Chapter 1

Vientiane–Hanoi Expressway: Introduction

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Chapter 1

Vientiane-Hanoi Expressway: Introduction

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1. Background

The Lao People's Democratic Republic (Lao PDR) faces development gaps due to its unique landlocked location. To turn the weakness of being 'landlocked' into the strength of being 'land-linked' in the Mekong region, Lao PDR needs to play a greater role as a logistic hub and to promote its own manufacturing exports in tandem with enhanced connectivity with China, Thailand, and Viet Nam. As the joint study between the Economic Research Institute for ASEAN and East Asia (ERIA) and the Lao PDR Ministry of Industry and Trade stresses, complete national transformation is crucial not only for the country's industrial development, but also for accelerating the economic growth of the whole Mekong region (Nishimura et al., 2016).

Against this background, in November 2016, the governments of Lao PDR and Viet Nam concluded a memorandum on the Vientiane–Hanoi Expressway (VHE). Subsequently, in June 2017, H.E. Dr Thongloun Sisoulith, Prime Minister of the Lao PDR, and H.E. Mr Nguyen Xuan Phuc, Prime Minister of Viet Nam, made a request for possible expressway construction cooperation to H.E. Shinzo Abe, Prime Minister of Japan. Following instructions from the Japanese government, the Japan International Cooperation Agency (JICA) identified possible expressway routes connecting the two capital cities. JICA (2018) presented measures that would enhance their connectivity and viability in terms of not only the VHE's technical aspects, but also its social, economic, financial, and environmental impacts in Lao PDR and Viet Nam. Furthermore, in a summit meeting between Lao PDR and Japan in June 2018, Dr Thongloun Sisoulith requested follow-up support from Japan with regard to the VHE as it is an important issue for Lao PDR as a landlocked country, and Prime Minister Mr. Shinzo Abe responded emphasising his intention to strengthen connectivity of the Mekong region.

The multinational cooperation framework has promoted regional connectivity. Specifically, the 8th Ayeyawady−Chao Phraya−Mekong Economic Strategy (ACMECS) Summit[1] in 2018 issued the Bangkok

[1] The member countries of the ACMECS are Cambodia, Lao PDR, Myanmar, Thailand, and Viet Nam.

Declaration, which shows a determination to address a wide range of challenges against connectivity enhancement, such as harmonisation and simplification of rules and regulations to facilitate movement of people, free flow of goods, services, and investment, as well as financial cooperation to accelerate infrastructure development. In addition, the well-known Greater Mekong Subregion (GMS) Economic Development Program,[2], on the initiative of the Asian Development Bank (ADB), has developed the 'Mekong Economic Corridors' by facilitating construction of cross-border physical infrastructures and streamlining border controls.[3]

ERIA also has committed to Mekong industrial development since Nishimura et al. (2016) formulated industrial development strategies for Lao PDR. In November 2017, the author presented 'ERIA's New Study Proposal on Connectivity in the Mekong Region' at the Senior Officials Meeting of the 9th Mekong–Japan Summit, stressing that the smooth connectivity in the Mekong region would further evolve the global value chain. Following ERIA's claims of being prepared to study infrastructure investment and relevant cost-sharing mechanisms to improve the whole region's connectivity, present senior officials showed their high expectations toward ERIA's possible contribution. Furthermore, the Lao PDR government endorsed ERIA and the Ministry of Public Works and Transport creating a working group to study the VHE with a keen interest in its early completion. This study project started out reflecting the Lao PDR government's expectations, and this report is on the basis of the output produced by the working group.

2. Bangkok–Vientiane–Hanoi Industrial Corridor

2.1. Vientiane–Hanoi connectivity: missing link of Bangkok–Hanoi connectivity

There is a high expectation of policymakers and the private sector toward connecting Bangkok and Hanoi, which have been growing as pillars of economic development in the Mekong region. While the road and railway connections between Bangkok and Vientiane have been reinforced by an effort particularly on the Thailand side, those between Vientiane and Hanoi are still a 'missing link' of Bangkok–Hanoi connectivity. However, amongst economic corridors designated by the GMS Economic Development Program, the East–West Economic Corridor linking Savannakhet, Lao PDR, and Da Nang,

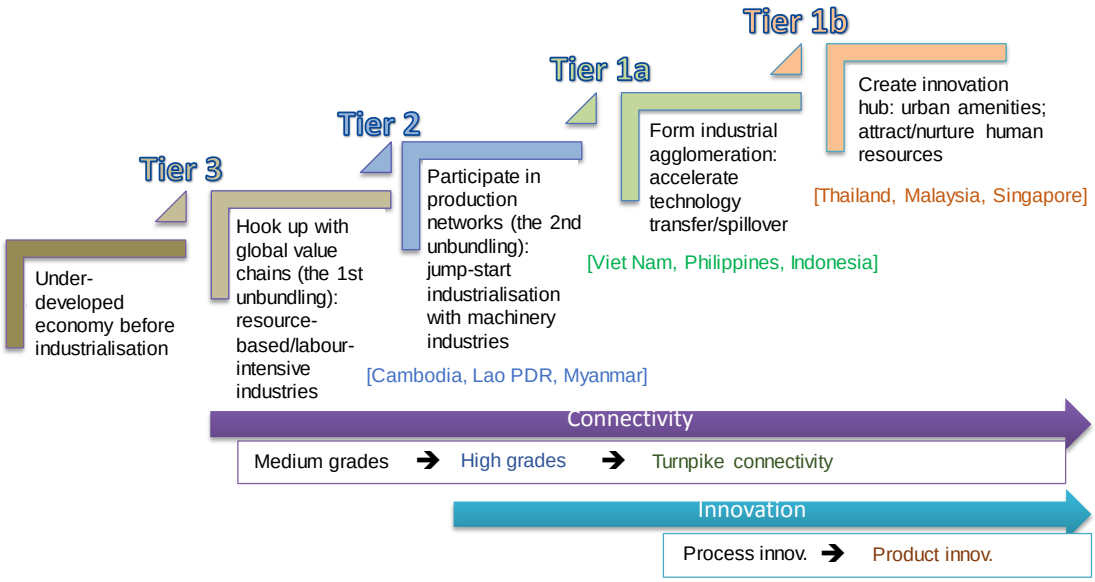
[2] The member countries of the GMS Economic Development Program are Cambodia, China (Guanxi Zhuang Autonomous Region, Yunnan Province), Lao PDR, Myanmar, and Viet Nam.
[3] The Cross-Border Transportation Agreement (CBTA) has complemented the GMS Economic Development Program with an aim to facilitate cross-border transportation.

Viet Nam, through Lao PDR's NR9 is the only one that connects the two countries. Although a sub-corridor connecting Bangkok, Vientiane, and Hanoi was added in the North–South Economic Corridor in 2016, any corridors directly connecting Vientiane and Hanoi have not been established yet.

2.2. Thailand/Viet Nam plus one

Association of Southeast Asian Nations (ASEAN) and East Asia has been the most advanced area in the world in terms of effectively utilising global value chains (GVCs). Nishimura et al. (2016), using the framework of ERIA (2015), proposed a development strategy based on the three tiers of development, which are categorised by different levels of participation in GVCs (Figure 1.1). Lao PDR is a country that employs sophisticated Tier-2 types of participation in GVCs, especially as observed in special economic zone areas, which are close to the Thai border. On the other hand, Thailand and Viet Nam belong to Tiers 1a and 1b, respectively: while Thailand needs to create innovation hubs and improve urban amenities to attract outstanding human resources that engage in product innovation, Viet Nam is rapidly forming industrial agglomeration and accelerating technology transfer through foreign direct investment (FDI).

Figure 1.1: Three-Tier Development Strategy



Source: ERIA (2015).

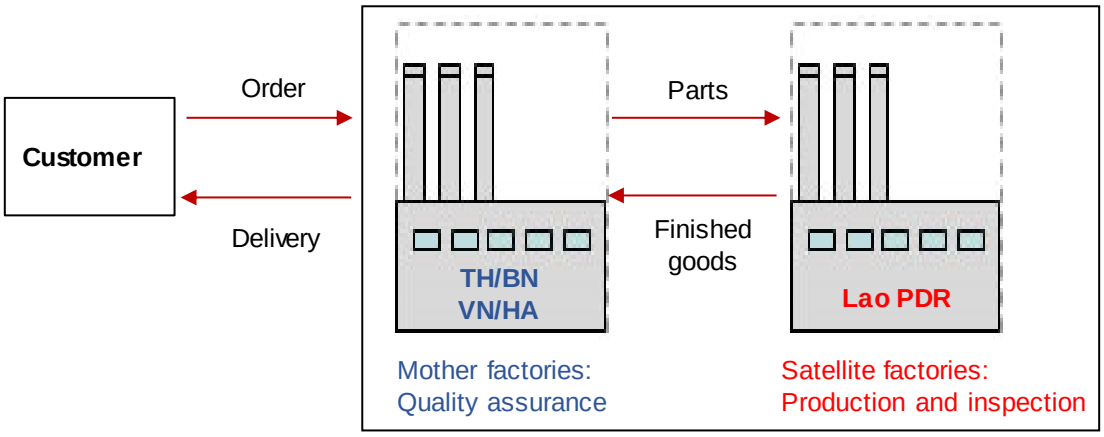
These multi-layered development stages generate unique GVC strategies in the Mekong region, which is frequently called the 'Thailand-plus one', developed mainly by Japanese multinational companies

(MNCs). Thailand and its neighbouring 'CLM' countries (Cambodia, Lao PDR, and Myanmar) are currently witnessing manufacturing base dispersion, particularly in automobiles, automobile parts, and machinery industries from Thailand to the border of the CLM countries. The reason why Thailand-plus one is developing is a sharp rise in labour costs of Thai workers, which undermines the investment environment; also contributing is risk aversion of disasters, e.g. the 2011 catastrophic flood in Ayutthaya and North Bangkok. In many cases of Japanese MNCs, labour-intensive processes are outsourced to factories in the CLM countries; then, final or semi-final products are brought back to mother factories in Bangkok.[4]

This 'plus-one' strategy may also be expanded to MNCs in Viet Nam due to rapid industrial advancement and resultant wage increases evolving around Hanoi and Ho Chi Minh City. In fact, though the 'Viet Nam-plus one' strategy is not widely prevalent for many Japanese MNCs, it is seriously under the discussion within them in the hope of finding cheaper labour in the CLM countries than in Viet Nam. If these plus-one strategies are carried out in a full-scale operation, neighbouring countries will be able to benefit from opportunities to be involved with deeper and wider GVCs, which will help them upgrade their industrial and export structures. Indeed, Lao PDR, despite a landlocked location, is expected to link both Thailand and Viet Nam as a core of logistics hubs between the two developed Mekong countries;[5] at the same time, it will become a production hub that can serve as satellite factories linking mother factories in Thailand and Viet Nam (Figure 1.2).[6] If Lao PDR played these roles, the 'Bangkok–Vientiane–Hanoi Industrial Corridor' would emerge (Figure 1.3). It is therefore important to strengthen connectivity, especially between Vientiane and Hanoi, through the early completion of the VHE.

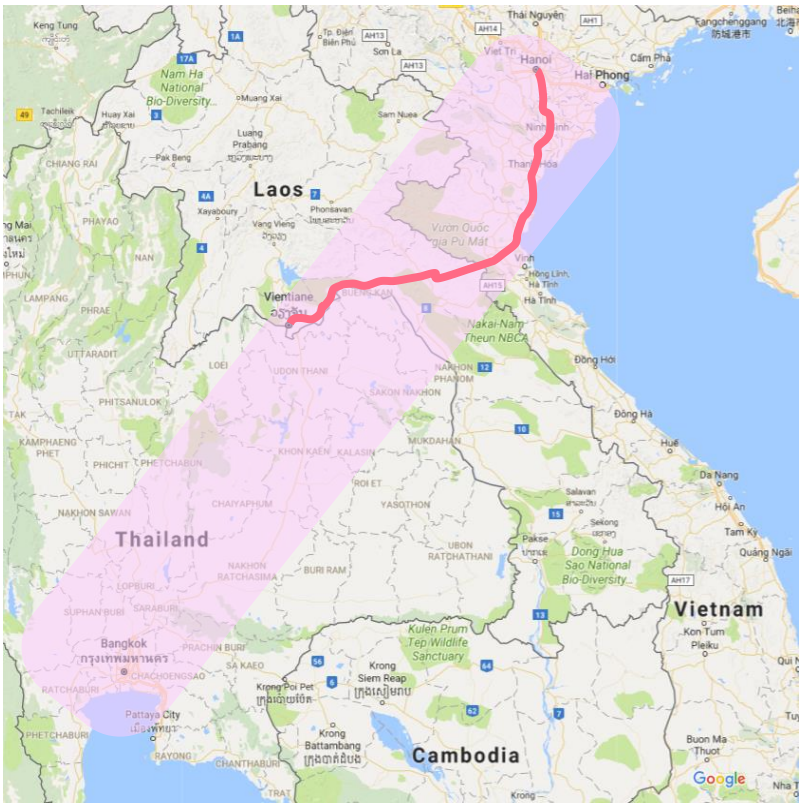
[4] Nikon Corporation (part of the camera production process) and Toyota Boshoku Corporation (car sheet production) deploy into the Savan-Seno Special Economic Zone in Lao PDR.
[5] Lao PDR is located in the centre of three large ports in the Mekong region: Leam Chabang (Thailand), Ho Chi Minh (south Viet Nam), and Hai Phong (north Viet Nam). Nishimura et al. (2016) proposed the strategy for the Lao transportation industry to arrange Savannakhet and Vientiane logistics hubs with improvement in physical infrastructures that connect to Thailand and Viet Nam.
[6] In the ERIA capacity-building symposium addressing 'Ways Forward to Develop Industrial Parks and Special Economic Zones in Lao PDR' on 8 February 2019, Mr. Masao Suematsu, the President of a Japanese automobile-related company in ASEAN, presented his idea that Lao PDR would have a potential to receive orders of production and inspection as satellite factories affiliated to mother factories in both Thailand and Viet Nam.

Figure 1.2: Thailand/Viet Nam Plus One



Lao PDR = Lao People's Democratic Republic, TH/BN = Thailand/Bangkok, VN/HA = Viet Nam/Hanoi.
Source: Compiled by the author in reference to the material provided by Mr. Masao Suematsu.

Figure 1.3: Bangkok–Vientiane–Hanoi Industrial Corridor



Source: Google Maps, modified by the author.

3. Objective of the Study

While the governments of Lao PDR and Viet Nam implemented a pre-feasibility study (pre-F/S) in 2016 and 2017 to assess routes that will connect Vientiane and Hanoi, JICA (2018) independently collected

data for enhancing connectivity between them. With respect to the former pre-F/S, JICA negatively states that:

> '…although the recommended route connects Vientiane and Hanoi along almost the shortest itinerary, more than 60% of the total length of the route inside the Lao PDR meanders through mountainous and valleys and thus there is a problem with the running performance of large-sized vehicles. In addition, it cannot expect almost any use by roadside population or development of road side areas. Furthermore, it passes through nature preserved areas.'

For this reason, JICA (2018) proposed the NR 8 route as an alternative, instead of the one recommended in the pre-F/S. The NR 8 route runs almost in parallel to the National Road No. 8 (corresponding to the route AH15 of the Asian Highway Network) located 50 kilometres south of the pre-F/S route. JICA's conclusion derives from comparing routes in a variety of aspects, for example, geographical features, speed of vehicles and travel time, demand forecasting, cost estimation, social and environmental impacts, total evaluation of routes, development phases, and economic and financial analyses. Taking these into consideration, JICA (2018) concluded that this alternative route is the most suitable from the perspective of construction of the VHE.

Meanwhile, this report aims to concentrate on: (1) exploring the potentiality of the corridor between Hanoi and Vientiane as designated by the GMS Economic Development Program to obtain financial support from donors (e.g. ADB, World Bank, other official development assistance); (2) illustrating impacts on economies and industries of Lao PDR and surrounding countries such as China, Thailand, and Viet Nam via the VHE; (3) laying down industrial development strategies for Lao PDR, Viet Nam, and Thailand that take maximum advantage of the VHE; and (4) suggesting appropriate financial mechanisms to construct the VHE. Thus, whereas JICA (2018) evaluated the VHE through a comprehensive analysis, we will focus on how Lao PDR and neighbouring countries can benefit from the expressway by strengthening relevant industries. In sum, our study will analyse the economic and industrial impacts from the perspective of GVCs and production networks developed in the Mekong region.

The report is structured as follows. Chapter 2 (by Masami Ishida) reviews economic potentials of the VHE to attract tourists, and the past influence of expressways on FDI in Viet Nam. Based upon the

geographical simulation model, Chapter 3 (by Souknilanh Keola) estimates the economic impacts across industries in Lao PDR and its neighbouring countries. Chapters 4 to 6 are country studies of Lao PDR (by Leeber Leebouapao and Stabandith Insisienmay), Viet Nam (by Vo Tri Than), and Thailand (by Narong Pomlaktong) that examine the appropriate strategies for leveraging the VHE in each country. Chapter 7 (by Narong Pomlaktong) focuses on the financial mechanism to cover construction, management, and operational costs. Finally, Chapter 8 (by Masahito Ambashi) concludes with recommendations for policymakers.

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