South co-operation portfolio. Brazil's current monitoring system does not specify project components that correspond to aid for trade, so a new programme is being launched to monitor South-South co-operation with aid for trade as a specific category.

China reports that its trade-related co-operation activities have increased since the 2005 Hong Kong WTO Ministerial Conference, and it commits to strengthening its efforts even further. China's trade-related assistance is comprised of three elements: i) duty-free and quota-free market access to products from LDCs; ii) large-scale infrastructure projects (*e.g.* roads, ports, factories) to address supply-side constraints; and iii) capacity-development training programmes. In terms of monitoring and evaluation, China reports that all of its trade-related projects are assessed at each stage of the project cycle: *ex-ante* (before and after project approval), mid-term, completion and ex-post. China also claims that the satisfaction rating of partner countries is one of the most important indicators of the effectiveness of its assistance.

Triangular co-operation

While, in principle, South-South co-operation refers to co-operation between developing countries, in practice, this co-operation is often, and increasingly, funded by a third "developed" party. Such arrangements are known as "triangular co-operation", whereby a developed country or multilateral organisation funds co-operation projects between two or more developing countries. Triangular co-operation is becoming a more prominent feature of the international aid architecture, particularly of South-South co-operation.

Some traditional donors, such as Japan and various UN agencies, are actively engaged in triangular co-operation (see also Chapter 4). For example, Argentina and Japan agreed on a triangular co-operation programme in 2001 (Partnership Programme Japan-Argentina, or PPJA), whereby Argentine experts provide technical assistance to other developing countries with Japanese financial support. Chile and Brazil are also strengthening their ties with traditional donors (*e.g.* Canada, Norway, Spain, the United States and various multilateral agencies), as well as with South-South co-operation providers, through joint participation in triangular co-operation programmes.

Brazil also actively collaborates with other Southern countries, such as Argentina, Indonesia and Egypt, to implement triangular co-operation projects in Africa and Latin America. Moreover, Brazil places a strong emphasis on working directly with the beneficiary country in all phases of the triangular co-operation project cycle (*i.e.* identification, preparation, implementation, monitoring and evaluation), and does not consider a project "triangular co-operation" if it is developed without any involvement of Brazil; or if it only involves dispatching a Brazilian expert to another Southern country. According to Brazil, these are simply a variation on conventional North-South co-operation.

THE SUPPLY OF REGIONAL AID FOR TRADE

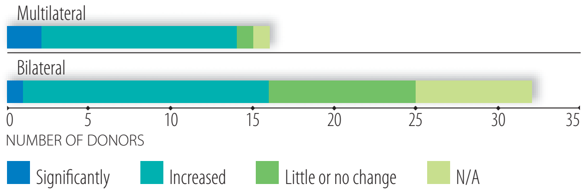
Donors consider the regional dimension an essential component of the Aid-for-Trade Initiative. They also report that rising demand for regional aid for trade is being met by allocating significantly more resources to regional activities. Nevertheless, donors face implementation challenges at the regional level, including: high co-ordination costs for multi-country programmes; the lack of credit standing among many regional entities; and the absence of lending and aid disbursement instruments suited to regional contexts.

Regional aid for trade has increased…

Almost three-quarters of donors report increased demand for region-wide aid for trade (Figure 5.4). More than half report that their regional aid for trade has increased by over 15% since 2005, while another quarter report increases of between 5% and 15%. Most donors associate the rising demand for regional aid for trade with the increased activity in regional trade negotiations (*e.g.* EPAs). When asked about the factors that determine whether a particular region or regional programme is supported, the majority of the donors pointed to "relevance to ongoing regional trade agreements/negotiations," followed by "regional proximity/support to neighbouring regional economic integration processes" and the "existence of a viable counterpart at regional level."

For the EC, the key determining factor is whether regions are engaged in regional integration processes and have requested related support (See Box 5.1). The United States also emphasises that partner-country commitment is crucial to the success of regional assistance, underlining the principle of country ownership. Canada, too, notes that support depends on the expressed needs of each region. Most of Canada's regional assistance is committed to the Caribbean (for trade negotiations and infrastructure development) and to Africa (for trade facilitation and capacity building for regional organisations). Australia's regional aid-for-trade strategy focuses on Asia and the Pacific, because of regional proximity, and, in particular, on the ongoing trade negotiations within the two regions: *i.e.* PACER Plus for the Pacific and the ASEAN-Australia-New Zealand Free Trade Agreement (AANZFTA).

Figure 5.4 Rising demand for regional aid for trade



Source: OECD-WTO Donor Questionnaire

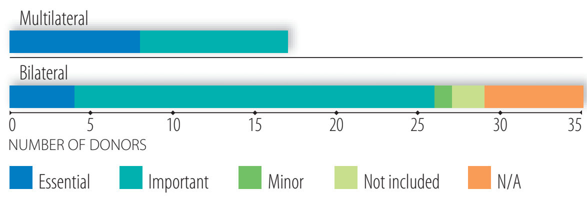
…is a key priority for donors, and...

Four-fifths of bilateral and multilateral donors (43 of 52) consider the regional dimension to be an "essential" or "important" element of their aid-for-trade strategies, and they attach great importance to supporting regional integration and South-South trade (Figure 5.5). This includes not only the regional development banks and the UN regional economic commissions – which obviously already have a clear regional focus – but also large donors, such as Japan, the EC, the United States and the World Bank, for whom the regional dimension has become a key priority in their strategies.

As part of its African Global Competitiveness Initiative (AGCI), the United States has set up four African Global Competitiveness Hubs – in Ghana, Senegal, Kenya and Botswana – to respond directly to region-specific trade capacity needs and to serve as focal points for information and technical assistance on trade, investment and business activities in the region.

The World Bank also strongly emphasises "pro-development" regional integration in order to maximise the development impact of regional trade agreements. The Bank plans to expand its regional trade facilitation activities; and in Africa it is working with RECs and other agencies to deliver a range of regional and multi-country projects (*e.g.* COMESA on expanding the free trade area and moving towards a custom union; SADC on regional trade performance, trade protocol and rules of origin; EAC on trade policy harmonisation).

Figure 5.5 Regional dimension is important for donors



Source: OECD-WTO Donor Questionnaire

Box 5.1 Aid for Trade and the Economic Partnership Agreements

Under the Lomé Conventions and its predecessor agreements, trade relations between the Group of African, Caribbean and Pacific States (ACP) and the EU were based on unilateral trade preferences. Towards the end of the Lomé Convention in 2000, the ACP and EU jointly concluded that these preferences had not delivered the expected development impact. Therefore, in the new Cotonou Agreement, signed in 2000, the ACP countries and the EU agreed to revamp their trade relations and negotiate, by 2007 (the deadline of the WTO waiver), comprehensive Economic Partnership Agreements (EPAs) that should be compatible with WTO rules.

EPAs are trade agreements with development objectives meant to help the ACP countries to integrate into the global economy, support their regional integration process, improve their governance and competitiveness, promote economic/export diversification and provide more, better and cheaper goods and services. Their trade provisions will be geared to development and complemented by development co-operation provisions. As part of the Cotonou agreement, the ACP benefited from the comprehensive development assistance provided by the European Development Fund (EDF), with programmes supporting development at national and regional levels.

One full EPA (with the Caribbean region) has been concluded while negotiations with six other ACP regions (*i.e.* West Africa; Eastern and Southern Africa; the East African Community; Central Africa; the Southern African Development Community EPA group [which includes South Africa]; and the Pacific) are still ongoing. In order to comply with commitments to other WTO members and the expiry of the WTO waiver, some ACP and EU negotiated a series of so called "interim agreements" in 2007 which include WTO-compatible trade arrangements to improve ACP access to EU markets. These interim agreements will be replaced by the full regional EPAs currently being negotiated.

In parallel to this process and, following the launch of the Aid-for-Trade Initiative, the EU adopted in October 2007 its Aid for Trade Strategy, aimed at supporting developing countries' improved integration into the multilateral trading system and using trade more effectively to reduce poverty.[6] The strategy includes an ACP-specific pillar, *i.e.* "building upon, fostering and supporting ACP regional integration processes". Aid for trade should help the ACP countries to "take full advantage of increased trading opportunities and maximise the benefits of trade reforms, including those of the EPAs". The EU Aid for Trade Strategy relies on the principles of the EU Code of Conduct on Division of Labour in Development Policy[7].

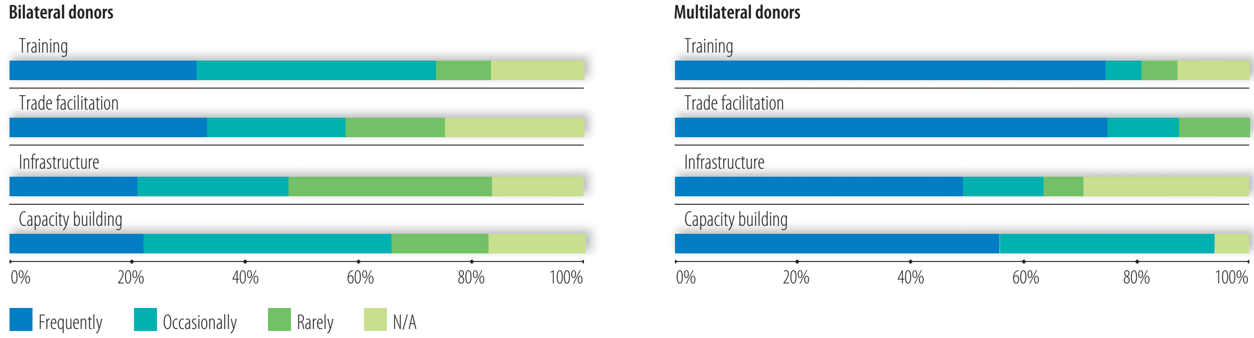
In May 2008, the EU announced the elaboration, jointly with ACP regions, of regional aid-for-trade packages to support the ACP countries' regional integration agendas by providing a co-ordinated and increased EU financial response. In November 2008, the EU reiterated its commitment to work with ACP regions in order to deliver regional aid-for-trade packages in line with the priorities of ACP regions by the first semester of 2009.

The preparation of the regional packages takes place region by region. It involves identification and costing of support needs and priorities at the national and regional level, including mapping of ongoing relevant activities and matching of key gaps with financial responses from various actors (EU as well as other donors). The key challenges are, on the one hand, to work through and towards joint regional strategies and, on the other, to mobilise additional financial support.

The regional organisations of the ACP countries are the natural leaders of this work, as co-ordinators of the regional integration processes. A challenge for them is to adequately involve their own members' stakeholders as well as EU and other donors in the needs assessment and prioritisation process. The EU is committed to supporting the regional organisations in these efforts, by financing studies, supporting policy dialogue on regional integration at national level, etc.

The 10th EDF regional programmes are a basis for EU support for regional aid-for-trade packages. Together with the EC, the ACP regional organisations have prepared the 10th EDF Regional Strategy Papers (RSPs), embedding the regional integration visions of the ACP countries, as well as the 10th EDF Regional Indicative Programmes (RIPs), constituting the main EC support to these countries from 2008 to 2013. The signing of the 10th EDF-RIPs in November 2008 can be seen as one milestone in the work to establish regional aid-for-trade packages. With €1.78 billion being allocated to the regional integration of ACP countries under the 10th EDF, the financial envelope has almost doubled compared to the previous period of 2000-07, reflecting the EU-ACP consensus on the importance of regional issues for development.

Figure 5.6 Multilateral donors deliver more regional aid for trade



Source: OECD-WTO Donor Questionnaire

Members of the UN Inter-agency Trade and Productive Capacity Cluster also consider regional integration vital to the success of the Aid-for-Trade Initiative. UNDP, for instance, focuses on inclusive globalisation and the human development aspects of trade, and is increasingly addressing cross-border trade issues. Through its Regional Centres in Bratislava, Cairo, Colombo and Johannesburg, UNDP maintains regional programmes for addressing regional-specific issues, in collaboration with UNDP global programmes and the Geneva Trade and Human Development Unit. Both UNCTAD and UNIDO, in co-operation with RECs, other UN agencies and bilateral donors, also focus on building regional capacity to negotiate and implement trade agreements, and to strengthen regional co-operation and market integration mechanisms.

The multi-donor Standards and Trade Development Facility (STDF) – a partnership of the WTO, the World Bank, the FAO, the World Organization for Animal Health (OIE) and the World Health Organization (WHO) – also promotes regional approaches to SPS-related technical assistance and capacity building by encouraging eligible countries to submit project proposals that are regional in scope.[8]

…regional channels are used for delivery

Most bilateral donors implement their regional aid for trade through regional development banks, RECs and other regional delivery mechanisms (*e.g.* multi-donor trust funds) (Figure 5.6). For instance, in 2008 the United Kingdom launched a new five-year, GBP 20 million Regional East Africa Integration Programme (REAP) aimed at developing the region's key transport corridors, supporting the East African Community's integration agenda and assisting the private sector's regional expansion. Similar sub-regional approaches are also being developed for Western and Southern Africa.

For the regional development banks, strengthening regional co-operation and integration is a core objective and they are currently investing significant resources in support of a range of regional initiatives – from technical assistance to infrastructure development. These banks also play a critical role as delivery channels for financing region-wide programmes and projects. The Regional Technical Cooperation Programme is just one example of the strategic instruments IADB employs to provide trade-related assistance at the regional level. Building on its already extensive involvement in regional integration in Africa, the AfDB is preparing a series of Regional Integration Strategy Papers for its four sub-regional communities (*i.e.*. Northern Africa [Arab Maghreb Union countries], Western Africa [ECOWAS], Central Africa [ECCAS] and Eastern and Southern Africa [COMESA/SADC/EAC]) to serve as a blueprint for future regional interventions. These strategies will also be mainstreamed into individual country strategy papers to ensure effective implementation.

Regional infrastructure support is increasing…

Infrastructure remains one of the most important regional public goods with enormous potential to facilitate cross-border trade, growth and development. As shown in Chapter 3, donors are increasingly providing regional support for infrastructure development; in fact, the volume of regional and multi-country support has surged more than four-fold against the 2002-05 baseline. A good example is the IADB's Initiative for the Integration of Regional Infrastructure in South America (IIRSA)[9] which focuses on improving physical infrastructure in twelve South American countries to promote trade, competitiveness and economic development. According to their self-assessments, most multilateral and regional organisations are active in all areas of aid for trade at the regional level, from technical assistance to large-scale infrastructure development projects.

Table 5.1 Multi-country programmes by category

COMMITMENTS, USD m (2006 constant prices) and percentages

	2002-05 avg.	2006	2007
Trade policy & regulations	100.0	274.8	196.8
% of total trade policy & regulations	15.2	26.3	28.7
Economic infrastructure	347.3	1120.1	1352.2
% of total economicinfrastructure	3.1	8.9	9.9
Building productive capacity	625.3	1125.6	1030.3
% of total building productive capacity	6.8	11.3	9.3
Trade-related assistance	--	--	0.3
% of total trade-related assistance	--	--	36.4
Total multi-country	1072.7	2520.5	2579.6
% of total Aid for Trade	5.1	10.7	10.1

Source: OECD CRS

…and trade financing programmes are expanded

Availability and affordability of import and export finance is a lifeline for economic activity in many developing countries (see also Chapter 1). Several larger donors are strengthening their trade financing programmes in response to the recent tightening of global financial markets, and to mitigate the adverse impacts on trade. For example, at the March 2009 IMF conference on Africa's economic growth, the AfDB unveiled a package of new initiatives to help member states cope with the financial crisis, including an Emergency Liquidity Facility of USD 1.5 billion, a Trade Financing Initiative of USD 1 billion and a Framework for Accelerated Resource Transfer of the African Development Fund Resources.

REGIONAL AID FOR TRADE IN PRACTICE

This section presents three case studies of regional aid-for-trade programmes in Africa, Asia and Latin America. They illustrate how regional organisations are working with donors and partner governments to strengthen cross-border transport links – or transport corridors – as key strategic components of plans to increase trade, connectivity and integration in the three regions.

CASE STUDY 1: North-South Corridor[10]

The North-South Corridor Pilot Aid for Trade Programme is a joint COMESA-EAC-SADC initiative. Its aim is to reduce the time, and so the costs, of road and rail travel along two priority corridors identified by the New Partnership for Africa's Development (NEPAD) programme (Figure 5.7). These are: (i) the Dar es Salaam Corridor, which links the port of Dar es Salaam to the Copperbelt; and (ii) the North-South Corridor, which links the Copperbelt to the southern ports of South Africa. The Corridor, along with its spurs, services eight countries: Tanzania, Democratic Republic of Congo (DR Congo), Zambia, Malawi, Botswana, Zimbabwe, Mozambique and South Africa. The Pilot Programme is based on two initiatives – the COMESA-EAC-SADC tripartite process and the aid-for-trade process.

The Pilot Programme aims to improve the physical infrastructure for transport (*e.g.* roads, rail, border-posts, ports) and electricity (*e.g.* distribution and generation), as well as the regulatory environment for trade, transport (*i.e.* by simplifying and reducing cross-border clearing procedures, harmonising transit and transport regulations and simplifying administrative requirements, etc.) and energy (*e.g.* addressing electricity tariff issues), along the length of the North-South Corridor.

Stakeholders recognise that there are a number of other equally important trade and transport corridors in Eastern and Southern Africa, many of which link to the North-South Corridor. The intention is to use the North-South Corridor programme as a pilot project to develop methodologies and approaches that can be applied to other similar projects.

Figure 5.7 North-South Corridor pilot

Source: COMESA

Importance of the North-South Corridor

If African countries are to reach the levels of economic growth needed to reduce poverty in a sustainable manner, significant private investment in the productive sectors will be required. This means that the costs of production will need to be low enough to enable producers to be competitive with those elsewhere in the world. As long as internal transport and energy costs remain relatively high, the incentive to invest in the productive economy is reduced, and production levels will stay low. Substantial public and private-sector investment is required to improve the quality of Africa's regional infrastructure (transport, communications and energy) and to lower trading and business costs.

Transport costs in Eastern and Southern Africa are affected by delays at border crossings, weighbridges and ports, as well as by complex and time-consuming custom procedures. The longer the transit delays the higher are the costs of transport to users. In Southern Africa, reductions in border crossing times would have the greatest impact on the cost of transport. In East and Southern Africa, the most effective way to reduce costs is by rehabilitating roads, reducing fuel costs and lowering delays at border crossings.

Aid flows and debt relief, while extremely important, are unlikely on their own to be sufficient to meet the full costs of Africa's economic development. Significant private-sector investment is also required to develop infrastructure to the standards and expectations of competitive businesses. However, until such investments are able to attract high rates of return, in a secure environment, private sector engagement will remain cautious.

The North-South Corridor was selected as a pilot aid-for-trade programme because it is the busiest corridor in the region, both in terms of volume and the value of goods in transit; and traffic along the corridor is expected to get even busier in years to come. The goal is to ensure that investments and measures to facilitate trade are implemented in a coherent, co-ordinated and sequenced manner, so as to maximise synergies and amplify the positive impact on producers and consumers.

Financing of Projects and Programmes

The COMESA-EAC-SADC Tripartite Partners are working to identify a package of projects to upgrade transport systems along the North-South Corridor. The Pilot Programme is devising sequenced measures to implement a range of transport and energy-related interventions that will allow holistic solutions to be generated for a variety of users. This means installing a transport network that appropriately links road and rail networks so that users have access to an efficient range of low-cost transport services, as well as improving electrical generating capacities and distribution networks across the region.

A mix of financing is required. Private investment is immediately possible in selected areas and activities (*e.g.* toll bridges and energy generating projects) but, in reality, private investors are unlikely to become involved in financing parts of the energy and transport system (especially roads) on a significant scale until a number of changes take place including: an increase in the volume of traffic; an improvement in the current state of infrastructure; a simplification of the regulatory environment; a harmonisation of procedures; and a business environment that both encourages and regulates competition.

Significant quantities of public-sector funding and concessional development-finance are expected to be required initially to improve the state of public infrastructure along the North-South Corridor. These funds will be channelled into:

i) upgrading transport and communications infrastructure – where it is evidently of poor quality;

ii) improving the maintenance of existing infrastructure;

iii) improving co-ordination between multiple national authorities and regional entities;

iv) enabling better links to be made across complementary surface transport modes; and

v) catalysing Public-Private Partnerships (PPP) investments down the line.

The International High Level Conference

A major high-level conference on the North-South Corridor was held in Lusaka, Zambia on 6-7 April 2009 at which a total of approximately USD 1.2 billion was pledged by the international community to upgrade infrastructure and improve trade facilitation and regulatory measures specifically in relation to the North-South Corridor. A further USD 500 million was made available for improvements to other corridors that link to the North-South Corridor. In addition, the Development Bank of Southern Africa (DBSA) announced that it was making USD 1.5 billion available to support projects in the energy, ICT and transport sectors.

The projects and programmes that were presented at the North-South Corridor High Level Conference were in the areas of:

▶ **Trade Facilitation** – Targeting more effective use of existing trade facilitation measures, (including establishing "one-stop" border posts, harmonising customs documentation, and implementing a regional axle-load-control programme, improved safety standards, a regional customs bond system, carriers' license and third party insurance system) to allow significant time and cost savings. Considerable work has already been done to develop and improve regional trade facilitation measures, but more effort is still needed, including the political will to implement decisions that have already been made and to resist policy or administrative reversals. The total cost of implementing the trade facilitation programme identified as a priority by the NSC Pilot Aid for Trade Programme is about USD 20 million over a five-year period. Some of these measures are already being supported through the regional organisations and the Tripartite process. What is now required is steps to identify and then close the funding gap.

▶ **Road Sector Projects** – The international community has supported the establishment of roads funds and agencies to finance road maintenance and construction. Road funds are financed through budget contributions, fuel levies, road-user charges and donor contributions. The international community has been asked to provide additional financing through national road agencies (excluding South Africa) and similar structures so that the target of raising USD 7.4 billion over 20 years can be met. What is required is to assess the percentage of the required USD 7.4 billion is already available so that the remaining financing gap can be closed.

▶ **Rail Sector Projects** – The rail infrastructure is in need of major new investment if it is to operate at its design-capacity levels. Before this investment be made there is need to address policy constraints that restrict private and public investment in the railways, such as concession agreements, and to strengthen the Southern African Railways Association (SARA). The international community has been asked first to help countries resolve these policy constraints, and to then work with countries to upgrade the railway infrastructure. The cost is estimated at USD 7.25 million for studies and consultations, and a further USD 800 million in capital costs. Some financing is already available through existing programmes, but more is required.

▶ **Ports Sector Projects** – Projects have been proposed from the recently completed Tanzania Port Master Planning Study for Dar es Salaam and include the expansion of the container terminal; dredging of the access channel; planning of inland container depots and near port logistics hubs; planning of dedicated, unhindered road and rail access; and planning of longer term port expansion. The international community has been requested to assist with the funding of USD 3.5 million for studies and consultations and USD 425 million to construct a new container terminal and dredging of the main access channel at Dar es Salaam port.

▶ **Energy Sector Projects** – Identified energy-sector projects include power generation and transmission projects that are part of the on-going programmes of the East African Power Pool and Southern African Power Pool, and regulatory reform programmes recommended by the Regional Electricity Regulators Association (RERA).

Outcomes

The High Level Conference agreed the following:

▶ The establishment of a Project Steering Committee (PSC) comprising the three RECs (COMESA, EAC and SADC) and representatives of the development partners that have contribute funds to the North-South Corridor projects and programmes. The PSC shall be responsible for the overall policy direction of the North-South Corridor Aid for Trade Programme.

▶ The establishment of a Project Implementation Unit (PIU) which will be responsible for facilitating, co-ordinating and monitoring progress in implementing projects and programmes that have been identified as part of the North-South Corridor Pilot Aid for Trade Programme.

▶ The understanding that member states of the Tripartite process will implement agreed regional policies and regulations, as well as put in place a mechanism to prevent policy reversals. Certain aspects of the implementation of the North-South Corridor projects will be progressively delegated to the Tripartite Secretariat. These include procurement of consultancies, evaluation of bids, co-ordination of the steering process, monitoring and evaluation and reporting. These steps will ensure that standardised procedures are applied across the RECs, rather than a multiplicity of national and regional procedures that only increase bureaucracy and red tape

- The creation and strengthening of regional regulatory bodies to oversee the implementation and application of regionally harmonised policies and regulations in the energy and transport sector.
- The establishment of a Trust Fund to finance identified projects and programmes aimed at making the transport corridors in Eastern and Southern Africa, including the North-South Corridor, more efficient. The Trust Fund will be managed by the DBSA.

In terms of next steps, the goal of the RECs is to continue to develop the North-South Corridor Aid for Trade Programme, and just as important, apply the methodologies and lessons learned to other critical regional corridors in Africa.

CASE STUDY 2: Mesoamerican Integration Corridor[11]

The Mesoamerican Integration and Development Project ("Mesoamerica Project")[12] was launched in June 2001 to facilitate and advance the process of integration and development in the Mesoamerican countries, namely Mexico, Guatemala, Belize, El Salvador, Honduras, Nicaragua, Costa Rica and Panama. Colombia joined the project in 2006.

The project seeks to improve quality of life throughout the region and build up its resources, while protecting the environment, through integration. To achieve these objectives, the project fosters the development, financing and implementation of regional infrastructure, connectivity and social development projects.

The Mesoamerica Project comprises a portfolio of nearly 100 projects and more than USD 8 billion in investments in the areas of human development, sustainable development, energy, telecommunications, trade facilitation, natural disaster prevention and transportation.

Aid for Trade and the Mesoamerican Plan

Significant supply-side challenges exist across most Latin American countries which need to be addressed if these countries are to play an active role in the global trading system and to use trade as an instrument for growth and poverty alleviation. For some of these countries, transport costs are significantly higher than tariff costs, for both imports and exports, and especially for intraregional trade.

The soft and hard trade-related infrastructure investments contemplated in the Mesoamerica Project aim at connecting markets, reducing transport and trade costs, enhancing trade competitiveness, improving the climate for foreign investment, and delivering goods and services to world markets more efficiently.

A plan to achieve physical integration

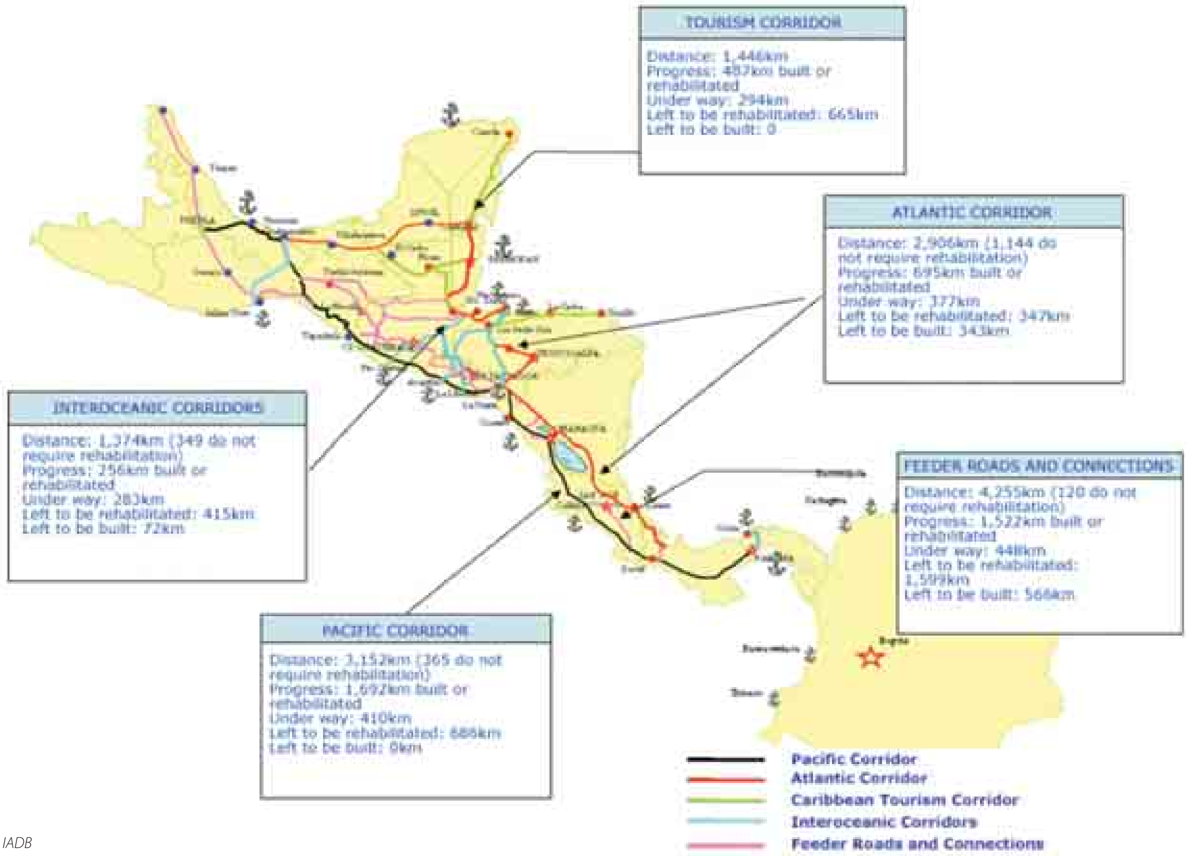
The International Network of Mesoamerican Highways (RICAM) is the Mesoamerica Project's signature programme in the transportation sector (Figure 5.8). Its purpose is to achieve full physical integration and ensure the smooth flow of merchandise and passengers by shortening travel distances on north-south and coast-to-coast routes. The RICAM is rehabilitating 13,132 kilometres of roads, including two major corridors (Pacific and Atlantic), a tourism route, inter-oceanic corridors and a series of feeder roads and connections. It will also introduce international rules and standards for vehicular transit and homogenous weight and dimension regulations.

RICAM objectives

The objective of the RICAM is to boost the internal and external connectivity of the region's economies by improving road-transport infrastructure. This will create new opportunities for Mesoamerican integration and give the region's producers improved access to export markets via land routes by linking communities, areas of production and the main distribution and shipping points. The RICAM will also promote tourism in the region and co-ordinate transport services under safer and more profitable road conditions.

These activities are being pursued as part of the Mesoamerica Project's mission to contribute to sustained economic growth and the protection of the environment and the region's natural resources, co-ordinating and joining together the efforts of the governments of Mexico, Colombia and the Central American countries within a climate of respect for sovereignty and in pursuit of agreements and consensus. The RICAM is a core component of the Mesoamerica Project's vision for the region in 2011: to be interconnected by smooth and safe communication routes.

Figure 5.8 International network of Mesoamerica highways (RICAM)



Source: IADB

Budget/financing

The RICAM has an estimated total cost of USD 9.3 billion. Financing for road projects totalling USD 7.2 billion has already been identified and additional investments estimated at approximately USD 2 billion are anticipated.

Table 5.2 Resources and sources of financing for RICAM

RESOURCES	USD BILLION	%
Public	5.1	70
• Own resources: USD 3.442 billion (equivalant to 47.7% of the amount)		
• External financing: USD 1.617 billion (equivalent to 22.4% of the amount financed		
Private (concessions)	2.1	30
TOTAL TO DATE	**7.2**	**100**
Estimated additional resources (public or private	2.1	
TOTAL (financed and estimated)	**9.3**	

Source: IADB

As illustrated in Table 5.2, 70% of project resources with an identified source of financing are public, whereas 30% are private, through concessions. In the case of the public resources, 47.7% correspond to governments' own resources and 22.4% have been financed externally. The USD 1.7 billion in external public financing comes primarily from multilateral organisations and donor agencies and has been earmarked both for pre-investment and execution costs. The main sources include the IADB, the Central American Bank for Economic Integration, the Andean Development Corporation, the World Bank and the governments of various countries, including USD 406 million in grants mostly from Mexico, Japan, Taiwan, Norway and the United States for infrastructure works in El Salvador, Honduras, Guatemala and Nicaragua.

Box 5.2 Speeding up the Pacific Corridor of the Mesoamerican project

More than 95% of commercial goods in the Mesoamerican region—approximately USD 6 billion—are transported overland using the Pacific Corridor. This highway, which runs from Puebla, Mexico to Panama (3,160 Km) stretching across 7 countries, is destined to become the backbone of commercial trade in Mesoamerica. Moreover, it will cut the distance from Panama to Mexico by approximately 300 kilometres.

However, the right conditions must be created for this to happen, inasmuch as the infrastructure at the border crossings along the Pacific Corridor is unreliable and inefficient and the facilities are sub-standard. These conditions are amplified by limited logistical and operational planning at the borders, lack of information and lack of regulatory harmonisation.

As part of the Mesoamerica Project, one the main initiatives in 2009 will be to "accelerate the Pacific Corridor", by carrying out a comprehensive action plan which includes improvements and investments in the most needed sections and improvements to all the border crossings. These actions will foster the Corridor's necessary transitability conditions.

The general objective of this project is to improve the conditions along the Pacific Corridor upon the basis of a comprehensive approach encompassing physical infrastructure, logistics procedures and traffic rules and controls. The specific objectives are: (i) reconditioning and improving road sections and accesses; (ii) enhancing border crossings and customs infrastructure; (iii) instituting the best border control procedures; and (iv) strengthening road and personal safety conditions.

Box 5.3 The TIM pilot project

The pilot plan was launched at El Amatillo, on the border between El Salvador and Honduras. So far, the average border-crossing time has been cut from 61 minutes to 8 minutes, which translates into valuable time savings in waiting, thanks to the introduction of a single electronic customs declaration form and a single procedure for all control agencies. This has had a positive impact on the control activities performed by the customs authorities because they are given information in advance, which helps them analyse and assess risk.

The kilometres that have been financed represent 64% of the total network, with the greatest financing progress being made for the Pacific Corridor (78%), the Atlantic Corridor (76%) and the inter-oceanic corridors (65%). Financing remains to be scheduled and arranged for most of the tourism corridor and the feeder roads. The ministers have made it a priority to schedule and arrange for financing for the remaining sections of the two major highways. The Pacific Corridor has an execution timeline of between 2009 and 2012, with 685 kilometres (22% of the total) remaining to be rehabilitated and no kilometres left to build (see Box 5.2). In the case of the Atlantic Corridor, there are 347 kilometres left to rehabilitate and 343 kilometres left to build (24% of the total). The breakdown of financing for each corridor is presented in Table 5.3.

Status of RICAM

The RICAM is 50% complete in its construction and rehabilitation works. Of the completed kilometres corresponding to these works, 4,651 have been completed since 2002, and 1,978 did not require rehabilitation. As for the remainder, construction or rehabilitation works are in progress on 14% (1,811 km), and identification of a financing source is pending for the final 35% (4,692 km). Table 5.4 presents a breakdown of the status of RICAM works.

Two major highways (Pacific and Atlantic) are expected to be completed in 2012. Progress on the other corridors is proceeding at different rates.

The International Transit of Merchandise (TIM) Project: Road transport speed along Mesoamerica's Pacific Corridor is just 17 km/hour, which adversely affects the region's competitiveness and economic integration. This is due in part to weak road infrastructure but also to slow border control procedures.

On 22 July 2008, a pilot plan was implemented in the region to establish a standard computerised mechanism to facilitate and modernise control of the international transit of merchandise (TIM) under conditions similar to the most advanced in the world (see Box 5.3).

Based on the success of the pilot plan, the participating countries have requested technical support to expand implementation of the TIM system to all their border posts and ports. Other countries in the Mesoamerica region have asked to join the system.

Table 5.3 Breakdown of financing for corridors in RICAM

KILOMETRES FINANCED PER CORRIDOR			AMOUNT FINANCED (US$ MILLION)	
Corridor	**Total kilometres**	**Kilometres financed**	**PUBLIC (own and external)**	**PRIVATE (concession)**
Pacific	3,152	2,466	1,433.2	241
Atlantic	2,906	2,216	1,199	0
Tourism	1,446	781	304	0
Interoceanic	1,374	888	461.3	518
Feeder	4,255	2,090	1,672	1,375
TOTALS	**13,132 km**	**8,440 km**	**$5,058.5**	**$2,133.5**

Source: IADB

Table 5.4 Implementation status of RICAM

KILOMETRES	KM	%
Total completed kilometres	6,629	50%
• Kilometres concluded 2002 to date	4,651	35%
• Kilometres that did not require rehabilitation	1,978	15%
Kilometres in progress (execution: construction and rehabilitation)	1,811	14%
Kilometres pending	4,692	36%
Kilometres to rehabilitate	3,711	28%
Kilometres to build	980	7%

Source: IADB

Other areas of integration

In addition to physical integration, the Mesoamerica Project is creating the Central American electrical interconnection system, or SIEPAC, by building a 230kW transmission line 2,000 kilometres long. This interconnection will preface the establishment of a regional electricity market that will enable electricity prices to be cut by 15% to 20%, significantly boosting the competitiveness.

Moreover, the Mesoamerica Project includes investments in the areas of sustainable development and climate change, natural disaster prevention and affordable housing.

Conclusions

The growth and development of the countries of Mesoamerica is related to their capacity to integrate with each other and the global economy. However, their weak physical infrastructure and regulatory differences is a major obstacle to this process of integration.

Addressing these constraints is crucial to ensure countries' capacity to integrate into the global economy and to benefit from liberalised trade.

The Mesoamerica Project will contribute to overcome these obstacles, by promoting a more seamlessly connected regional market, and a larger provision of public goods, complementary to large scale infrastructure investments and, overall, to the reduction of trade costs generated by frictions due to imperfect integration of local and national markets.

This will in turn promote deeper integration, contribute to strengthening the consensus on trade liberalisation and facilitate the transition to a more equitable distribution of the gains from trade.

CASE STUDY 3: The Phnom Penh – Ho Chi Minh City Highway[13]

The Phnom Penh – Ho Chi Minh City (PP-HCMC) Highway is the first cross-border transport link project under the Greater Mekong Sub-region Economic Cooperation Programme (GMS Programme). Initiated in 1992 with ADB assistance, the GMS Programme aims to promote closer economic ties among Cambodia, China, Lao PDR, Myanmar, Thailand and Viet Nam. The programme aims to facilitate sustainable economic growth and reduce poverty in the GMS through the so-called 3Cs strategy – enhancing "competitiveness", improving "connectivity" and engendering a sense of "community".

Connectivity among the GMS countries is being enhanced through the development of sub-regional infrastructure, particularly transport corridors, power interconnection systems and telecommunications networks. The enhancement of physical links is a means towards increased cross-border and intra-regional trade, investment and tourism, as well as better management of shared natural resources. Equal attention is being given to addressing the softer aspects of sub-regional development, including shared social and environmental concerns, such as the prevention and control of communicable diseases and the protection of the sub-region's rich biodiversity and ecosystems.

Project Description

The transport sector was among the first areas of co-operation under the GMS Programme since it had been recognised early on that cross-border transport links have the greatest and most immediate impact on enhancing connectivity. Improving the Bangkok–Phnom Penh–Ho Chi Minh City–Vung Tau highway was therefore assigned the highest priority by the governments of the GMS countries as early as the Second Conference on Sub-regional Economic Cooperation in August 1993, when they were already beginning to look for joint projects to undertake following the GMS Programme's inception in 1992. The PP-HCMC Highway forms a key segment of this important road link (Figure 5.9).

Financed by an ADB loan approved in 1998 with a combined amount of USD 140 million (USD 40 million for Cambodia and USD 100 million for Viet Nam – with the governments of the two countries providing the rest of the combined total project cost of USD 197 million), the project involved the reconstruction of 105 kilometres of Route Number 1 (RN1) in Cambodia from Neak Leoung to the border with Viet Nam at Bavet, including minor improvements to 58 kilometres of RN1 from Phnom Penh to the Mekong River ferry, and the reconstruction of 80 kilometres of the sections in Viet Nam, consisting of 22 kilometres of National Highway No. 1A (NH1A) between Thu Duc and An Suong and 58 kilometres of National Highway No. 22A (NH22) from An Suong to the border with Cambodia at Moc Bai. The project also included improving border-crossing facilities on the Cambodia side at Bavet.[14]

The PP-HCMC Highway also represented the first step towards the development of economic corridors in the sub-region, being the primary segment of the GMS Southern Economic Corridor linking Thailand, Cambodia and Viet Nam. The *economic corridors* approach to regional development, which is a distinctive strategic thrust of the GMS Programme, is a holistic approach where infrastructure design and implementation is linked with production and trade potentials in order to maximise economic benefits from infrastructure investments. It is envisaged that the whole GMS will eventually be covered by grids and rings of economic corridors, integrating and interconnecting dynamic markets and production centres.

Project Outcomes

The primary objectives of the project of increasing the movement of people, goods and vehicles across the Cambodia–Viet Nam border at Bavet/Moc Bai, reducing vehicle operating costs and travel time, and increasing traffic volumes were substantially achieved. The total value of trade passing through the Bavet/Moc Bai border crossing post increased by about 41% per annum between 2003 and 2006. The number of people crossing the border increased at an average annual rate of 53% during the same period while the number of vehicles crossing the border increased at an average annual rate of 38%.

Vehicle operating costs have been conservatively estimated to have dropped by 10% for passenger cars and by 15% for trucks and buses. In Cambodia, travel time from Phnom Penh to Bavet has been reduced by 30%. Similar reductions have been achieved in Viet Nam, especially in urban areas, as traffic congestion was eased. Several bus routes have reduced their trip times, *e.g.* one bus route reduced its average trip time from 70 minutes to 50 minutes as a result of the project, a reduction of 28%.

Traffic volume on the Cambodia side (from Neak Loeung at the

Figure 5.9 Phnom Penh - Ho Chi Minh City highway

Source: ADB

bank of the Mekong River to the border at Bavet) grew from 851 vehicles per day (vpd) (excluding motorcycles) in 1996 to 1,879 vpd in 2005, exceeding the projected volume of 1,804 vpd. In Viet Nam, traffic volume on NH22A up to the border at Moc Bai grew from 3,265 vpd (excluding motorcycles) in 1996 to 10,354 vpd in 2005, an average yearly growth of 12%. On NH1A near Thu Duc the traffic increased from 7,784 vpd in 1996 to 29,310 vpd in 2006, an average yearly growth of 14%. Even while traffic grew considerably, the number of traffic accidents on NH1A in Viet Nam fell from 323 in 2002 (before the road improvements were completed) to only 124 in 2005, a reduction of 60%. Similar reductions have been achieved on parts of NH22A, where traffic accidents in 2003 totalled 95, compared with 42 in 2005, a 56% reduction.

The project's socioeconomic impact in both countries so far has been quite significant. In Cambodia, along RN1, there has been substantial ribbon development, including residences, buildings and shops. At the Bavet border post, the increase in both passenger and goods traffic from Viet Nam has led to the establishment of commercial and leisure facilities, including several casinos and hotels that attract large numbers of tourists. Ancillary services, such as restaurants and gas stations, have likewise mushroomed along the road. An industrial park close to Bavet has also opened, providing employment opportunities for the local residents. In Viet Nam, the urban sections of the project, particularly those close to Ho Chi Minh City, have benefited from the project. New industrial areas have been built near the project roads. One of these industrial areas employs over 10,000 people and is planning to expand its activities in a new site.

In terms of economic efficiency, the project proved to be highly efficient, with an economic internal rate of return (EIRR) (taking into account all economic benefits and costs) computed at 23% at the time of appraisal. This was recomputed six years after completion of construction, taking into account actual as against projected costs, implementation delays and differences between projected and actual traffic growth, resulting in an improved recalculated EIRR of 25%.

With regard to environmental risks usually associated with road infrastructure projects, initial environmental examinations undertaken during project preparation showed no significant adverse environmental impacts, partly owing to the fact that the civil works consisted of mere rehabilitation of an existing road. Likewise, no indigenous peoples or ethnic minority issues arose during project implementation. With regard to resettlement aspects of the project, although certain issues arose, particularly in Cambodia, that affected the pace of the civil works and necessitated the conduct of a resettlement audit, effective steps have been undertaken, including ADB facilitated dialogues between the Cambodian government and the affected parties and related NGOs, leading to the substantial resolution of these issues.

Remaining Tasks Going Forward

Although the rehabilitation of the PP-HCMC Highway has had a significant impact on travel time, vehicle operating costs and general socioeconomic development in the influence areas, its full potential in terms of boosting cross-border movement of people, goods and capital has not been reached yet. There is still no through movement of trade traffic between Thailand, Cambodia and Viet Nam, with majority of freight vehicles still needing to stop at the border and transfer their goods onto local vehicles which then continue into the other country – the required costly process referred to as trans-shipment or trans-loading.

The main efforts going forward must therefore be directed at making the highway a true seamless cross-border link by removing the remaining non-physical barriers to the free movement of vehicles, goods and people and at transforming this transport corridor into a genuine economic corridor. With regard to the first set of efforts, the GMS countries have forged the GMS Cross Border Transport Agreement (CBTA), prepared with ADB assistance, which is a compact and comprehensive multilateral instrument that covers all the relevant aspects of cross-border transport facilitation in one document. These include the establishment of single-stop/single-window customs inspection, cross-border movement of persons, transit traffic regimes, requirements and standards for road vehicles, exchange of commercial traffic rights and infrastructure standards.

However, since full implementation of this complex agreement, with 20 annexes and protocols and involving six countries, would take time, the GMS countries decided to first implement it on a pilot basis at selected bilateral borders, among which is the Bavet-Moc Bai border-crossing point along the PP-HCMC Highway. The governments of Cambodia and Viet Nam signed a Memorandum of Understanding (MOU) in 2006 to pave the way for this pilot implementation. A related bilateral road transport agreement between the two countries allows the exchange of commercial traffic rights between them on a limited basis (*i.e.* ability of vehicles in one country to be operated in the neighbouring country's territory). New border checkpoint facilities have likewise been constructed, with ADB assistance, at the Bavet-Moc Bai border. The pilot implementation of the CBTA at this border-crossing point, and its eventual full implementation, is expected to further boost cross-border trade, tourism and investment along this important road corridor.

The PP-HCMC Highway is a pioneering initiative towards economic-corridor development, which as already mentioned is a comprehensive and multi-sectoral approach, involving not only cross-border infrastructure links but also, among other things, transport and trade facilitation; cross-border and border area investment promotion; logistics systems development; industry and product standards development and harmonisation; supply chains development; financial innovations; and micro, small and medium enterprises development. To serve as a mechanism for unifying and focusing all initiatives and undertakings that aim to transform the GMS transport corridors into true economic corridors, the GMS countries set up an Economic Corridors Forum (ECF). The Forum also provides the venue for close networking between the public and the private sectors, between the central and local governments, and among the various agencies and ministries in the six GMS countries.

Under the ECF's auspices, strategies and action plans (SAPs) for the holistic development of the main GMS economic corridors, namely, the North-South, the East-West and the Southern Economic Corridors, are being prepared. The SAP for the latter, of which the Bangkok–Phnom Penh–Ho Chi Minh City Vung Tau road corridor forms the central route, is already underway. This strategy and action plan will serve as the blueprint for transforming the corridor into a string of growth nodes in the southern part of this increasingly vibrant and prosperous sub-region.

CHALLENGES

The move towards increased regionalism poses new challenges for development aid, requiring more regional-level co-ordination among donors, on the one hand, and among partner countries (including to ensure sufficient regional absorption capacity of aid), on the other.

Better co-ordination at the regional level

The top three challenges cited by donors in implementing regional aid for trade include: i) lack of – or weakly articulated – demands for regional aid for trade; ii) lack of coherence between national and regional priorities; and iii) lack of effective co-ordination at the regional level. This clearly underscores the need for strengthened capacity within RECs, and for increased dialogue between national authorities and their regional counterparts. A number of donors suggest that specific mechanisms should be set up to ensure effective feedback between the national and regional levels. Several donors (*e.g.* the Netherlands, AfDB, UNCTAD) also argue for regional needs assessments that can then be fed into national development strategies and PRSPs. These assessments largely mirror partner countries' diagnosis of regional integration challenges, and their identification of regional capacity as a core priority.

Strengthening of human and institutional capacities

RECs vary widely in their institutional strength, which in turn can have significant implications for a region's absorptive capacity for aid. As many donors note, regional-level entities almost always have weaker institutional capacity – and hence weaker aid absorptive capacity – than national entities. Moreover, the existence of multiple and overlapping regional integration arrangements and organisations can make establishing a stable donor-recipient relationship difficult. In Sub-Saharan Africa, for example, just 7 countries only belong to 1 regional integration arrangement, whereas 27 countries belong to 2 arrangements, 18 belong to 3 and 1 country (DR Congo) belongs to 4 (UNECA, 2009).

Not all regional bodies lack the capacity to address regional challenges. Partner countries in the Caribbean region, for instance, successfully address their regional trade-capacity challenges both through their respective national development strategies, as well as through regional development strategies elaborated at the Caribbean Community (CARICOM) level. Some of these countries also participate in sub-regional strategies through the Organization of Eastern Caribbean States (OECS).

Overall, however, the majority of the donors point to a lack of articulated demands and priorities for regional aid for trade as being the top challenge in implementing region-wide support. Other challenges include lack of coherence between national and regional priorities, and the absence of effective co-ordination between partner countries and donors at the regional level. The heterogeneity of national economies within the same region – giving rise to different needs and requiring different responses – also adds to the challenge of designing and implementing region-wide support.

There remain a number of outstanding regional challenges faced by partner countries and donors. Most partner countries affirm that they benefit from regional aid for trade and that their binding regional constraints are being addressed. However, regional integration efforts are too often hampered by a lack of co-ordination between donors and partner countries. To strengthen regional capacity and improve effective participation in regional and multilateral trade, further co-ordination is needed. ■

NOTES

1. India sent their response after the official deadline and was not included in the analysis. See CD-Rom for the full version of their questionnaire.

2. http://www.wto.org/english/tratop_e/region_e/region_e.htm

3. ALADI is an integration forum ultimately aimed at creating a common market in Latin America. UNASUR is an inter-governmental union focused on integrating two existing custom unions – *i.e.* Mercosur and the Andean Community – and is modelled on the European Union. The Arco del Pacifico is an informal co-ordination and consultation forum for the identification and implementation of joint actions aiming to generate synergies in the fields of economics and trade. Its main areas of work are: a) commercial convergence and integration; b) promotion and protection of investment; c) infrastructure, logistics and trade facilitation development; and d) economic and technical co-operation to improve competitiveness.

4. The Mercosur Structural Convergence Fund (FOCEM), for example, was created in 2005 with contributions from Brazil, Argentina, Uruguay and Paraguay, with the objective of mitigating asymmetries within the Mercosur bloc. Brazil is the largest contributor (USD 70 million per annum since 2006, representing a 70% share) to this fund; and at the December 2008 Mercosur Summit, Brazil announced that in 2009 it would double its contribution.

5. http://www.ibsa-trilateral.org/

6. See *EU Strategy on Aid for Trade: Enhancing EU support for trade-related needs in developing countries, Conclusions of the Council and of the Representatives of the Governments of the Member States meeting within the Council, Council of the European Union*, 15 October 2007, http://register.consilium.europa.eu/pdf/en/07/st14/st14470.en07.pdf

7. See http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2007:0072:FIN:EN:PDF

8. Furthermore, the STDF provides up to 90% of project funding in grant form for a regional project that includes at least one low-income country; for a project that does not involve low-income countries, STDF still provides up to 80% grant funding.

9. IIRSA is a forum to encourage dialogue among South American countries. It seeks to promote the development of transport, energy and telecommunications infrastructure from a regional perspective, to encourage the physical integration of its twelve members and to achieve an equitable and sustainable territorial development pattern (http://www.iirsa.org/).

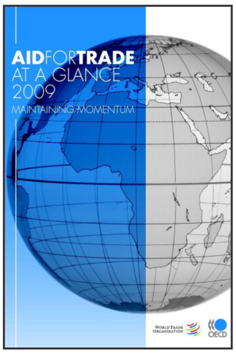
10. This section is based on the case study prepared by the COMESA Secretariat.

11. This section is based on the case study prepared by the IADB.

12. In June 2008, the region's presidents announced that the Puebla-Panama Plan, launched in June 2001, would become the Mesoamerican Project. It supplements a regional integration process that has been pursued under the Central American Integration System (SICA), and expands it to include Mexico and Colombia.

13. This section is based on the case study prepared by the ADB.

14. Moreover, as a result of savings realised by both countries in their respective shares of loan funds for the project, Cambodia was able to undertake additional works, namely the rehabilitation of road RN11, which was badly damaged by the floods in 2000, and Viet Nam was able to extend the length of the road improved from 80 kilometres to 96.35 kilometres and undertake additional works to improve road safety.



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