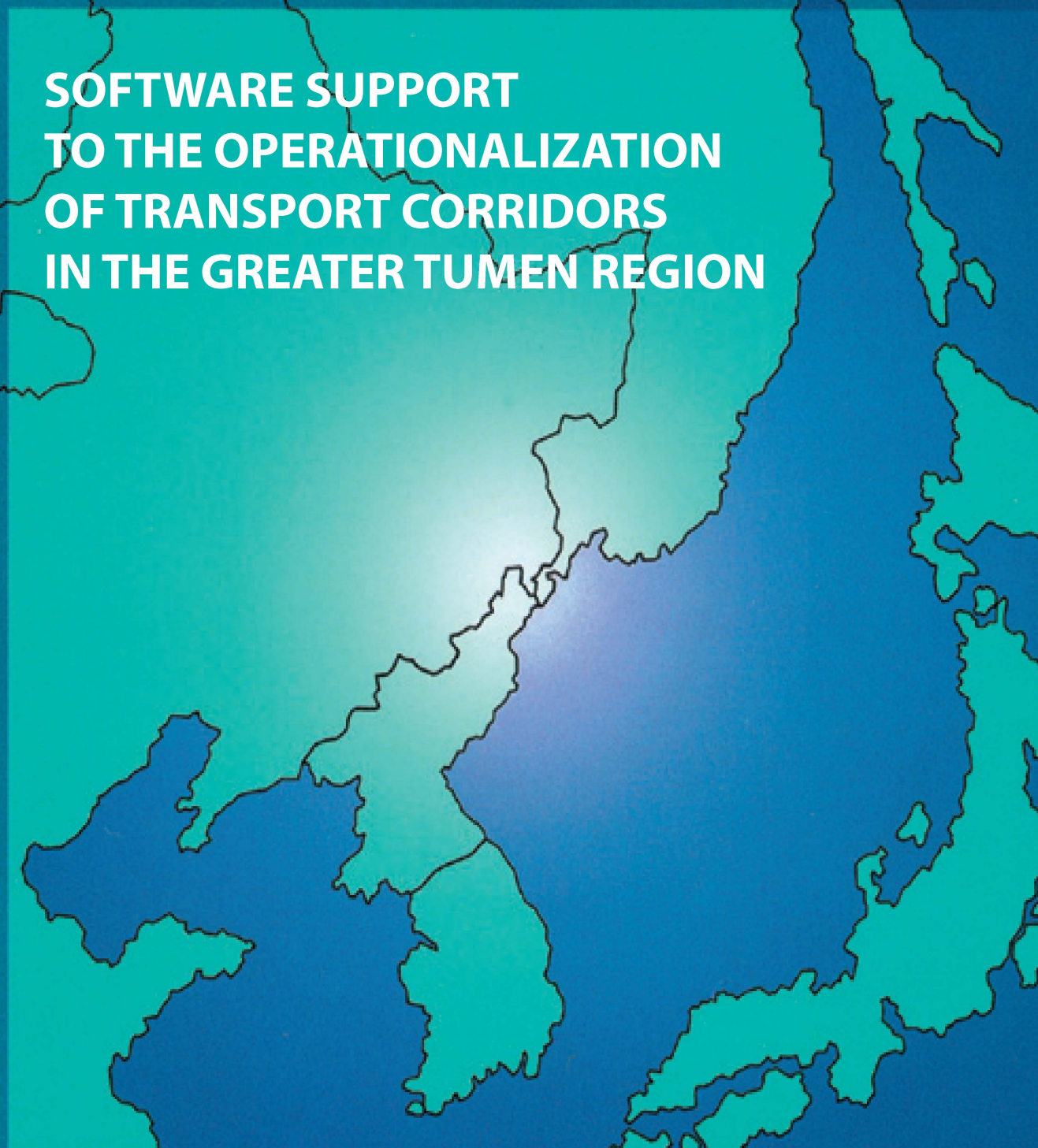




**SOFTWARE SUPPORT
TO THE OPERATIONALIZATION
OF TRANSPORT CORRIDORS
IN THE GREATER TUMEN REGION**



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OPERATIONALIZATION OF TRANSPORT CORRIDORS
IN THE GREATER TUMEN REGION**

STUDY REPORT

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Study report on “Software Support to the Operationalization of Transport Corridors in the Greater Tumen Region” was prepared by Dr. Jean Francois Gautrin in accordance with the decision of the 3rd GTI Transport Board meeting (Vladivostok, Russia, 2013).

The Study is part of the efforts to design enabling transport and especially transit environment in the Greater Tumen Region by creating proper “soft infrastructure for the transport corridors in the region. The report elaborates on issues related to possible cross-border transport agreement in the region and filling the gaps in existing system of bilateral transport related agreements in the region.

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List of Abbreviations

ACTS	–	ASEAN Customs Transit System
ADB	–	Asian Development Bank
AEC	–	ASEAN Economic Community
AFAFGT	–	ASEAN Framework Agreement on the Facilitation of Goods in Transit
A.R.	–	Autonomous Region
ASEAN	–	Association of Southeast Asian Nations
BCP	–	Border Cross Point
CAREC	–	Central Asia Regional Economic Cooperation
CBTA	–	Cross Border Transport Agreement
CBTS	–	Cross Border Transit System
CIS	–	Commonwealth of Independent States
CTS	–	Customs Transit System
CU	–	Common Union
ECO	–	Economic Cooperation Organization
EFTA	–	European Free Trade Association
EU	–	European Union
EURASEC	–	Euroasian Economic Community
EWEC	–	East-West Economic Corridor
GMS	–	Greater Mekong Subregion
GTI	–	Greater Tumen Initiative
GTR	–	Greater Tumen Region
ICD	–	Inland Container Depot
ICT	–	Information and Communication Technologies
ID	–	Identification
IRU	–	International Road Transport Union
IT	–	Information Technology
Lao PDR	–	Lao People's Democratic Republic
MOU	–	Memorandum of Understanding
MT	–	million tons
NCTS	–	New Computerized Transit System
NSITC	–	North South International Corridor Agreement
PRC	–	People's Republic of China
ROK	–	Republic of Korea

SCO	–	Shanghai Cooperation Organization
SEZ	–	Special Economic Zone
SW	–	Single Window
TEU	–	Twenty-foot Equivalent Unit
TIR	–	Transports Internationaux Routiers/International Road Transports
TRACECA	–	Transport Corridor Europe Caucasus Asia
TSR	–	Trans-Siberian Railway
UN	–	United Nations
UNCTAD	–	United Nations Conference on Trade and Development
WTO	–	World Trade Organization
USD	–	US Dollar

1 INTRODUCTION

1.1 BACKGROUND

In 2012, the Greater Tumen Initiative (GTI) Transport Board, established in 2009, instructed, as a top priority, the GTI Secretariat to carry out an “Integrated Transport Infrastructure and Cross-Border Facilitation Study for the Trans-GTR¹ Transport Corridors” which was referred as the “GTI Transport Corridor Study”.

The GTI Transport Corridor Study once completed was adopted by the Transport Board on August 1 2013 as part of its Regional Transport Strategy and Action Plan. An important feature of the Study was a list of infrastructure investments with costs and policy recommendations which were deemed to be required for the establishment of the regional integrated transport network.

The Transport Board, however, realized that to make all the investment recommendations a reality and a success, greater attention should be devoted to the “soft aspect” of cross border trade and transit. As part of this new effort, the Board instructed the GTI Secretariat to review and analyse all the steps required to consider the signing of cross-border transport agreements (CBTAs) between GTI member states including all the trade facilitation measures to foster international trade and transit in GTR. The decision for this type of study was approved by the Transport Meeting of August 1, 2013, and is at the origin of the present study.

1.2 SCOPE OF THE STUDY

The goal of the Study is to highlight the present shortcomings of the transport and trade related agreements and regulations signed by the member states as they constraint the promotion of trade and transit in the GTR. In doing this, the Study should lay the foundation for future dialogue on possible CBTAs in the region.

The main tasks of the study consist in first analysing the implications and constraints of bilateral and multilateral agreements signed by GTI member-countries on passenger and freight transportation across borders within GTR. After reviewing the experience and lessons from CBTAs in CAREC and GMS as well as other global transport agreements, the study should bring recommendations on measures and provisions to take into account when designing Cross Border Transport Agreements for GTR.

The study starts with the critical review of the GMS and CAREC CBTAs. These CBTAs were designed more than 10 years ago and there is now a large amount of evidence and analyses and this helps to draw interesting lessons for the design of a similar agreement in GTR.

¹Greater Tumen Region (GTR) comprises the three eastern aimags of Mongolia, the Inner Mongolia Autonomous Region, Liaoning, Jilin, Heilongjiang provinces of Northeast China, the Primorsky Territory being part of the Far Eastern Federal District of the Russian Federation and eastern provinces of Republic of Korea (ROK).

1 REVIEW OF EXISTING CROSS BORDER TRANSPORT AGREEMENTS

1.1 GMS CBTA

1.1.1 The History

The Greater Mekong Subregion (GMS) comprises Cambodia, Yunnan Province and Guangxi Zhuang Autonomous Region of the People's Republic of China (PRC), Lao People's Democratic Republic (Lao PDR), Myanmar, Thailand and Vietnam. In 1992, with the assistance of ADB, the six countries entered into an on-going programme of subregional cooperation designated to enhance economic relations between country participants. The GMS program recognized at an early stage the need to complement the investment in transport infrastructures with improved "software" aspects in order to maximize the benefits of the investments. This meant giving particular attention to trade and transport facilitation (TTF) measures along the corridors to enable goods and vehicles to move more smoothly and at a lower cost across borders.

But trade facilitation goes far beyond just customs procedures. It includes the licensing and documentations required for export and import of goods, the phytosanitary control, immigration control and payment of duties and all border crossing related charges. With the push for lower or no tariff barriers, the emphasis shifted in reducing the burden (time) and cost of crossing borders.

Imposing transshipment of traded goods at the border has been a continuous source of problems, wasted time and added costs. Transiting of goods also was not easy. This led GMS authorities to design a general transport facilitation agreement which could cover all aspects of border crossing for goods and passengers and be agreed by all participants. This was the origin of the GMS Cross Border Transport Agreement (CBTA).

The road to implementation, however, has not been an easy one, as could be expected from such a comprehensive multilateral agreement. It started first with Lao People's Democratic Republic (Lao PDR), Thailand, and Viet Nam signing a Cross-Border Transport Facilitation Agreement (CBTA) back in 1999. Cambodia later acceded to the agreement in 2001, followed by the People's Republic of China (PRC) in 2002, and Myanmar in 2003. By design, because of its complexity, the process of enforcing the agreement was decided to be by stages causing the road to implementation to be long and tortuous. Enforcement required a series of separate steps: signing the main legal document, signing all annexes and protocols, ratification through parliaments of the main documents, annexes and protocols and finally issuing MOUs to activate all the legal documents at agreed border crossing points.

Signing the main document was not a problem but it took nine official meetings and three years (2003 to 2005) to complete the negotiations on all annexes and protocols. By 2007, all GMS countries had signed the CBTA with annexes and protocols and by 2011, most countries have fully ratified all documents but Thailand and Myanmar still need to ratify a few annexes and protocols. Milestones of CBTA implementation are in table below.

Table 1 Selected Milestone of GMS – CBTA

Year	Events
1992	With the assistance of ADB, GMS is established
1995	ADB produced the first GMS Transport Master Plan which gave an in depth review of the road sector network in the Mekong region
1998	Economic corridor approach adopted at the 8 th Ministerial Meeting
1998	First Draft of CBTA adopted at the 8 th Ministerial Meeting
1999	In Vientiane, Lao PDR, Thailand and Vietnam signed the CBTA without annexes and protocols
2001	Cambodia signs the CBTA
2002	PRC signs the CBTA

Year	Events
2002	1 st Summit Meeting in Phnom Penh and adoption of the 3 economic corridor as flagships of GMS
2002	Guangxi Autonomous Region (PRC) joins GMS
2003	Myanmar signs the CBTA
2003	Ratification of main CBTA text (without annexes and protocols) by GMS national governments
2003 -2005	Negotiation under 3 stages of annexes and protocols through a series of 9 meetings;
2004	ADB 1 st Regional Cooperation Programme (2004 – 2008)
2006	GMS Transport Sector Strategy report (TSS) with Strategy Framework (2006 – 2015) and Action Plans
2007	All countries have now signed all annexes and protocols of CBTA and need to get ratification
2008	GMS sector assistance program evaluation completed by ADB
2008	12 th Ministerial Meeting noted slow implementation of CBTA Annexes and Protocols
2009	GMS Railway Strategy Study
2010	16 th GMS Ministerial Meeting, adoption of the Mid Term Action Plan for Transport and Trade Facilitation
2011	4 th Summit Meeting and 17 th Ministerial Meeting, adoption of a new GMS Strategic Framework (2012 – 2022)
2011	3 rd GMS Economic Corridors Forum: emphasis on monitoring and recommendation to form a regional freight forwarder association (RFFA)
2011	CBTA with annexes and protocols ratified by all countries except that Myanmar and Thailand still need to ratify some of them
2013	4 th Joint GMS Committee Meeting, November in Nay Pyi Taw, Myanmar: agree to accelerate implementation of CBTA.

Source: ADB GMS website

1.1.2 Analysis of Content and Provisions

The CBTA is a comprehensive multilateral instrument intended to (i) facilitate vehicle crossing between borders and countries (transit) through the exchange of traffic rights, and (ii) promote minimum inspection of goods at borders within a reasonable time. The agreement covers in one document nearly all the aspects of cross-border transport facilitation including (i) single-stop, single-window inspection; (ii) facilitation of the cross-border movement of persons (including visas for the persons engaged in transport operations); (iii) transit traffic regimes, including exemptions from physical customs inspection, bond deposit, escort, and phytosanitary and veterinary inspection; (iv) requirements for road vehicles to be eligible for cross-border traffic; (v) exchange of commercial traffic rights; and (vi) infrastructure, including road and bridge design standards, road signs, and signals. The agreement applies to selected and mutually agreed routes and points of entry and exit in the signatory countries.

The Main Document contains 10 sections and 43 articles. It covers all the points explained in the above paragraph in general terms. The details of implementation are left in the 16 Annexes and 3 Protocols which with the Main Document constitute the full legal CBTA. The list of Annexes and Protocols is given in the table below.

Table 2 List of CBTA Annexes and Protocols

Annex 1	Carriage of dangerous goods
Annex 2	Registration of vehicle for international traffic
Annex 3	Carriage of perishable goods
Annex 4	Facilitation of border crossing formalities
Annex 5	Cross border movement of people
Annex 6	Transit and Inland Clearance
Annex 7	Road traffic regulations and signage
Annex 8	Temporary import of motor vehicle
Annex 9	Criteria for licensing transport operators
Annex 10	Conditions of Transport

Annex 11	Road and Bridge design, construction standards
Annex 12	Border Crossing transit and facilities services
Annex 13a	Multimodal carrier liability regime
Annex 13b	Criteria for licensing multimodal transport operators
Annex 14	Containers Customs Regime
Annex 15	Commodity Classification System
Annex 16	Criteria for driving license
Protocol 1	Design of corridors, routes, entry and exit points
Protocol 2	Transit charges
Protocol 3	Frequency of services, permits & quotas issuance

A detailed analysis of the content of the GMS CBTA is given in the table below.

Table 3 Analysis of GMS CBTA Content

Items	Specific Theme	Content
Crew	Visa	Host Country to issue for drivers of carriers multiple entries visa valid for one year (Article 5 and Annex 5)
	Driving License	Drivers should have a valid driving license with certified English translation if needed issued by Home country or Contracting country. There will be mutual recognition of driving licenses issued by Competent authorities (Article 17 amended and Annex 16).
Reciprocity	Reciprocal Recognition	Vehicles involved in international transportation should have been properly registered in their home country (Article 12 and Annex 2.2) and registration certificate and vehicle inspection certificate (not mentioned as mandatory) should be recognized by Host country (Article 14 and Annex 2.8).
	3 rd party insurance	Transport Operators must carry relevant insurance covering its liability (Annex 9.6) and 3 rd party insurance (article 16)
Right of transport in Host country	Free movement	Each Contracting Party shall grant temporary admission to its territory of motor vehicles registered in the other Contracting Parties, without payment of import duties and taxes and free of other prohibitions and restrictions (Annex 9.2); Vehicles must carry a temporary admission document issued by Home Country authority (Annex 9.3); Temporary admission should be valid for a 3 months period but vehicle should exit within 30 days (Annex 9.).
	Permits and Quotas	Transport operators of one Contracting Party shall be entitled to perform cross-border transport operations only if they hold a GMS road transport permit (Protocol 3.1). Permits should be issued by the Home Transport Facilitation Committee with a suggested maximum of 500 permits for freight operation. Permits should be valid for 1 year, with one permit per vehicle (Protocol 3.4,5,6).
	Routes	Corridors, allowed routes and points of entry and exits are specified in Protocol 1.
	Security Bonds	In, order to cover import duties, Home authorized authority may make payments in different forms (bank account in Host Country, cash deposit, or bonds). In the case of security bond, the maximum should be SDR 40,000 (Annex 8.11).
Transit Conditions	Right to transit	Along resolution 48/11 of ESCAP, Article 8 and Annex 6.1, right to transit is given.
	Exemptions	Transport operators should carry a "Transit and Inland Customs Document" (Annex 6.1). Transit cargoes carried across borders shall as a general rule be exempted from routine physical customs inspection en route, customs escorts in the national territory, and the deposit of a bond as guarantee for customs duties (Article 7 and Annex 6.2).
	Transit Charges	There is only a limited number of permissible charges: tolls, overloading charges, taxes on fuel purchased only, charges on used services, road maintenance charge (Protocol 2.6,

Items	Specific Theme	Content
		7). The road maintenance fees levied by the Host Country on vehicles engaged in cross-border traffic (both transit and interstate) shall be commensurate to the road maintenance fees levied by the Host Country on its domestic vehicles (Protocol 2.8).
	Security Bond	Transporters may pay for its monetary obligations to the Host country in different forms (bank account in Host country, cash deposit or bond). In the case of security bond, the maximum should be SDR 70,000 (Annex 6.11).
Cargo	Special conditions for some cargo	Contracting parties may allow transport on their territory of dangerous goods with permission on a case by case provided that it is carried along UN Convention of 1957 (Annex 1.1,2,3 and 4). Perishable goods should receive priority at BCP but should be handle along very defined rules (Annex 3)
	Cargo document	Each cargo carrier should present at BCP a <i>consignment note</i> with standard format described in Annex 10. Annex 10 also contains specific instructions on pricing of transport and dealing with losses and delays.
	Cabotage	Cabotage is normally not permitted unless special permission are given (Article 19)
	Containers	Containers entering the Host Country should have a <i>temporary admission document</i> (Annex 14.5) with a validity period of 6 months; containers must exit within 30 days (Annex 14.8). Security bond per container is fixed at SDR 600 (Annex 14.12).
Standards	Vehicle standards	"Vehicles and containers traveling to the territory of other Contracting Parties shall satisfy the equipment safety and emissions standards in force in their Home Country. With respect to weights, axle loads, and dimensions, Vehicles traveling to the territory of other Contracting Parties must comply with the technical standards of the Host Country" (Article 13).
	Infrastructure standards	Road and bridge design should follow the Asian Highway Standards as defined by UNESCAP 1995 (Article 25 and Annex 11).
Harmonization	Harmonization of BCP Management	Provisions of minimum standards for passenger and freight operations are defined in Annex 12. Coordination in BCP hours of opening (Annex 4.3).
	Harmonization of Customs Procedures	Contracting parties pledge to reduce number of documents for border crossing, introduce Single Window and Single inspection system (Article 4 and Annex 4.5,6, 7 and 8). Use of the classification of goods under the Harmonized System (HS) is mandatory (Annex 15).
Institutions	National coordinating body	Each Contracting Party would establish a National Transportation Committee (NTC) chaired by PM or DPM with participation of all the relevant departments and private sector. The NTC (or the authorized Competent Authority) is responsible to issue <i>GMS Road Transport Permits</i> (Protocol 3.5).
	GMS	Any amendments or proposed changes by Contracting Parties should be submitted to the <i>GMS Joint Committee</i> (for instance Protocol 1.3, and Protocol 2.9 and 3.9).

The aim of the *GMS CBTA* was to facilitate the free movement of people and freight through the *GMS* road network and eliminate transshipment. The Agreement fulfils the objective but it does that at a cost. Prospective carriers would need to go through many steps and obtain and carry many documents to get entry into the Host Country. Drivers of a cargo carrier should have a present at the BCP the following documents:

- Passport with visa;
- Vehicle registration and recent vehicle inspection certificate;
- Third party insurance;
- Consignment Note;
- Temporary Admission Document;
- Transit and Inland Customs Document (if transit);
- GMS Transport Permit;
- Provisions for payments of import duties and other charges;
- Security bonds for the temporary import of vehicle, goods in transit and container

Entry would not be allowed if there are irregularities in the above required documents. If vehicle does not comply with Host country standards, entry may also be prevented. Contracting parties may also suspend temporarily the application of some articles or annexes for national security and safety reasons.

1.1.3 Implementation

It should be noted that more than 10 years after the ratification by all Contracting Parties of the main document (in 2003), some countries have not yet fully completed the process of ratification. Thailand has signed but not ratified the following annexes:

- Annex 1: carriage of dangerous goods
- Annex 4: Facilitate of frontier crossing facilities
- Annex 6: Transit and Inland Clearance Customs Regime
- Annex 8: Temporary Import of Motor Vehicle
- Annex 10: Conditions of transport
- Annex 14: Container Customs Regime

In the case of Myanmar the followings are still missing:

- Annex 5: Cross border movement of people
- Annex 13a: Multimodal Carrier Liability Regime
- Annex 13b: Criteria for Licensing Multimodal Transport Operators
- Protocol 3 Frequency of capacity of services and issuance of quotas and permits

The EWEC Corridor was selected to be the first corridor for full implementation of CBTA. In reality Implementation, after the signing of the respective MOUs, started in 2009 at three locations: Lao Bao (Viet Nam)–Dansavanh (Lao PDR), Mukdahan (Thailand)–Kaysone Phomvihane (Lao PDR) and Hekou (PRC)–Lao Cai (Viet Nam) border crossing points. Progress has been realized with, for instance, border crossing times being reduced substantially from 118-194 minutes measured at Lao Bao–Dansavanh in August 2005 to about 30 minutes in 2009, with similar improvements at the Mukdahan–Kaysone Phomvihane (Savannakhet) crossing.

The most contentious issue in CBTA has been to allow foreign vehicles (trucks and buses) to travel freely in host country. This is not really happening even among countries that have fully ratified all annexes and protocols of CBTA. When some movements occur, they are in fact regulated through bilateral agreements and not by CBTA. Update of the prevailing situation of movements and transshipments in GMS countries is provided in the table below.

Table 4 Vehicle cross border movements in GMS Countries

Thailand – Lao PDR	Mukdahan: Thai trucks can enter Lao PDR, but not the reverse; Nong Khai: Thai trucks can enter Lao PDR but not the reverse; Chiangkhong: Thai trucks can enter Lao PDR but not the reverse (on just completed 4 th Friendship bridge);
Thailand - Myanmar	Mae Sot: Thai trucks and Myanmar truck cannot enter neighbouring country and transshipment is required Mae Sai: same situation than Mae Sot, but 5 km allowance exists and on exception some Thai buses have been allowed to drive in Myanmar up to Mong La BCP with Yunnan.

Thailand - Cambodia	Aryanapratet (Poipet) in the past, Cambodian trucks could not enter Thailand and Thai trucks had to unload in warehouses in Poipet. As of 2013, trucks and buses can enter neighbouring country, under (per country) a 40 quota/permit system; Koh Khong, transshipment required
Malaysia - Thailand	Padang Besar and Bukit Kayu are the two busiest land BCPs. Formalities have greatly simplified and are moving towards single inspection and electronic SW. However Thai trucks can only move 2 km in Malaysia but Malaysian trucks can go up to Hat Yai. Truck carrying perishable goods from Thailand to Singapore can enter freely. A limited number of trucks can enter with double registration. Buses and private cars can travel under temporary entry permits.
Lao PDR - PRC	Laos, a land locked and transit country, has the most generous transport regime for foreign trucks. Thai trucks, Vietnamese and Chinese trucks can enter Laos. At Boten/Mohan BCP bilateral agreement with PRC allows Lao trucks to enter Yunnan Province of China. It is not clear if agreement covers transit truck vehicles from Thailand and Vietnam.
Lao PDR - Vietnam	There are many BCPs between Lao PDR and Vietnam. Probably the most important in terms of trade value is on the EWEK corridor at Dansavanh/Lao Bao. Laotian and Vietnamese trucks (and buses) move freely across the border with minimum control and customs formalities.
Vietnam – PRC	Under bilateral agreements, trucks can now travel in foreign country on a distance of 1,300 km. This applies to Lao Cai (Yunnan BCP) and Dong Dang (Guangxi A. R.)
Vietnam - Cambodia	There are 7 BCPs open for commercial operations, but the most important is Moc Bai/Bavet. In 2010, through a bilateral agreement, 200 permits/year were available for trucks and buses. It seems that in 2012, the number has been increased to 400.
Myanmar - PRC	The Jiegao border crossing is the most important land border gate between China and Myanmar, accounting for 64 per cent of the total volume of trade between Myanmar and Yunnan Province of China, and 26 per cent of trade between China and Myanmar. In 2011 the border was crossed by 2.54 million vehicles, 11.09 million people and 1.07 million tons of goods. Jiegao is located 4 kilometres from the border town of Ruili, China and bordered by the town of Muse in Myanmar. China and Myanmar have both signed the GMS Cross-Border Transport Agreement (CBTA). However, the ratification and implementation of the agreement and its annexes is still under way. There is also no bilateral agreement on road transport between China and Myanmar, which prevents free movement of vehicles over the border. There is however a local agreement between the border towns of Ruili and Muse which was signed in 2008. The agreement allows movement of vehicles between Ruili and Muse, beyond which cargo has to be carried by a local vehicle. The border town agreement allows the entry of passenger busses to Ruili from Muse in China

Source: Tsumeishi (2009), VIFFAS (2011), Wongsuksiridacha (2012), ESCAP (2012)

In reality CBTA is not implemented fully at any GMS BCPs. At best it could be said that “partial implementation exists at certain BCPs. For instance, single inspection and SW (not yet fully electronic though) with some risk management measures have been put in place between Dansavan (Lao PDR) and Lao Bao (Vietnam) with allowed carriers moving freely from one country to another. Elsewhere (Cambodia/Vietnam), countries have agreed on issuance of transport/transit rights for 400 vehicles per year. In both cases, however, these measures, though contained and inspired by CBTA, are in reality administered by bilateral agreements.

ADB is also pushing for the implementation of CBTA in CAREC. The process has just started. Because of their historical link with the Russian Federation and the relative widespread of the TIR system, it is hard to expect a rapid adoption of the CBTA among Central Asia countries. The

situation which prevails among CAREC countries and transport movements is summarized in the table below.

Table 6 Interstate and Transit Vehicle Movements in CAREC

Azerbaijan	Member of the following groupings: TRACECA, ECO, CAREC, NSITC (North South International Corridor Agreement) and signatory of TIR conventions and a CIS country, allow foreign vehicles in its territory for direct trade or transit from Russia, Turkey, Iran, Turkmenistan and Georgia. Follows Customs Kyoto Convention and implementing Single Window
PRC	Party to 6 bilateral, 1 trilateral and 1 quadrilateral agreement for transport and trade facilitation. Member of the following groupings: CAREC, GMS and Shanghai Community Organization (SCO). Has ratified all CBTA annexes and protocols in 2003 but is making effort to implement it only in BCPs with Vietnam. Generally speaking foreign trucks are not allowed to drive on PRC territory except to close adjacent town acting as trade centres. But PRC applies different rules according to locations and countries. For instance in the North of Lao PDR, Lao and Vietnamese trucks are allowed to enter Yunnan and a new agreement is under preparation implying PRC, Lao PDR and Thailand. PRC intends to join the TIR Convention.
Kazakhstan	Member of the following groupings: CAREC, ECO, EURASEC, SCO, TRACECA, CIS, NSITC; but more importantly member of the recently formed Common Union (CU) with Belarus, Russia, Kazakhstan and now Kyrgyzstan. Kazakhstan is a signatory of 7 road bilateral agreements with Azerbaijan, PRC, Iran, Kyrgyzstan, Tajikistan, Turkey and Uzbekistan. In total Kazakhstan has signed 200 international agreements with 48 being related to transit traffic. The country has made an application to join WTO. With Kazakhstan joining the CU, BCP control on goods and trucks from and to China are more stringent than before. The main road BCP is Korgas (China) and Korgos (Kazakhstan). In both cases foreign trucks can only drive to the ICD/SEZ across the border.
Kyrgyzstan	Member of the same groupings than Kazakhstan. Interesting to note that Kyrgyzstan is the first country signatory of the CAREC CBTA with Tajikistan. Agreement was signed in December 2010 and ratified on the 28 th of June 2011 though in reality at Karamik BCP, operations are guided by the 1998 bilateral agreement with Tajikistan and not by CBTA. Kyrgyzstan applies different transport and trade facilitation regimes to neighbour countries: a) with Kazakhstan, there is a 2003 agreement for free movement which has been superseded by the accession to the CU; b) with Uzbekistan, a 1996 agreement allow permits for vehicles to enter the country but application of the agreement has been suspended; c) with Russian Federation, no need permits to enter; d) with PRC according to 1994 bilateral agreements travelling permits are negotiated annually. There are 2 main BCPs with PRC, Torugart and Irkeshtam. Chinese trucks can travel freely in Kyrgyzstan, but Kyrgyzstan trucks can only travel within a defined zone, 75 km. Hours of opening are not sync between the two countries and vary from one BCP to the other.
Mongolia	Member of CAREC; signed bilateral road agreements with Belarus, PRC, Kyrgyzstan, Russian Federation, Turkey, Ukraine. With PRC, there is an agreement signed in 1991 and revised in 2011 allowing freight to enter at 10 agreed BCPs but trucks can only drive to a proximity town for transshipment. There are many BCPs between China and Mongolia but traditionally the busiest for rail and road traffic has been Zamyn Uud/Erenhot. Trucks are only allowed to cross border and drive to the logistic centre/ICD/transshipment area of Zamyn Uud and Erenhot. There is a large SEZ/logistic centre in Erenhot (China) but the Mongolian one (for trucks) is still under construction). Russian trucks travel in Mongolia some distance but the reverse is not true. Procedures at the Russian BCP are known to be cumbersome and lengthy.
Tajikistan	Member of the same groupings than Kyrgyzstan. Under CBTA allow Kyrgyz trucks to enter through Karamik but not Chinese trucks. With

	PRC, there are permits issued for trucks but only on the Khorog – Dushanbe route (Quolma Pass) in Pamir. Allow TIR trucks.
Uzbekistan	Allow TIR trucks on transit and trade but has closed many BCPs with Kyrgyzstan and Tajikistan making it extremely difficult for Kyrgyz and Tajik trucks to enter Uzbekistan territory.

There is a lack of uniformity in Customs regime and interstate transportation movements in CAREC. Countries under the Customs Union (CU) offer free movements to carriers. The limited introduction of CBTA does not seem to have so far worked. In countries not under the CU regime, interstate freight transportation movements are carried out by TIR carriers.

1.1.4 Lessons Learned from the CBTA

Despite ratification of CBTA, progress in improving the Transport and Trade Facilitation regime on GMS corridors has been slow and less than satisfactory. Rapid growth in trade by GMS countries has not been reflected in equivalent increase in land-based cross-border trade along the designed corridors. Bilateral transport agreements among member countries continue to be preferred by the private sector, and the ambitious scope of the GMS CBTA and customs transit regime remains largely unfulfilled. There are now available a series of critical reviews of the GMS CBTA. Comments below are largely inspired by these studies²².

As said before, the main objective of CBTA was to regulate interstate and transit transportation. In addition to the formulation of what is referred as a “Cross Border Transit System” (CBTS), the CBTA requires Contracting Parties to adhere to a long list of standards and conditions touching for instance cross border facilities, roads and bridges and multimodal operations. Furthermore, though CBTA is not an explicit Customs document it also requires Contracting Parties to reduce border crossing procedures and the number of documents needed, move to Single Window and follows the UN Harmonized Classification code. By choosing a comprehensive route and by respecting the national sensibilities and recognizing the difficulties to amend national laws, the CBTA process of implementation through its multiple level of ratification was meant to be long.

Consensus view of customs officials, traders, and their representative bodies is that CBTA is perceived as complex in design and difficult to use in practice. This is certainly an important reason to explain the decision of traders to use existing methods for moving goods based on bilateral agreements rather than adopt the transit procedures.

Routes and selection of border crossings imposed on transit traffic are perceived as too restrictive and does not reflect dynamic changes occurring in the relevant transport corridors. This lack of flexibility is a serious constraint for transport operators.

The number of issued permits is generally too low and does not reflect market conditions. Allocation between passenger and freight carriers could be a problem. Qualifying and obtaining a permit is not considered to be easy and transparency may not be always guaranteed. The reliance to permits and quotas was meant to be a temporary measure before moving to a system based on market forces. This move however seems to be remote with reticence expressed by national interests.

There is no harmonization in GMS in terms of axle load standards, maximum vehicle weight and dimensions. CBTA instruct transport operators to comply with Host Country standards with no openings for special permission. This means that transport operators may face the risk of being prevented to enter the Host Country. The differences between right hand and left hand driving continues to be used by countries as a hazard for road safety.

Interstate and transit transport under CBTA requires obtaining a series of security bonds issued by banks from the Home Country with the guarantor usually being the national transport association.

²² Perhaps the most interesting is the 2013 ADB publication, “Trade and Trade Facilitation in GMS” edited by Pradeep Srivastava and Ustav Kumar. Of particular importance is the Chapter 4, “Trade Transit System in the GMS, can it works as proposed?” by Des Grimble and Gordon Linington.

Bonds are required for goods in transit, the temporary import of vehicles and payments of import duties and charges. The required value of the bonds is perceived by transport operators to be high and cumbersome to obtain adding to the overall transport cost.

The real objective of CBTA was to regulate and harmonize transit of goods and passengers. But, in GMS, there are very little volumes of goods in transit. Trade and traffic is between bordering countries. It is therefore not surprising that procedures at BCPs continue to be according to bilateral agreements and not CBTA. Procedures under bilateral agreements are also simpler. Using CBTA in its present form clearly offers no advantages to traders to switch from using sea routes to land routes. However drastic changes in the efficiency of border crossing procedures may stimulate new trade and trigger the switch from sea routes to land routes.

The GMS CBTA was developed for roads. A similar CBTA for rail operations has been drafted but not yet ratified by participating partners.

As said before, comprehensiveness came with a cost. It could be argued that it is more efficient to separate trade facilitation legal requirements from the interstate and transit procedures. On the question of interstate and transit procedures as discussed later, CBTA does not provide leads for the introduction of new IT related technologies.

1.2 REVIEWING EXISTING BILATERAL AND MULTILATERAL AGREEMENTS IN GTR

1.2.1 Background

In the GTI Transport Study the six designed corridors³ were analyzed in details to prepare the Strategy and Action Plans. However not all corridors did received the same attention. Corridors 1 and 2, the “Tumen Corridor” and the “Suifenhe Corridor” were considered as priority corridors and were the subject of greater analysis. The development of Corridor 3 (Siberian Land Bridge) remains entirely a Russian decision even if the corridor provides transit traffic for Chinese, Japanese and ROK containers destined to Europe as well as bringing mining resources to Asia. Corridor 4, the Dalian Corridor is a very important transport route for Northeast China. Prospects for regional transit however remain limited.

The Democratic People Republic of Korea (DPRK) is presently not a member of GTI. Therefore corridor 5 and 6 originating from the Republic of Korea (ROK) cannot reach the rest of GTI countries (except by air and sea). However ensuring good connectivity between DPRK and Russian Federation was part of the Strategy for an integrated GTR transport network.

Japan is also not a member of GTI. However, an important issue in the GTI Transport Strategy was to ensure efficient sea corridors between ports on the Eastern coast of Japan with Korean peninsula ports and Russian Federation ports.

The development of interstate and transit through the GTR land corridors and its maritime routes need to be supported by a series of bilateral and multilateral agreements. It has been suggested that the existing agreements were insufficient to properly support corridor and trade expansion. Dealing with that question is the subject of this section.

³ The six transport corridors are: the section of the Siberian Land Bridge (SLB) within the Primorsky Territory of Russia (Corridor 3); Suifenhe Transport Corridor: ports in the Primorsky Territory (Vostochny, Nakhodka, Vladivostok) – Grodekovo – Suifenhe – Harbin – Manzhouli – Zabaykalsk – SLB (Corridor 2); Tumen Transport Corridor: ports in the Tumen River area (Zarubino/Posiet/Rajin) –Tumen/Hunchun – Changchun –Arxan – East Mongolia – Trans-Mongolia Railway/SLB, Jinzhou port in China (Corridor 1); Dalian Transport Corridor: Dalian – Shenyang – Harbin – Heihe – Blagoveshchensk – SLB (Corridor 4); Korean Peninsula West Corridor: Busan – Seoul – Pyongyang – Sinuiju – Shenyang – Harbin (Corridor 5); Korean Peninsula East Corridor: Busan – Rajin – Tumangang – Khasan – SLB (Corridor 6).

1.2.2 Bilateral Agreements between Russian Federation and People' Republic of China

The national agreements under reviewed concerned more specifically land transportation between North East China provinces and Primorsky Territory of the Far Eastern Region of Russia and the maritime agreements between PRC with Russia, ROK and Japan.

Transport agreements between PRC and Russia deals exclusively with transport questions. Customs questions are part of separate agreements. Existing bilateral agreements are for most rather simple. One of the reasons for many aspects not covered, it is explicitly or implicitly mentioned that they could be covered through international conventions or agreements.

Bilateral agreements are reviewed first for the road sector. Regulating road transport between China and Russia is through the 1992 Road Transport Agreement signed in Beijing in December 1992 and implemented in June 1993. Details on managing the Agreement were elaborated through an MOU signed in 1994 in Beijing. Later, in 1998, the Agreement was amended.

The Road transport agreement "raison d'etre" is to spell out the conditions for foreign vehicles to cross borders. The passenger and freight transport movement could be simply interstate or for transit to a third contracting country.

A simple analysis of the content of the agreements is given in the attached table. The required conditions for vehicle crossing is presented through a series of headings dealing with requirements for the driver, vehicle standards, list of documents required and reciprocity, allowable cargo⁴ ...The most important heading concerns the conditions for the "free movements of vehicles" across the border and the permits required for the transport.

⁴ In this report terms like cargo, freight and goods are all used and meant to be equivalent. The same applies to transporter, carriers and vehicle operators.

Table 7 China-Russia Road Agreements

	1992 Road Transport Agreement	Procedures on Freight and Passenger Road Transport	Agreement on cooperation and mutual assistance on Customs matters	MOU for implementation of the 1992 Road Transport Agreement
<u>Visa</u> free for crews and proper driving license	Visa not covered; driver should have international licence and carry all relevant documentation (art.12)	Visa not covered; driver should have international driving licence (art.2)		Not covered
For vehicles, <u>reciprocal recognition</u> of other country documentations	Only vehicles permitted to travel on international routes should be allowed (art. 5); send in advance proof of 3 rd party insurance liability (art. 17).	Vehicles should have: proper permit, 3 rd party liability insurance, road worthiness certificate, proper licence plate and signing; permit valid for one round trip only; for buses valid for 1 year; cargo waybill required and passenger list for buses (art.2 & 4);		
Allow <u>free movement</u> of carriers	Through issuance of permits by contracting authorities negotiated on a yearly basis following designed routes (art. 5); no indications on quotas; exemptions of charges and taxes (art. 15 & 16);	"Relevant or responsible authorities of both parties (Chinese side – Department of communication of Heilongjiang province, Jilin province, Inner Mongolia Autonomous region, Russian side – Ministry of Transport of the Russian Federation) held annual negotiations to determine the scope of actors eligible for permits for the next year, determine place and time of the next exchange of permits" (art 5).		"In accordance with the articles 3,5,10 (item 2) of the Agreement Parties will exchange mutually agreed number of permit forms by the end of November each year" (#1); itinerary permit for buses could be valid up to 3 years(#3);permits should be signed and stamped on both sides; special permission should be obtained 30 days before haulage (# 2).
Harmonize <u>vehicle standard</u> requirements	If vehicle does not comply with other country standard, special permission should be obtained (art. 7)	Should follow vehicle dimension standards of other country (art 2.3)		
Define allowed and banned types of <u>cargo</u>	Certain goods do not require permits (funeral, emergency, fair, construction...) (art. 6); no cabotage unless special permission (art. 10).	Special permits required for certain goods (art. 4.2)		
Harmonize <u>procedures</u> at BCP (unit of measurements, currency, hours of opening, ICT,	Not covered		"Customs Authorities of both parties shall do their utmost to take corresponding measures and coordinate the office	

services)			hours and work progress of the customs in common boundary region in consideration of existing international transport agreements" (art 12).	
Harmonize <u>Customs</u> procedures and systems	No specific mention except to say that it follows bilateral agreement conditions (art. 18)	Should inform other party of charges and duties expected at BCP (art. 6)	"By mutual consent, Customs Authorities of both parties shall take necessary measures to simplify customs formalities... Customs Authorities of both parties shall separately negotiate the mutual recognition of their customs seals, logos and customs documents and make arrangements for it" (art 12).	
Overall Conditions	Document signed in Beijing in December 1992 and implemented for a 3 year period in June 1993	Signed 10 December 1998 in Beijing	Signed in Moscow 3 rd September 1994	Signed in 1994, in Beijing

On certain aspects, the agreements above are very liberal. Entry permits are negotiated on a yearly basis between concerned parties on both side of the borders, Ministry of Transport of Inner Mongolia A.R., Heilongjiang and Jilin Provinces and the Russian Federation Ministry of Transport. There are no mentions of numbers and quotas. Russia does not specify designated routes but China does. Vehicles are supposed to comply with technical standards (weight, axle load, dimensions) of the host country but agreement allow for special permissions. As it is common in most road agreements, dangerous goods are prohibited but again special permissions could be issued. Reciprocity is guaranteed for driving licenses as well as for vehicle registration and vehicle inspection documents. Temporary entries of passenger and freight vehicles are exempted of transport charges.

There is a conventional list of required documents for entries like: valid driving license, third party insurance, valid registration and vehicle inspection, consignment note for freight vehicle, passenger list for buses with of course in addition the entry permits. Permits for buses are valid for one year. But, it could be seen as a severe limitation, permits for freight carriers is only valid for one round trip. The agreements do not touch upon immigration questions and no special provisions are given for drivers in terms of easy visa issuance (on arrival) or even no visa regimes, as well as automatic multiple entries visas if required. Agreements do not prevent freight carriers to get return shipments but cabotage is strictly forbidden.

As mentioned, agreements do not cover Customs issues, but a complementary document, "Agreement on Cooperation and Mutual Assistance on Customs Matters" does. This document was signed between PRC and the Russian Federation in Moscow on September 1994. That document instructs contracting parties to coordinate BCP hours of openings, simplification, harmonization, mutual recognition and reduction in the number of Customs documents and reciprocal acceptance of container seals.

1.2.3 Bilateral Agreements between Mongolia with China and the Russian Federation

Two road agreements Mongolia – China and Mongolia – Russian Federation were respectively signed in Beijing in June 1991 and in Moscow in February 1996. The agreements like above deal exclusively with road transportation across borders and do not touch upon Customs issues. The Agreement between Mongolia and the Russian Federation however explicitly deal transit questions. In the case of Mongolia – China, there is a special agreement dealing with question of transit. That agreement is entitled “*Agreement on Mongolia’s Access to the Sea and Traffic in Transit across China’s Territory between the Government of the People’s Republic of China and the Government of the People’s Republic of Mongolia*” and was signed in Ulaanbaatar in August 1991. There is another agreement which should be mentioned; it is entitled “*Agreement on Border Checkpoints and the Simplified Procedures for crossing the Russia Mongolia Border*”. That agreement deals with special crossing privileges for populations living along the border between Mongolia and Russia.

A tripartite transit agreement involving the Russian Federation, Mongolia and China has been prepared. The draft was developed under the sponsorship of UNCTAD in February 2005. The draft has been discussed among possible contracting partners but no final agreement has yet been reached. Content of the draft is discussed in another section.

A simple analysis of the content of the agreements was carried out and given below. Required conditions for vehicles crossing the border were presented through a series of headings dealing with requirements for the driver, vehicle standards, list of documents required and reciprocity, allowable cargo... But, by far the most important question concerns the conditions for the “free movements of vehicles” across the border and the permits required for the transport for simple interstate movements or transit.

Table 8 Agreements of Mongolia with China and Russia

	Road Transport Agreement China-Mongolia 1991	Border Crossing Agreement between Russia and Mongolia	Agreement on Mongolia’s Access to the Sea and Traffic in Transit across China’s Territory	Agreement between Russia & Mongolia on International road transport
<u>Purpose of the document</u>	Road transport conditions for passenger and freight	Conditions for border crossing under simplified procedures for border populations	Regulate and facilitate transit conditions and access to sea for Mongolia	Regulate and facilitate interstate and transit conditions for passengers and freight
<u>Visa</u> free for crews and proper driving license	Valid home driving license or international driving license (art.10); no visa provisions	Simplified Form applied to populations living in adjacent administrative units; passports or ID needed to entry; single entry valid for maximum of 90 days (art.10) valid reasons for certificate listed in art.11; drivers need driving license	Not Applicable as transit goods transported by transit country vehicles with transshipment (article 4)	Valid home driving licence or international driving license (art.8); compulsory civil liability insurance (art. 18); no special provision for visa issuance
For vehicles, <u>reciprocal recognition</u> of other country documentations	Only vehicles recognized as international carriers allowed (art.8); vehicle insurance & 3 rd party insurance	Drivers need vehicle road worthiness certificate and insurance which are recognized	Not Applicable	Vehicles recognized by Home Country as competent to carry international transportation; implicit reciprocal recognition of

	needed (art. 13)			documents (art. 12 & 13)
Allow <u>free</u> movement of goods, passengers and carriers	Regular passenger (or eventually freight) movements with routes, schedules agreed through negotiations (art. 2); irregular movements (freight) could be authorized through issued permits valid only for 1 round trip and agreed on a one year basis(art. 3); exemption of tolls and road taxes and import tariffs(art. 12 & 16); allow setting up of cargo representative (art. 22)	Under agreed conditions free movements of persons and vehicles with certificate on single entry allowed within adjacent administrative district.	Agreement guarantees right to transit of goods from landlocked country (article 2); volume of transit to be agreed with competent department accounting for capacity of transport (road, sea) and storage at port; transit goods by sea should be in preference transported by transit country or land locked country merchant fleet (article 4); sending country (landlocked) bears transport, storage and shipping costs in transit country (article 6); Unless otherwise specified transit port is Tianjin New Port (article 2)	Carrier may carry traffic to the Host Country as well as transit to third country with permits issued by the Competent Authority of the Home Country (art. 10). Some carriages do not require permits (art. 7) No special provisions on number of permits but Contracting Parties negotiate number on a year basis (art.9). Exemptions for charges on vehicles and road maintenance (art. 16) as well as customs duties for transit (art. 21). In Russia all routes allowed (Protocol 6).
Harmonize <u>vehicle</u> <u>standard</u> requirements	If dimensions and standards of foreign vehicle are different from home, permission required (art. 7)		Not applicable	Compliance to Host Country vehicle standards required but permission could be obtained from Host Country (art. 8)
Define allowed and banned types of <u>cargo</u>	No cabotage and no return shipment unless special permission (art.5 & 9); usual list of goods not requiring permits (art. 6).		Narcotics, biological products and arms are banned for transit; transit of dangerous and perishable goods handled according to International Agreement (article 5) and may require special permissions	Special permission for dangerous cargo required (art.8); no cabotage (art. 10.1) but return shipments allowed.
Harmonize <u>procedures</u> at BCP (common units, currency, hours of opening, ICT services)	Not covered			Not covered
Harmonize <u>Customs</u> procedures and systems	No specific mention except to say that it follows bilateral agreement conditions (art. 14)		Transit goods should go to bonded warehouses in transit port and should be exempted from Customs and other departments inspection and exempted from	Regulated by existing Customs agreements of Contracting parties (art. 19 and 20)

			Customs duties and other charges (article 7)	
Facilitating Business				Transport operators may open business in Host Country (art.15)
Overall Conditions	Document signed in Beijing in 20th June 1991	Signed 10th of August 1994 in Ulaanbaatar	Signed in Ulaanbaatar, 26th August 1991 by China, ROK and Mongolia	Signed 7th February 1996 in Moscow

A quick analysis of the two road agreements reveals that the Mongolia – Russia Agreement is more liberal than the Mongolia – China Agreement. Both agreements require the recognized international carriers to have a valid permit issued by the Competent Home Country Authority to enter the Host Country territory. These permits are negotiated between the two countries on a yearly basis. There are no mentions of quotas or number of permits issued per year. The Mongolia – China permit is valid for one return trip only, for designated routes only and with the strict restriction of no “cabotage” and no return shipments unless special permission is obtained. The Mongolia – Russia permit is valid for interstate and transit, does not put restrictions on designated routes and allow return shipments but no cabotage.

Both agreements require drivers to have valid driving license and carriers to have third party insurance. There is an implicit recognition of the travelling documents among contracting countries. Vehicles are required to comply with technical standards of the Host country but if not under special circumstances, permissions could be obtained. There is a common list of goods which do not need permits for entry (ambulances, funeral, material for temporary fairs...) but moving dangerous goods is usually prohibited unless special permission is given.

Both agreements are silent on Customs and immigration issues and there is no special visa provision for drivers of the international carriers. However interesting is the provision in the Mongolia – Russia Agreement for transport operators/senders to open business facility in Host Country.

The Mongolia – China 1991 Road Transport Agreement does not cover transit conditions. This is done through the 1991 “Agreement on Mongolia's Access to Sea and Traffic in Transit across China's Territory”. The agreement provides the right for Mongolian goods to transit through China for exports/imports with total volume compatible with existing transport and port capacity. Transit goods should be stored in bonded facilities and used Tianjin Port in China. Some goods are banned (narcotics, biological products, weapons) and dangerous and perishable goods require special permissions. Transit goods should normally be exempted of Customs inspections, duties and other charges. Mongolian transit goods need to be transported on Chinese territory by Chinese carriers.

The table above also refers to a 1994 “Border Crossing Agreement between Russia and Mongolia”. This agreement stipulates the special transport privileges given to local populations living in adjacent provinces across the border. With proper ID or passport, driving license and vehicle registration, drivers and passengers would be allowed to enter Host Country without visa for a period not exceeding 90 days under a “simplified form of entry”. Persons benefiting from that privilege must first obtain a certificate from the Home competent authority. Certificates are delivered under a list of valid reasons listed in the article 11 (family reasons, medical visits, training...).

2 REVIEW OF OTHER TRANSPORT AND TRANSIT AGREEMENTS

2.1 TIR

The Customs Convention on the International Transport of Goods under Cover of TIR Carnets (TIR Convention), of 1975, sets up the procedure that permits the international carriage of goods by road vehicles or containers from one Customs office of departure to a Customs office of arrival, through as many countries as necessary, without the intermediate physical check of the goods carried and without the deposit of a financial guarantee at each border. The procedure includes the use of secure vehicles or containers that have to be approved by authorities according to the standards prescribed in the Convention in order to be used for TIR operations. It also includes an international guarantee chain to cover duties and taxes at risk throughout the journey and whereby in each Party a duly authorized association provides a guarantee towards national competent authorities. In addition, the goods are accompanied by an international Customs document, the TIR Carnet, which certifies the contents of the cargo as checked at the Customs office of departure and which is also a guarantee document. The Customs authorities at intermediate borders recognize the inspections performed at the Customs office of departure, trust the information contained in the TIR Carnet, and do not undertake physical checks except in justified cases. The procedure also foresees controlled access to the TIR System and the exclusion from the system of operators that misuse it for illegal purposes. An electronic control system for TIR Carnets (SafeTIR) was developed by the private sector to strengthen the security of the TIR. It uses an international computer network and dedicated software, supporting efforts of the players involved in the TIR system, including Customs, to ensure better risk management. (Contracting Parties on 1 May 2011: 68 States and the European Community, including 15 ESCAP regional member countries). [ESCAP p.67].

Two examples of successful customs transit regimes currently in use are the UN's TIR system, which is managed by the International road transport Union (IRU) and the EU's common and community transit system. Salient features of the two systems are discussed below. Although, the TIR system and EU's transit regime have a common objective and both provide tangible benefits to traders, there are substantial differences in the way the systems operate. This is significant for the GMS, not least because GMS-CTS is based on the TIR, whereas the transit proposals of ASEAN (which includes five of the six GMS member countries) are derived from the EU's common and community transit system. GMS and ASEAN custom transit systems are discussed in greater detail later in the chapter.

2.1.1 The TIR Transit System

The TIR is governed by a UN Convention and administered by the Geneva- based IRU. It has been in operation since the early 1960s. There are no administrative simplifications. Computerized support is limited. Each movement follows the same procedure regardless of its size, its owner, or its transporter. The five basic principles are as follows:

2.1.2 The TIR carnet.

The TIR carnet document constitutes the administrative backbone of the TIR system. It provides proof of the existence of an international guarantee for goods transported under the TIR and is also the customs transit declaration. Carnets are printed by the IRU and delivered (around 3 million of them) to the national road transport associations each year for issue to their members. The IRU provides computer software to manage the process of the issue of TIR carnet to operators and its return after use. A number of security features are incorporated in the printed document to limit the opportunity for forgery and fraud. In addition to the carnet, at the start of any movement, the customs administration will require export documentation using its national customs declaration form or computerized format.

A TIR carnet sold and issued by an IRU-approved road transport association to a transport operator remains valid until the formal ending of the TIR operation takes place at the customs office of destination. It is presented to customs at the point of departure and arrival and at outward and inward border crossings. At each of these points, both inward and outward, a sheet of the carnet (called a “volet”) is extracted by the customs and returned to the preceding TIR control customs office. Essentially therefore, the TIR system is a series of national journeys covered by the same carnet and the same guarantee.

When the transit movement ends, customs, in most cases, informs the IRU by electronic message. The carnet document is returned to the issuing association by the user and then returned to the IRU. The transport associations and customs administrations have access to the IRU's database systems through which they can monitor the acquittal of any carnet issued. Recently, it has become a requirement of the EU that all TIR carnets covering goods on their inward leg within the EU must be entered into the NCTS. The use of TIR carnets is not permitted for journeys wholly within the EU customs territory.

2.1.3 Approval of road vehicles and containers

The UN Convention sets out standards of construction and approval procedures for the load compartments of vehicles and containers. Goods may only be carried under the cover of a TIR carnet if the load compartment of the road vehicle or the container is approved accordingly and is covered by a valid certificate issued by the national inspection authorities (customs or the ministry of transport).

2.1.4 International guarantee system

A road transport association, representing the interests of the transport sector in a particular country and authorized by the customs administration of that country, “guarantees” payment of any duties and taxes that may become due in the event of any irregularity occurring in the course of a TIR transit operation within that country. The national transport association guarantees the payment of duties and taxes for both national and foreign carriers. An elaborate system of legal agreements and approval processes is in place between the IRU and the national road transport associations (usually one per country), and these associations and the customs authorities. Together, the national guaranteeing associations constitute a guarantee chain linking all TIR countries. The chain is administered and backed by the IRU in Geneva. The IRU and its associations are in turn supported by an international insurance system. The monetary limit to the guarantee is set at \$50,000 (or its equivalent) for each TIR carnet, no matter what the potential customs debt is on a given consignment. The person legally responsible for the payment of charges in the event of loss is the carnet holder, usually the transporter. In practice, in the event of a loss, customs invariably demands payment in the first instance from the association and the IRU.

2.1.5 International recognition of customs control measures

TIR movements are each inspected and physically sealed by the customs office at the point of departure. Goods carried under the TIR procedure in customs-sealed load compartments will not, as a general rule, be examined at customs offices in transit. This does not, however, exclude the right of customs officials to carry out checks in cases where they suspect irregularities, but such checks should be exceptions rather than the rule.

2.1.6 Controlled access to the TIR system

In addition to the approval of road vehicles used, each user of the TIR system is first approved by the national transport association and then authorized by national customs. Authorization is withheld if there is reason to believe that the user company will be unable to fulfil its responsibilities. Access is normally open only to transport operators only who are members of the national transport association. Subcontracting of the transport operation is discouraged and can only be undertaken subject to special rules and to prior approval of the TIR issuing association. although the deeds and declarations of engagement, which are the contractual documents for use of the TIR scheme, have been designed with “flexibility” to ensure that carnets can be assigned to wider groupings, this assignment is at the discretion of individual transport associations and, in

practice, varies widely, potentially creating difficulties for freight forwarders and other traders with their own transport who wish to use TIR carnets. [Grimble & Linington ADB 2013 p.83-86]

2.2 THE EU AND THE NEW COMPUTERIZED TRANSIT SYSTEM

As the EU's customs union and the single market developed, the EU's customs services were obliged to change fundamentally their approach to customs transit. Customs transit movements within the countries of the EU and the European Free trade association (EFTA, comprising the EU, Switzerland, Iceland, and Norway) are now carried out under the EU's common and community transit system, which was developed and implemented in the late 1980s.

The NCTS is a comprehensive management tool developed and implemented in 2003 from the common and community transit which replaced paper documents on all movements across some 27 countries. In addition, it is linked to member states' national customs systems to secure subsequent import or export requirements. The EU's NCTS was designed to increase the efficiency of transit procedures at the border, improve the prevention and detection of fraud, and provide greater security for the customs duties and taxes at risk. As a result of the introduction of the NCTS in the EU, there has been a reduction in cases of fraud to practically zero and much lower costs for the legitimate trading community (Decision numbers 1/99, 10 2/99, 11 1/200012 of the European Commission–EFTA Joint Committee amending the Convention of 20 May 1987 on a common transit procedure). The provision and management of guarantees and guarantors has become much easier. This computerized system is underpinned by modern risk management schemes that aim to maximize benefits for compliant traders.

Under the NCTS, traders provide either an individual guarantee per consignment (rare nowadays) or (more usually) a global guarantee to cover a number of movements. In either case, the guarantee is furnished in the country of departure and is valid through up to the point of destination. The level of the guarantee covers the risk in relation to the goods in transit, their value, and the duties and charges potentially due. The person who makes the customs declaration (called the principal and is usually either the owner of the goods or a freight forwarder/customs agent) together with the provider of any guarantee that may be required is responsible for the customs debt. The guarantor (usually banks or insurance companies) is called upon only in the event that the principal defaults.

No separate approvals, documents, controls, and guarantees are required for the truck or container. Vehicles from all member states can move freely throughout the other countries. No contracts are required between customs and the users of the system, except where traders are authorized to use simplified procedures.

The main technical features of EU's NCTS are:

- Transit declaration modelled precisely on the EU's single administrative document and, for transit movement, a single-page accompanying document from the point of departure to the point of destination, specifically in the same format, together with a bar code holding information on the consignment that can be read en route;
- Electronic customs transit declaration processing, using a direct interface for the trade from point of departure to point of destination;
- Advance arrival information passed electronically from customs at departure to customs at destination and the border posts en route;
- Online control of termination (acquittal) available from the office of destination, enabling the security to be cancelled or reused very quickly;
- Simplified procedures offered to authorized traders with proven financial status and transit management experience, including no consistent need for presentation of the goods to customs at either departure or arrival, no customs sealing of the transport, and reduced or waived guarantee requirements; and
- Online control of the guarantee level.

The start of each movement of goods under NCTS is notified to customs electronically by the trader; it is possible for traders to go directly in person to the customs office but this is unusual. The information is then transferred to the customs office of destination through the computer network served by an administrative hub in the EU Commission in Brussels. The office of destination then notifies the office of departure electronically that all is well (or otherwise) at the end of the transit procedure. Offices of transit en route are able to intervene in the system for any movement on which problems occur. As with TIR, physical controls are dispensed at the transit borders. Customs seals will be affixed only in specific circumstances such as high-value or sensitive goods. The NCTS is a prime example of a working public–private partnership with real benefits for both sides. The system currently handles some 20 million transactions a year. [Grimble & Linington ADB 2013 p.86-88]

2.3 THE ASEAN CUSTOMS TRANSIT SYSTEM

The CTS in the GMS cannot be discussed in isolation from provisions proposed under ACTS because five of the six GMS member countries (except the PRC) are also members of the ASEAN. The ASEAN has its own set of provisions for trade transit. With the ASEAN leaders adopting the ASEAN economic blueprint toward the establishment of the ASEAN Economic Community (AEC) by 2015, there is an impetus in ASEAN to implement a trade transit regime. For the AEC to function properly, goods and transport must move freely within the region with as little administrative hindrance as possible. Above all, this requires effective and coordinated (joined-up) customs systems working from the same base with common rules that are applied consistently.

The ASEAN customs transit system proposals are laid out in the AFAFGT. AFAFGT aims to simplify and harmonize transport, trade, and customs regulations and to establish an effective, efficient, integrated, and harmonized transit transport system in the 10 ASEAN member states⁵. The objectives of the GMS CBTA and AFAFGT mirror each other. The AFAFGT consists of nine separate protocols⁶, seven of which relate to transport harmonization. Two protocols relate to customs harmonization requirements—protocol 2 and protocol 7. Protocol 2 covers agreements on the use of specific border posts and transport corridors. Protocol 2 requires agreement simply via an exchange of letters and at the time of writing of this chapter it was expected to be completed soon.

Protocol 7 covers the legal, procedural, and documentary requirements. Protocol 7 forms the basis for the implementation of the ACTS and is the equivalent of annex 6 of the GMS CBTA (the GMS-CTS). The ASEAN countries have revised protocol 7 in its entirety and have produced an extensive technical appendix that sets out the regulatory requirements and procedures. The revision of protocol 7 and the writing of the technical appendix were done with reference to the EU's NCTS. At the same time, the principles and the detailed proposals for the ACTS take into account the practical situation in the ASEAN region. At the outset, member states took into account the standards for the customs transit system as prescribed in the Kyoto Convention and its annex e, and decided on the following five key components:

- The ACTS should be fully computerized with electronic messages used for (i) communications between traders and customs for the lodgement of transit declarations and the discharge of completed transit movements; and (ii) the exchange of transit movement data between customs authorities. This is essential for risk management purposes so that each customs office involved in a transit movement knows automatically in real time which

⁵ In 2005, the ASEAN economic ministers agreed to establish an ASEAN single window (ASW), which is intended to form the environment where national single windows (NSWs) of member countries can operate, i.e., where trade and transport data are transferred and managed as required. It constitutes a regional facility to enable seamless, standardized, and harmonized routing and communication of trade and customs-related information and data from and to NSWs for customs clearance and release. In other words, the ASW protocol forms the base agreement in the ASEAN countries for the movement of data relating to imports, exports, and transit.

⁶ The nine protocols are: 1. Designation of Transit Transport Routes and Facilities; 2. Designation of Frontier Posts; 3. Types and Quantity of Road Vehicles; 4. Technical Requirements of Vehicles; 5. ASEAN Scheme of Compulsory Motor Vehicle Third-Party Liability Insurance; 6. Railways Border and Interchange Stations; 7. Customs Transit System; 8. Sanitary and Phytosanitary Measures; 9. Dangerous Goods.

movements have started, those that are en route, when they can be expected, when they have arrived and whether they have been correctly discharged.

- It should be a system that is open to all “suitable” traders irrespective of their type of business, with approvals for the use of ACTS being given following an assessment by the competent authorities according to mutually agreed criteria.
- A risk-profiling scheme should be used to allow reliable traders “simplifications” or exemptions from a range of standard requirements. The exact package available is included as part of the ACTS technical documentation.
- The system should use one guarantee valid in all countries to cover the goods throughout the entire journey. This would be provided by approved guarantors from the financial sector with the amount of guarantee geared to the amount of duties and taxes and risks.
- It should be based on the use of a single regional customs document for transit (a subset of the ASEAN customs declaration document).

In terms of the implementation strategy, the ASEAN Directors-General of Customs has approved the implementation of the ACTS starting with a pilot project across the North–South Economic Corridor (Malaysia, Thailand, and Singapore). This reflects the practical situation since these three countries are in a position to test and implement the ACTS technically right away, in addition to being the largest trading countries within the ASEAN. When the pilot is proven, the ACTS will be rolled out in a phase 2 across the EWEC from Thailand to Viet Nam through the Lao PDR. This will provide more time for the latter two countries to install their respective ICT infrastructure and complete their customs ICT systems⁷. [Grimble & Linington ADB 2013 p.92-94]

⁷ It should, however, be noted that the introduction of a computerized CTS in the Lao PDR and Viet Nam would be perfectly feasible now, given the current state of knowledge available in the field of transit ICT systems. In other words, there is no absolute need to await the full implementation of ASYCUDA in the Lao PDR or the new system in Viet Nam before launching an ICT project for the CTS. Logic decrees that the PRC be added to the network at the same time, just as Switzerland, Norway, and Iceland were added into the EU’s common and community transit system.

3 DUE DILIGENCE OF ROAD AND RAIL BCP SITUATION IN GTR

3.1 BACKGROUND

The GTI Transport Study has highlighted the fact that though, despite the fact that one of the main objectives of the Greater Tumen Initiative was to develop smooth transit traffic in the region, little was in fact occurring. The absence of transit agreement was then blamed and is at the origin of the present study. It is therefore in order to illustrate the traffic situation along the GTR corridors. The evidences presented below are drawn from the GTI Transport Study and the material collected by the National Consultants.

The traffic situation at land border crossing points (BCPs) along the corridors is reviewed below. Corridors start or end up at gateway ports like Busan, Dalian, Vladivostok and Zarubino. The issues for land BCPs and sea ports are however quite different. While land interstate traffic and transit may suffer from restrictive freedom under signed agreements in the GTR, this is usually not the case for sea movements. Maritime agreements signed among GTR participating countries give full shipping rights and port access freedom to their respective fleets. Bottlenecks and problems that may exist at some gateway ports come from different causes. It could be due to congestion because of lack of capacity, low productivity or inefficient Customs processes but problems and bottlenecks have generally little to do with missing or inconsistent maritime agreements between participating countries.

Along the corridors, the list of BCPs is below:

- Tumen Corridor, Corridor 1: Nomrog (Mongolia)/Arxan (Inner Mongolia, PRC); Hunchun (Jilin, PRC)/Kraskino (Primorsky Territory, Russia);
- Suifenhe Corridor, Corridor 2: Zabaykalsk (Zabaykalsky Territory, Russia)/Manzhouli (Inner Mongolia, PRC); Suifenhe (Heilongjiang, PRC)/Progranichny (Primorsky Territory, Russia);
- Dalian Corridor, Corridor 4: Heihe (Heilongjiang, PRC)/Blagoveshchensk (Amursky Oblast, Russia);
- Mongolia – Tianjin Corridor 8: This corridor is not strictly speaking a GTR corridor but is considered as a complement to the GTR corridors running from Kyakhta (Republic of Buryatia, Russia)/Altanbulag (Mongolia), Zamyn Uud (Mongolia)/Erenhot (Inner Mongolia, PRC), Tianjin (Tianjin, PRC).

Discussing land traffic and transit in GTR imply looking at trade and traffic between Mongolia, North East China and Far Eastern Russia in general, but more particularly it means reviewing traffic conditions at the BCPs mentioned above. Such information is summarized in the table below quoted from the GTI Transport Study.

Table 9 GTR BCP Traffic Forecast

GTR Freight flows at BCPs and Ports (in thousand tonnes)						
BCP/Port	2010			2020		
	Road/port	Rail	Total	Road/port	Rail	Total
Tumen Corridor						
Nomrog/Arxan (a)	0	0	0	10	15,200	15,210
Kraskino/Gvodezvo/Hunchun(b)	93	0	93	360	2,415	2,775
Quanhe(Hunchun)/DPRK (c)	200	0	200	360		360
Subtotal	293	0	293	730	17,615	18,345
Zarubino Port (d)	337		337	3,165		3,165

Suifenh e Corridor						
Zabaykalsk/Manzhouli (e)	403	21,358	21,761	710	30,740	31,450
Pogranichny/Suifenh e (f)	514	6,956	7,470	732	8,780	9,512
Subtotal	917	28,314	29,231	1,442	39,520	40,962
Siberian Land Bridge Corridor						
Solovievsk/Ereentsav (g)	1	37	38	4	565	569
Dalian Corridor						
Blagoveshchensk/Heihe (h)	178		178	419		419
Korea Peninsula East Corridor						
Khasan/Tumangang (i)		131	131		5,400	5,400
Grand Total	1,726	28,482	30,208	5,760	63,100	68,860
Grand Total Land Corridors	1,389	28,482	29,871	2,595	63,100	65,695
Note: numbers for Zarubino traffic are under "road"; ICRR: Individual country report Russia ICRC: Individual country report China (a) 15.2 MT of coal from Mongolia (10.6 China, 2.3 ROK, 2.3 Japan); (b) 2010: ICRR; 2020: 10% of 300,000 TEUs by road, rest by rail; 50% non containerized on corridor with 30% by road, 70% by rail; (c) 2010: ICRR; 2020, 6% growth (d) 2010: ICRR; 2020: Export, Import 10% growth, transit in & out 100,000 TEU equal share (e) 2010: ICRR for road & rail; 2020: ICRR optimistic (f) 2010: ICRR; 2020: road 6% growth, rail export optimistic, import conservative ICRR (g) 2010: ICRR; 2020: Export ICRR optimistic; import conservative + 0.5 MT of Mongolian coal; (h) 2010: ICRR; 2020: ICRR optimistic; (i) 2010: ICRR; 2020: ICRR optimistic;						

3.2 PREVAILING SITUATION AT MAIN BORDER CROSSING POINTS

3.2.1 Zamyn Uud – Erenhot BCP⁸

The Erenhot - Zamyn-Uud border crossing is located around 380 kilometres from the capital city of Inner Mongolia Autonomous Region, China, Hohhot, and around 670 kilometres from Ulaanbaatar, Mongolia. Around 70 per cent of Mongolian imports and nearly all exports, except coal exported from Gobi area, go through Zamyn Uud. The importance of the BCP also depends of the high volume of transit, Mongolia through China and transit between China and the Russian Federation. The rail capacity of Zamyn Uud is 12 million tonnes. Current traffic volumes⁹ are: Mongolia – China 6.5 MT, China – Mongolia 1.4 MT, China – Russia 1.7 MT and Russia – China 0.3 MT. The border is crossed by around 8,000 passengers each day and annually by around 600,000 vehicles of which 400 trucks per day. As a landlocked country Mongolia is dependent on its neighbouring countries, China and the Russian Federation, for most products and transit, including daily consumer goods. The main exports of Mongolia are copper, coal and animal products.

China and Mongolia have a road transport agreement dating from 1992 which specifies routes on which international road transport is allowed. The route relevant to the border crossing in question allows movement of vehicles between Erenhot and Zamyn Uud with permits. Around 150,000 transport permits are exchanged every year for the purpose of passenger and freight. Local populations can obtain an annual border pass which allows visa-free access to the neighbouring town until the end of the day. Without the border pass, Chinese citizens are subject to visa requirements when entering Mongolia. Mongolian passport holders can enter China visa-free.

Transshipment and transloading are required at the border because the current road transport agreement restricts movement outside of border towns and because there is a break of gauge in railway operations. Transloading operations are truck-rail (to Mongolia), rail-truck (to China) or rail-rail. A greater proportion of goods coming from China to Mongolia or in transit are containerized but some transloading is still being carried manually.

⁸ Most of the info for Zamyn Uud/Erenhot BCP comes from “Efficient Cross Border Transport Model” UNESCAP 2012.

⁹ Numbers are quoted from report of E-Translogistics, 2013.

Terms of bilateral agreement prohibit crossing the border by foot. To cater for road passengers, there is a regular bus services between the Erenhot bus station and Zamyn Uud railways station operated by both private and public entities. Erenhot bus station is connected to destinations around China but there are no long distance busses from Zamyn Uud and passengers need to travel by train. There are two international trains per week to each direction, running between Beijing and Ulaanbaatar, and one per week between Beijing and Moscow.

The border area is currently very congested, especially on the Mongolian side though new facilities have been planned. There is a logistic centre on the Chinese side and one under construction on the Mongolian side.

Time for Customs clearance is reported to be very long and for instance Mongolian freight drivers have mentioned that it could in between 135 to even 195 hours for a full turn around loading/unloading across border. Train passengers have said to wait about 8 hours, 4 hours for gauge change and another for 4 hours for Customs and documentation clearing.

3.2.2 Hunchun – Kraskino BCP

Hunchun BCP is located in southeast of Jilin Province, the Tumen River downstream areas. It is the only road port in Jilin Province that is open to Russia.

Volume of freight transported through Hunchun rose from the 21,000 tons in 1999 to 90,000 tons in 2005. After that, the growth stopped. The number of passengers that passed the port rose to 146,000 in 2000, and then to 216,000 in 2001. The 2001 performance has never been surpassed ever since. Latest figures show that from January to September of 2012, import and export volume of Hunchun reach 63,370 tons, entry- exit passenger volume reach 247,753, at a year-on-year growth of 13.5%.

Hunchun has both road and railway crossings. The road crossing has an annual cargo capacity of 600,000 tons and an annual passenger capacity of 600,000 people, with a total area of 48 thousand square meters and a construction area of 4,894 square meters. Hunchun railway crossing occupies 1,220 m² with possible expansion to 21,500 m². The railway crossing has an annual transshipment and inspection capacity of 800,000 tons and 500,000 people for cargo and passenger in the initial stage with possible and expected capacity expansion in the future.

Kraskino and Hunchun road crossing points are open for international freight and passenger road transport. Total traffic is currently approximately 80 to 90,000 tonnes and 250,000 passengers. This volume of traffic is far below the installed capacity at Hunchun. The facility in Kraskino is inadequate and could hardly cope with greater traffic. A new facility is underway and should offer a capacity of 250 vehicles per day.

In the table above, it is forecasted that road traffic could reach 360,000 tonnes in 2020 and rail traffic 2.4 million tonnes. This forecast assumes that Zarubino Port has been significantly expanded and well connected to ROK and Japan ports and that the Hunchun-Makhalino rail line is in full operation and capable to transport containers from/to North East China. The forecast also assumes that Customs procedures have been greatly been facilitated.

Currently Customs procedures at Hunchun/Kraskino are felt as difficult, causing delays and frustration. For instance it is reported that seals on containers coming from China are not recognized by Russian Customs and they insist to put new seals¹⁰. Also passengers on the Russian side have been subjected to long delay at crossing in substandard conditions.

3.2.3 Zabaykalsk – Manzhouli BCP

Zabaykalsk¹¹ road BCP (Zabaykalsky District, Zabaykalsky Territory, Russia) and neighbouring Manzhouli border crossing point (Manzhouli, Inner Mongolia Autonomous Region, China) are open for international freight and passenger road transport. Its design throughput capacity: freight vehicles – 625 vehicles/day (about 220,000 per year); buses – 210/day (about 73,000 per year); cars – 425/day (about 140,000 per year); passengers – 3,000 persons/day (about 1 million per year). Its actual throughput traffic is well below capacity being: freight vehicles – 115 per day (39,200 per year); buses – 100/day (31,300 per year); cars – 400/day (137,700 per year); people – 3,185 persons/day (about 1.4 million per

¹⁰ As reported by China National Report of the GTI Transport Study

¹¹ Russian National Report, FEMRI p.75

year). Vehicles are registered crossing the border, but it is not clear how far they are allowed to drive in the host country.

Manzhouli¹² is an important transportation hub of the Eurasian Continental Bridge. It is China's largest railway and road BCP, accounting for over 60% of Sino-Russian trade. Imported goods in Manzhouli are: crude oil, refined oil, timber, pulp, primary plastics, steel scrap and steel, etc. The major exported goods are textiles, steel, automobiles, mechanical equipment, mechanical and electrical products, fruits and vegetables etc. Total throughput for 2011 at Zabaykalsk/Manzhouli is 26.60 million tons, up by 1.8% from a year ago. This important BCP is essentially a railway border crossing since 97% of the freight traffic is by rail. Among the freight volume, railway traffic from Russia contributed 16.104 million tons with 2.11 million tons from China. Rail transit traffic with a growth rate of 62.5% was 7.725 million tons. The import and export freight volume of road ports traffic was 658,000 tons, up by 7.6%. The total number of passengers entering and exiting the port was 1.406 million, the figure remaining constant over the years.

The Zabaykalsk station¹³ is located 2 km from the Russian-Chinese border. In 2008 JSC Transcontainer finished the major reconstruction of the terminal in Zabaykalsk, modifying it into a modern container logistics complex. The new terminal is equipped with a covered hangar, a container storage area suited for 230 40-foot containers and a special area for temporary storing of customs bound cargoes, equipped with the latest X-ray equipment. It should be noted that BCP receives transit block container trains from Germany destined to Shenyang in China and consisting of BMW parts.

According to customs data, total value of trade at the BCP reached USD 6.44 billion in 2011. The total value of trade from Russia was USD 5.06 billion while trade from China was USD 1.38 billion. The railway crossing in Manzhouli for instance has 24 railways in broad-gauge, 27 railways in standard-gauge and more than 90 lines for transloading. There has been some recent capacity expansion investments realized on both sides of the border. The annual transloading/transshipment capacity has reached over 20 million tons.

3.2.4 Suifenhe – Pogranichny

Suifenhe is located in Heilongjiang Province, with both road and rail crossings. The main items imported are timber, oil, fertilizer, concentrate, powder, pulp, scrap steel and rubber etc. The items exported are mainly clothing, footwear, household appliances, fruits and vegetables, grain, meat, lumber and building decoration materials etc. Traffic and trade has been on the rise at the BCPs, a total of 33 million tons crossing the border for a value of USD 8.4 billion from 2006 to 2009. During that period 1.4 million vehicles and 4.8 million passengers also crossed the border. In 2010, total trade was 7.2 million tons¹⁴. In 2011, the total value of trade was USD 2.335 billion accounting for 14 % of trade of Heilongjiang Province¹⁵. In Suifenhe, Heilongjiang Province wants to construct a bonded facility and a logistic centre.

Conditions on the Russian side, at Pogranichny road BCP are no more compatible with effective operations and are causing serious delays in cargo clearance with waiting time for trucks could reach 3 days. To eliminate these deficiencies, a new facility is under construction. The new installed capacity would be: 1,300 vehicles and 4,000 passengers per day: - 500 freight vehicles / day; - 200 buses / day; - 600 cars / day. As a reference, the existing capacity is only 130 freight vehicles with current bus and passenger traffic being above capacity (for buses 60/day compared to 44/day and 3200 passengers/day for 2,800/day).

Pogranichny rail BCP (Grodekovo station in Pogranichny District, Primorsky Territory) like Suifenhe is open for international freight and passenger railway transport. Design throughput for freight is well above capacity (32 trains compared to 10 for both directions or 13.5 million tons). On the Russian side, the 97 km rail line between Grodekovo/Pogranichny is single track and not electrified and this could be seen as a limitation if traffic would be increasing drastically.

¹² China National Report p.15, figures on throughput and traffic are from China Report for year 2011.

¹³ Retrack p.100

¹⁴ Figures of 7.2 million tons is from China Report; Russian Report is 7.4 million tons.

¹⁵ Of the total import and export value, export contributed USD 1.024 billion, decreasing by 6.5% and taking up 23.6% of the total in Heilongjiang Province; whereas import was USD 1.312 billion, decreasing by 1.8% and taking up 10.7%.

The railway in Suifenhe connects three important ports in the Primorsky Territory (Vostochny, Nakhodka, and Vladivostok). There are 2 marshalling yards, North and South (North exclusively for cargo). There are a total of 50 rail tracks with a good mix of standard and broad gauges. The railway yard in Suifenhe has an annual capacity of cargo transshipment of 10 million tons and passenger capacity of 1 million people.

3.2.5 Heihe – Blagoveshchensk

Blagoveshchensk (in Amur Oblast, Russia) and neighbouring Heihe border crossing point (Heilongjiang Province, China) are open for international freight and passenger road and river transport. There is no rail connection.

There is currently no bridge on the Amur River connecting Heihe and Blagoveshchensk. In summer, spring and autumn, vehicles cross on a pontoon or use ferries while in winter there is an ice bridge. The 650-meter-long pontoon-bridge consists of ten barges with a carrying capacity of 1,000 tons, five of which were built by Russia and China each. The pontoon-bridge is currently incapable of handling the whole cargo flow between Blagoveshchensk and Heihe because its barges are designed for one-way traffic. The pontoon bridge was open in March 2012. Speed is limited to 20 km/h with maximum carrying capacity up to 40 tons (up to 30 tons using the ice bridge). The main advantage of this bridge is that cargo transportation becomes possible in spring and autumn seasons when navigation is closed till ice road comes into existence. In 2010, there was 180,000 tons of freight crossing the border and 14,000 trucks and 33,000 cars. There is no doubt that a bridge on the Amur River would boost trade and traffic.

3.3 LIMITATIONS, CONSTRAINTS AND GAPS

Highlighting problems and constraints limiting trade and transit come from different sources, from evidence that have been collected at BCPs, from National Reports as part of the GTI Transport Study and from web searches.

3.3.1 Excessive delays caused by customs procedures and lack of harmonization in customs hours

There are reported evidence¹⁶ that clearing goods and passengers at Russian Customs in Kraskino and Pogranichny takes considerably more time than the equivalent on the Chinese side at Hunchun and Suifenhe. Despite the declared intentions by China and Russia, for customs procedures, the implementation of single window, single inspection and risk management has been slow and not uniform among the concerned BCPs. This is particularly true of for road BCPs.

The Zabaykalsk railway BCP under “Transcontainer” now receives electronically consignment and this has speed up significantly the border crossing process. Unfortunately the use of IT and electronic transmission of documents is still limited.

The road BCPs in Kraskino and Pogranichny are congested and inadequate for the introduction of modern customs inspection measures. New facilities are however under construction.

Russia and China operate on different time zones. Hours of opening of BCPs differ and are too short, for vehicles crossing the border. Railway BCPs are open round the clock, but road BCPs work on 8 hours, 6 days type of operation. Lack of staff is the reason claimed by Customs. As a consequence, sometimes 80 trucks cannot be cleared in one day at the Suifenhe/Pogranichny BCP.

3.3.2 Lack of assistance and delays in issuing visas for driver and conductor

Truck drivers, conductors and personnel involved in freight movements (agents, customs brokers and freight forwarders) need to cross the border frequently. However in the case of Russia and China, they do not get special assistance and are treated as ordinary visitors. Multiple entry visas are expensive, not easily available and may cause delays in transport operation. The best solution should be a visa free situation.

¹⁶ On Russia side manual inspection of all vehicles is still in use for incoming freight cars, the clearance time in Russia side takes about 8 times than that in Chinese side and the clearance time for the passengers in Russia side is generally about 5 times than that in Chinese side (China National Report).

3.3.3 High border crossing charges

China has reported that the total charge of crossing Russian borders for truck operators is significantly higher than the charges imposed on the Chinese side. The charge¹⁷ including mandatory escort, taxes and customs clearance fee is 5,260 Rubbles or \$ 150 per truck trip. Such charge makes the route along the corridor less attractive.

3.3.4 Difference in road vehicle size and loading standard

The specifications on maximum vehicle size and loading standard are different between China and Russia. The maximum truck size in Russia is 20 m while the limit for semi-trailer is 13 m and 16.5 for articulated truck in China. The difference in maximum vehicle size limits the versatility of domestic and international transport resulting in poor efficiency and leads to repeated weighing and checks causing inefficiency and higher transport costs.

3.3.5 Limited Number of Permitted International Routes

Bilateral transport agreements between China and Russia specify the permitted international routes for freight and passenger interstate traffic. Currently, there are only two routes which have been sanctioned: Harbin – Suifenhe – Vladivostok and Harbin – Dongning – Vladivostok. This limitation forces large volumes of transshipment activities at the borders. It again increases prevent quick door to door delivery services and contribute to the increase in transport costs.

3.3.6 Lack of standardization in vehicle insurance and compensation

Third party liability insurances are required for vehicles traveling in host country. Insurance coverage and compensation however differ and this cause problems when settling down agreed compensatory payments for traffic accidents.

3.3.7 Weaknesses in supporting infrastructures

Many passenger and vehicle facilities at the BCPs are still inadequate to cope with current and future traffic. This is particularly true when it comes to transshipment and transloading areas for traded goods. Access transport infrastructures to BCPs merit further attention. For instance Manzhouli, Heihe, Suifenhe and Hunchun are all connected through the rail network through single lines not electrified. After 10 years of discussions, there is not yet a bridge on the Amur River between Heihe and Blagoveshchensk.

3.3.8 Underdeveloped logistic industry

The logistic industry has made significant progress throughout the whole GTR but it is still not providing adequate support for example trade between China and Russia. Efficient logistic centres with warehouses and bonded facilities are still much lacking at BCPs like Suifenhe, Hunchun and Heihe. Most of the logistic companies operating along the corridors are small size and do not yet fully make use of available information technology. Most logistics supplier enterprises are small-sized and their management concept and level is relative low. From view of businesses in Tumen transport corridor, transport enterprises and logistics firms of related countries generally have a small size and insufficient financial strength, poor logistics management technology and capability, insufficient use of information technology, thus, they are incapable of business in a large scale.

3.3.9 Less Optimal Use of Advanced Transport Technologies

The necessary change of rail gauge between China and Russia causes severe time costs. Current technology used consists in changes of bogies or simply changes in wagons. Better technologies exist but are currently not yet accepted and implemented. But where improvements could make considerable impact is in the process of documents. Full use of Information Technologies and electronic transmission of documents would reduce border crossing time by a very large margin.

¹⁷ Charging items at the general port shall include: 2,300 Rubles/car escort fee by customs, 1,800 Rubles/car fees by municipal government, 700 Rubles/car service fees by port, 210 Rubles/car fees for document and translation fees by Automobile Transport Company (Ltd.) and 250 Rubles/car bill fees by customs. All these fees reach to an amount of 5,260 Rubles/car, about RMB 1,547.

4 INTERSTATE AND TRANSIT TRADE AND TRAFFIC PROSPECT

4.1 BACKGROUND

Trade and interstate transport between contracting partner countries of GTR are essentially governed by bilateral agreements plus common adoption of some international conventions and a few multilateral agreements.

There are clear and sometimes severe limitations to the existing bilateral agreements. This has been illustrated above and we will come back on that question later. But the limitation has not prevented trade in GTR. In 2010, 30 million tonnes was being traded among GTR countries. The trade of total Russian territories¹⁸, part of GTR or adjacent to Northeast China and Mongolia was estimated to be \$ 7.5 billion. Of that trade \$ 4.65 billion was estimated to be with Northeast China or 62 %. The trade with China come through the land BCPs of the GTR transport corridors. The rest of the trade of the “territories” goes to the rest of Asia, largely to ROK and Japan transiting through the sea ports of Primorsky Territory (Vladivostok-Nakhodka-Vostochny). In addition there would be significant Russian trade passing through the BCPs related to the Far Eastern Federal District, the Siberian Federal District and other western districts including Moscow.

It is always difficult to reconcile two countries trade figure; but, according to China, in 2011, total trade at the two busiest BCPs was \$ 8.7 billion (Manzhouli \$ 6.4 billion: 5.1 import and 1.4 export; Suifenhe \$ 2.3 billion: 1.3 import and 1.0 export). Chinese exports to Russia in value and volume have been on a positive trend. Chinese imports from Russia however, being primary resources (oil, coal and other minerals, steel and timber) have being on a fluctuating trend. In summary, total trade at the land BCPs in GTR on the three main corridors amount to approximately \$ 10 billion and 30 million tonnes.

At the present time on the total trade figure quoted, very little qualifies as transit trade. Estimating transit¹⁹ trade is a very elusive task and it is questionable whether under current circumstances, this type of trade is properly recorded by Customs. For instance, it is suspected that Russian Customs may classify as exports or imports goods which are effectively in transit. Discrepancy in numbers is illustrated in the table below.

Table 10 Traffic at Zabaykalsk/Manzhouli BCP (in million tonnes)

	ADB Feasibility Study (a) Manzhouli- Alatanemende	GTI Transport Study (b) China Report	GTI Transport Study (c) Russian Report
Total Rail Traffic	24.05	26.0	21.3
To China	19.1	16.15	20.2
To Russia	2.65	2.15	1.1
Transit traffic	2.3	7.7	0.0
Total Road Traffic		0.66	0.4
To China			0.04
To Russia			0.36
Grand Total	24.05	26.66	21.7

Note: (a) 2008 data quoted from ADB 2009 study; (b) data for 2011 but no major changes from 2010, China report uses “transfer” terminology and not transit; (c) 2010 data with zero transit;

¹⁸ Primorsky Territory, Amur Oblast and Zabaykalsky Territory.

¹⁹ Getting over the impact of financial crisis, the cargo transit volume in Manzhouli in has little increase in 2008, achieved 24.11 million ton, increased 0.4%, in which import 19.14 million ton, decreased 9.1%; export 2.65 million ton, increased 29.2%; transit 2.32 million ton, increased 45.6%. Total volume of import and export in Manzhouli reached 10.8 billion US dollars, increased 28.6%, in which, import 9.6 billion US dollars, increased 27.6%; export 1.2 billion dollars, increased 19.8%. Customs duty and levy reached 9.27 billion yuan, increased 17.1%. (ADB PH 203 Manzhouli-Alatanemele Highway Feasibility Study, Chapter 2-6, Present Situation Development 2009-2010).

In Manzhouli, in the recent years, they have received regular container block trains between Shenyang and Duisburg in Germany and carrying BMW auto parts. This does not account for large volume but is an indication that transit traffic exist at that BCP. Small volumes of transit traffic (probably containerized cargo) have also been noted at Hunchun/Kraskino and Suifenhe/Pogranichny.

One thing is clear, when considering traffic and trade at BCPs, is the dominance of the railway traffic. Of the total of 30 million tonnes in 2010, 95% has been moved by rail. Of the total trade 92% went to China and 8% to Russia. However for road movements, 80% of the traffic came from Chinese trucks exporting to Russia.

This trade and traffic pattern explains the fact that China has been more vocal than Russia to point out on the limitations of the present transport bilateral agreement. Limitations affect by large more road transportation than railway transportation. For railways, change of gauge imposes necessary (under present technology) bogie transfer or full transshipment with new locomotive tractions being used at the border. Then technical reasons limit freedom of railway movements but for trucks, limitations come from provisions of existing bilateral agreements.

In a spirit of further connectivity within GTR, this points to the introduction of further liberalization in the provisions of the present bilateral agreement. For transit traffic, before concluding on the legal support required, a few questions merit attention.

4.2 THE FUTURE OF TRANSIT TRAFFIC IN GTR

Getting a sense of the prospect of transit traffic in GTR is important to decide whether a comprehensive CBTA is required. It is suspected that existing transit traffic is not properly recorded at BCP between Northeast China and Russia and little transit traffic is currently accounted for. This consists of small volumes of containers at the Suifenhe/Pogranichny BCP, Hunchun/Kraskino BCP and Manzhouli/Zabaykalsk BCP with probably a high volume of empty containers. The transit volume recorded is no more than 0.1% most of it being container transit traffic by road at Kraskino. The situation is different when traffic at Primorsky Territory is considered. It is only in Vostochny Port, that there is a significant volume of transit containers from ROK and Japan which travels to Europe via the Trans-Siberian Railway (TSR). That volume was in 2011 close to 30,000 TEUs for approximately 150,000 tonnes.

Current transit traffic, even if numbers could be disputed is a very small portion of the trade traffic; but, perhaps surprising, the prospects for future transit traffic are also quite limited. This is due to geo-economic considerations as explained below.

Transit traffic issues matter only if it involves two or more GTR countries trading with one or more partner. Most of the transit traffic in Primorsky Territory therefore does not qualify. Hence, transit containers from Japan or ROK unloaded at Vostochny and transhipped on the TSR for European markets are purely a Russian matter and not a GTR issue.

Therefore GTR transit issues are centred on Northeast China. This does not mean that only land corridors are considered. The discussion on future transit traffic involves important sea routes in the East/Japan Sea. As far as Northeast China is concerned, there are three types of transit directions which merit attention.

4.2.1 The Mongolia – Northeast China – Rest of the World transit direction through Zamyn Uud

As described above, the Zamyn Uud/Erenhot has traditionally²⁰ been the main gateway for Mongolian trade with China and with the rest of the world. Besides petroleum and coal products, 90% of the total import, and 75% of the total export pass through Zamyn Uud. Direct trade between Mongolia and China dominates the current traffic by road and rail but there are significant volumes

²⁰ Road BCPs in the Gobi Desert have higher tonnage volumes coming from the continuously rising quantities of Mongolian coal being exported to China.

of transit goods as well. The BCP is located on the Trans-Mongolian Railways, which links up with the Trans-Siberian Railways in the north and the rail line to Beijing and Tianjin in the south. Mongolia has transit arrangements with the PRC through the port of Tianjin. As a result, much of their third- country trade is routed along this corridor.

Of course another source of transit traffic is through the Trans-Mongolian Railways and consisting in import/export with Europe through the Russian TSR as well as import/export to Russia itself. This traffic in terms of minerals from Russia to China is the dominant one.

There might be interesting issues between Mongolia and China but these are out of the scope of the present study as the corridors lay outside the GTR.

4.2.2 The Eastern Mongolia – Northeast China transit direction

This refers to possible road and rail transit between Eastern Mongolia (Dornod Aimag) and Inner Mongolia (PRC) through the Nomrog/Arxan BCP. Road and rail infrastructures are not yet in place and there is practically not yet any traffic crossing the border. Mongolia however has the intention to build a new railway connection between Sainshand to Khuut and Nomrog in Eastern Mongolia to bring coal to China from Tavan Tolgoi in the Gobi Desert. China has put a ban on the export of Mongolian coal through Zamyn Uud as the infrastructures are currently saturated. To respond to this and supply coal to Northeast China, Mongolia intends to build this new rail connection. The volume of coal is estimated to be 15 million tonnes in 2015 and could serve Chinese market and possibly Japanese and ROK markets. The possible rail transit traffic would then use the Tumen Corridor before branching with the Dalian Corridor or any available parallel route to reach ports in the East China Sea, in the Dalian area.

Two points must be made here. There is no certainty that the Mongolian eastern rail connection would be built in the near future. The cost is close to \$ 2 billion minimum. A cheaper alternative would be to increase rail capacity in Zamyn Uud. Secondly the forecasted coal demand for Northeast China is so high that it could easily absorb the entirety of the 15 million tonnes leaving no significant volumes for transit to ROK and Japan.

4.2.3 The Russia – Northeast China transit direction through Manzhouli/Zabaykalsk BCP

There are two types of transit traffic here. The first one consists of trade between Northeast China and Europe with containers traveling on the Trans-Siberian Railway in Russia crossing the border at Manzhouli. This transit traffic is relatively recent and concerns exports to Europe of manufacturing products. One example is the export of BMW auto parts from Leipzig in Germany to Shenyang (PRC) assembly plant. The operation is managed by DB Schenker²¹ and 3 to 7 container trains are travelling between the two destinations. This implies approximately 6 to 8,000 TEUs per year.

In the future, manufacturing productions from Central China (Chongqing, Chengdu, and Zhengzhou) may consider profitable to send/receive goods to/from Europe through the TSR and the Manzhouli BCP. This will only involve high priced goods like electronics, auto parts, expensive consumer goods and high end manufacturing goods. The increase in container transit traffic through Manzhouli would take place only if a few conditions are being met. Firstly TSR should deliver its intended target of reducing the railway time from 10 days to 7 days. Secondly and perhaps more importantly greater reliability in delivery time has to be guaranteed. This means, among other things, reducing the average time and variance of container transshipment at Manzhouli/Zabaykalsk and at the Moscow terminal.

²¹ DB Schenker manages that operation with Trans Container of Russia and Far East Land Bridge (FELB). According to China Daily and DB Schenker web site, the BMW container train service started in September 2011 and in May 2012, already it has involved 4,700 containers in 126 trains. The shipping cost is approximately \$ 10,000 per container, twice as much as the sea route but takes only 20 days compared to approximately 40 days for sea voyage. Air services may take only 3 days but costing 3 to 6 times more.

However container services on this route would continue to be seriously affected by competition and therefore, though increasing, the volume would not be greater than 25,000 TEUs per year in 2020 and still accounting for a small portion of the total traffic at Manzhouli/Zabaykalsk BCP.

The second type of transit traffic generates far more volumes. It consists mainly of Russian goods transiting through Northeast China to reach countries like Hong Kong, ROK (Seoul and the west coast of ROK) and Japan (South part ports) using ports like Dalian in the Bohai area. It is not clear exactly how this transit traffic is recorded at the Manzhouli/Zabaykalsk BCP but it was reported by Chinese officials that the volume was, in 2011, 7.7 million tonnes. It is likely consisting of minerals or heavy bulk goods. This traffic transit through Northeast China instead of sailing through the Primorsky Territory ports because of distance advantage and because Chinese ports offer more shipping lines and probably better rates.

Provided that the rail infrastructures are not too congested in Northeast China, this demand for Russian minerals from Asian countries would continue to be, at least partially, served by the transit route through Manzhouli/Zabaykalsk. For 2020, however, the volume may not grow that much being in the order of 10.0 million tonnes.

4.2.4 The Russia – Northeast China transit direction at Heihe/Blagoveshchensk BCP

There is currently no bridge on the Amur River at the BCP. Should a bridge be constructed and a rail line connection established, it is unlikely that there will be any sizable transit traffic. Blagoveshchensk is 124 km away from the TSR. Zabaykalsk is closer to the TSR, being only distant of 66 km.

4.2.5 The Russia – Northeast China transit direction at Suifenhe/Pogranichny BCP

The BCP is the second most busy BCP with total traffic being 7 million tonnes (6.3 million tonnes by rail and 0.7 million tonnes by road). Traffic is very imbalance, with 6 million tonnes being export from Russia to China. No transit traffic is reported at the BCP.

One of potential source of transit traffic through Primorsky Territory would be containers coming from western part of Japan for Chinese customers located in cities along the Russian border like Mudanjiang. Other source, ROK containers to factories in Russia will be transit for Primorsky Territory but import traffic from regional point of view. Russian goods are not likely to use Northeast China as a transit ground when they can be exported directly from Primorsky ports. Large bulk goods bound to China from the rest of the world most likely will use Chinese ports like Dalian, Yingkou due to their proximity to manufacturing bases. Vostochny does not have access to many container lines and shipping rates from the rest of Asia or America are likely to be higher than the ones offered to main Chinese ports.

In conclusion transit traffic along the Suifenhe/Pogranichny BCP would likely be limited.

4.2.6 The Russia – Northeast China transit direction at Hunchun/Kraskino BCP

This is the Tumen Corridor with the link to Zarubino Port has been the subject of a few studies and where there was great hope of developing a main transit artery. Total international traffic on the corridor has not materialized yet. There is a limited container transit traffic registered at the Hunchun/Kraskino BCP in 2010 (17,000 tonnes). Zarubino Port in its present form is not suited to receive significant inflow of containers. The railway line between Zarubino Port and Hunchun through Makhilino is not officially re-opened since December 2013. However, only one train has so far been running bringing Russian coal to Northeast China.

The GTI Transport Study gave an optimistic view of the future of the Tumen Corridor and the increase of traffic between Zarubino Port and Hunchun. It has been estimated that by 2020, Northeast China would show a volume of 3 million TEUs for the trade with ROK and Japan. Most of the containers would, as it is the case now, transit through Dalian or Yingkou with a few through Vostochny. Busan Port had estimated a maximum of 160,000 TEUs for Zarubino in 2020. Japan's estimate of container traffic with Northeast China for 2020 is 1 million TEU. Of that amount a maximum of 20% could be retained for Zarubino. Another ROK source mentions a volume of container traffic of 240,000 TEUs for Jilin Province alone for 2020 with a maximum of 120,000 as a

possible allocation. According to the above, there would be a potential market of 300,000 TEUs for Zarubino in 2020. As explained in the GTI Transport Study, this could be realized only if major improvements in infrastructure and trade facilitation measures are put in place in a timely manner. All the projected container volume would come as transit traffic.

The Tumen Corridor offers without any doubt the best prospect for container transit traffic in GTR. These would come if efficient sea-land bridges from Japan and ROK are established in the Japan Sea/East Sea. To realize this many challenges would need to be met.

5 TRANSPORT AGREEMENTS: SUGGESTED SOLUTIONS

The GTI Transport Study has concluded that there is a potential to increase trade by at least a factor of two in GTR. A major infrastructure investment programme is however required to achieve this end at a cost of \$ 3.4 billion for the next few years. Infrastructure investments alone would not be enough. In parallel efforts are required to improve significantly trade facilitation measures.

It has been argued that the main reason why transit traffic is so much lacking in GTR is because there are no common multilateral transport agreements signed by country partners. There are different ways of filling the gap. Based on the above review of GMS CBTA and world experience of transit schemes and taking into account the particular circumstances and traffic types in GTR, three types of solution could be envisaged:

- 1) *A Comprehensive Cross Border Transport Agreement (CBTA)*
- 2) *Amending Existing Transport Agreements*
- 3) *Developing a Customized Agreement for the Sea-Land Bridge East Sea – Hunchun Sub-Corridor*

The three above solutions are very different and all have advantages and disadvantages. The original question was: is there a need for a comprehensive CBTA. The text below will show that there are alternatives to it and detailed analysis of each possible solution are being reviewed below. It should be clear that the discussion below is only on the *scope and conditions* associated with the possible solutions and does not pretend to constitute a draft of a legal document.

5.1 A COMPREHENSIVE CROSS BORDER TRANSPORT AGREEMENT

The agreement which is proposed follows the GMS and ASEAN transport agreements incorporating also some additions coming from EU experience. The GMS and the ASEAN agreements are very similar and they differ only on some clauses.

5.1.1 Process of implementation

In GMS, process of implementation is complex and long. The original GMS CBTA started in 1998 and as of 2014, no country has yet been able to fully implement all the annexes and protocols with partners. Progress has been realized but more on a piecemeal fashion. Full implementation is realized in sequence in many stages: a) signing and then ratification of the Main Document; b) signing and then ratification of all Annexes and Protocols; c) signing of MOUs for implementation at designated BCPs. Countries have usually not signed all Annexes and Protocols as once causing delays in implementation. However countries could and have implemented some annexes/protocols even if all were not yet ratified. Three parties could go ahead with implementation even if annexes/protocols are not yet been fully ratified by all.

The process proposed is slightly different:

- a) Signing and ratification of Main Agreement within a maximum of 6 months;
- b) Negotiations, signing and ratification of all Annexes and Protocols “en block” within a maximum of 1 year after ratification;
- c) MOUs prepared by GTI Transport Board and signed by GTI Transport Ministers;

The Main Document would be an agreement “in principle” to facilitate interstate and transit transportation within GTR including land and sea routes. It is expected that the Main Document would be consistent and quite similar than the draft of the SCO Transport Agreement. Like in the GMS CBTA, Annexes and Protocols would provide the necessary details.

5.1.2 Content

Scope

The GTR CBTA should cover all interstate transport and transit questions whether transportation is by road, rail, by sea or through multimodal operation.

Crew

Host countries should move to a system of no visa. As a temporary measure they should offer one year visas with multiple entries for drivers and crew. Crew from ships berthing in host countries should get a 48 hours free visa privileges. Driving/operating licenses issued by competent authorities should be recognized by host countries.

Reciprocal Recognition of Traveling Document

Vehicles entering the host country should have the following documents:

- a) Valid Vehicle Registration Certificate;
- b) Valid Vehicle Inspection Certificate;
- c) Valid Third Party Insurance Liability;

Provided that these documents are issued by mutually agreed competent authorities, they should receive full recognition by host countries.

Right of Transport Activities in Host Countries

Host countries give the right for foreign transport carriers to travel in their territory. This is a fundamental right which is the main pillar of the GTR CBTA. Signatories of the agreement recognize the fundamental aspect of the right but also accept that the right is bounded by some constraints and limitations.

Temporary Admission Permit

With a valid permit, road transport operators would be granted temporary admission to the host country. It is suggested to adopt a relatively liberal approach in the issuance and rights of the permits. Permits should be issued by the agreed relevant institution of the home country. Permits should have a one year validity allowing for multiple entries. However vehicles, for each trip they make, should exit the host country within 30 days.

The question is of course different for railways. Because of change of gauge (Russia – PRC or Mongolia – PRC), foreign trains do not travel in host countries. However dual gauge systems (or broad and standard gauge running parallel) have been put in place on short distance from station to station on both side of the border to allow transshipments. This short distance movement does not require special permits as it would have been agreed through bilateral agreement. At the transshipment yard, goods including containers would be trans-loaded to host country wagons. Alternatively original wagons would be kept after bogie changes. Technology exists for wagons equipped of automatic bogie change, but high costs have so far prevented its diffusion in GTR. Wagons and containers traveling in the host countries would not be required to have temporary admission permits.

The right of ships for loading and unloading at ports is governed by bilateral and international maritime agreements. The question of temporary admission permits do not apply.

Number of permits and quotas

Discussions about the number of permits and quotas have always been a sensitive issue in GMS CBTA. Normally the number of permits should be aligned with market forces and respond to demand/supply relationship. The number is then negotiated each year on a bilateral basis. National transport operators have traditionally exerted pressure to limit the number of permits. Therefore responsible organizations would need to strike a proper balance between conflictual interests.

Allocated Routes

GMS CBTA and bilateral transport agreements only allow foreign transport vehicle to travel on pre-defined routes. The bilateral transport agreements prevailing in GTR have the same conditions. Usually the number of routes is quite restrictive and therefore affects negatively trade. At first, it

seems there are good reasons for these restrictions: security, road safety and the risk that large volumes of heavy traffic could cause expensive deterioration to road network. But, if properly checked at the border, there are no reasons why foreign vehicles would cause a higher risk than national vehicles. However it is perfectly acceptable to charge foreign vehicles (transiting or not) for marginal cost to road maintenance. Fairness requires that the charge should be equivalent to what national carriers pay. Implementing such a system may not be easy but would be facilitated through the use distance tracking devices and weighbridges.

Trailers coming on shore through car ferries or RO/RO ships would be subjected to the same border crossing conditions than ordinary transport vehicles.

The allocation of routes would normally not apply to railway unless it is the rare case of a full foreign block train (including traction) traveling on tracks of the host country.

Transit Conditions

The right for foreign goods to transit through host countries should be fully guaranteed. Cargo in transit should be exempted of taxes and duties and exempted from Customs physical inspections and mandatory escort services. Sealed containers or cargo boxes should not be opened. It should be only under rare and special occasions that Customs could carry inspections on transit cargo.

Foreign vehicles could carry transit goods in hosts country provided that they have a valid permit under the conditions described above. The same general conditions for transit cargo should apply whether it concerns goods transported by road carriers, trains or vessels.

Transport and Transit Charges in Host Countries

Transport carriers traveling on land in host countries would be expected to pay tolls and taxes on purchased fuel, overloading charges if applicable and eventually a road maintenance fee as described above (see "allocated routes" item).

Conditions for transported cargo

Signatories of the agreement should to the extent possible have a common list of restricted goods and banned cargo. The transport of dangerous goods should normally be forbidden unless special permission had been obtained from the host countries. Cabotage is not permitted unless again special permissions had been obtained from the host countries. Perishable goods for import/export or for transit transport should be treated with priority at all border crossing points of host countries.

Security Bonds

The question is how to cover the risks of no payments of the induced charges of transit and interstate transport as well as the total loss of consignment. GMS CBTA has a set of security bonds to cover all possible risks faced by the host country in allowing foreign vehicle to travel through their own territory. The required amounts have been judged to be high.

Interstate Transport

The amount equivalent to expected duty, taxes and other charges could be covered by a security bond. For regular customer the security bond could cover expected charges for transport operation across the border for one year and then prevent transporter to require a security bond for each consignment. When the payment is made at the border, by cash, cheque or electronic bank transfer, the security bond becomes void. Host country may require an additional security bond for the temporary import of the vehicle. This is not to cover accidents, theft or other physical damages to the vehicle which would be covered through the insurance process. This security bond covers in fact the loss of import government revenues if the vehicle illegally stays in the host country.

Transit Transport

Here a security bond has to be issued to cover both the consignment value and the temporary import of the vehicle. The security bond on consignment should cover the loss of import government revenues should – for any reasons – the cargo does not reach the other border crossing and stays in the host country. The security bond on the temporary import of vehicle is similar to the one described above for the interstate transport.

Value of the Security Bond

The value of the security bond would need to be negotiated among the signatories of the agreement.

Single Window

Once well integrated into an efficient and electronic single window system at BCP, security bonds should be dealt easily and should not cause any negative impact on trade volumes.

The text above concerns more specifically road transport. In the case of rail transport the question of security bonds apply only for the payment of duties of import goods and the value of transit consignment.

Vehicle Standards

Vehicles travelling on the territories of host countries should comply with standards of the host countries in terms of dimensions, maximum weight, axle load, safety requirements and vehicle emissions. However, recognizing that harmonization of standards could be a rather long process, the agreement should contain provisions for special permissions when standards differ provided that safety is not unduly compromised.

Harmonization of customs procedures and BCP management

Hours of opening at land BCPs should be synchronized in order to avoid unnecessary delays for vehicles and passengers when crossing the border. Border crossing facilities, if it is not yet the case, should be design and operate under an efficient layout. This means, for instance, clear separation of areas for passenger and freight clearance, provision of “green lines” for passengers and freight vehicles, adequate lanes for vehicles with available parking areas, monitoring of crossing time by both countries and regular meetings to review and solve potential problems.

Harmonization of procedures implies a series of measures:

- Implementation on similar timeline of electronic single window by the participating countries with advance submission online of customs and other declaration required documents
- Agreed timetable to jointly reduced number of documents required for exports and imports
- Agreed on common risk management procedures
- Move to single inspection system and control only on entry vehicles
- Joint effort to combat smuggling and terrorism risk
- Move to common adoption of international trade facilitation conventions and international Customs Agreements

5.2 AMENDING EXISTING TRANSPORT AGREEMENTS

The following agreements would need to be amended to bring smooth transportation and transit through GTR participating countries:

- Road Transport Agreement between Mongolia and China
- Road Transport Agreement between Mongolia and Russia
- Mongolia – China Transit and Sea Access Agreement
- Road Transport Agreement between China and Russia

In addition the following trilateral agreements would need to be signed:

- Trilateral Transport Agreement between China – Mongolia – Russia
- Trilateral Transport Agreement between China – ROK – Russia

Amending existing agreements mean covering items and issues which have been left over before in the agreements and bringing relaxation of constraints and conditions mostly on the following points (road sector):

- Visas for crews
- Permitted routes
- Restrictions on permits
- Allowing return shipments for freight vehicles

5.2.1 Road Transport Agreement between Mongolia and China (1991)

Bus and truck drivers and crew members of vehicles crossing neighbouring country should be given 72 hours free visa on arrival or alternatively 6 month multiple entries. This would apply however only for drivers of vehicles having proper entry permits.

The issuance of permits and allowed routes should be greatly liberalized. Permits issued by competent authorities should be valid for one year. Transporters should be able to get on a yearly basis an “umbrella permit which will cover a list of vehicles properly identified in the document. Three months before expiration transporters could apply for a renewal of the permit and should get answers to their submission 45 days before permit expiration or before. At the end of the year contracting parties should jointly review the number of permits issued and the effectiveness of utilization. To the extent possible, contracting parties should avoid resorting to the use of quotas.

The imposition of selected routes, though necessary for bus operation, is restrictive and often unnecessary for freight transportation. Firstly freight vehicles should not be required to come back on the same route that they enter the country. A list of routes should be made available and transporters should be free to select the one which they found most appropriate. As a general rule, routes should consist of the national highways of the country.

Special permission should be obtained for cabotage but collecting return shipments should be allowed.

All the other conditions contained in the agreement should prevail. Customs procedures between the two countries may be covered under different agreements but it should not prevent amending the text to deal with these matters and ensure smooth cross border. Proposal outlined above under CBTA should be repeated here:

“Hours of opening at land BCPs should be synchronized in order to avoid unnecessary delays for vehicles and passengers when crossing the border. Border crossing facilities if it is not yet the case should be designed and operated under an efficient layout. Harmonization of Customs procedures implies a series of measures:

- *Implementation on similar timeline of electronic single window by the participating countries with advance submission online of customs and other declaration required documents*
- *Agreed timetable to jointly reduced number of documents required for exports and imports*
- *Agreed on common risk management procedures*
- *Move to single inspection system and control only on entry vehicles*
- *Joint effort to combat smuggling and terrorism risk*
- *Move to common adoption of international trade facilitation conventions and international Customs Agreements*

5.2.2 Agreement on Mongolia’s access to the sea and transit through China’s territory

The present agreement requires transit goods to be transhipped at the border with Mongolian goods in transit transported by Chinese trucks to permitted port of export. Following principles behind the amendment of the *Road Transport Agreement (1991)* transport of Mongolian, transit goods through China should be allowed to be transported by Mongolian trucks if they meet the conditions of the amended agreement.

In an amended transit agreement China should make available to Mongolian transit goods other ports than Tianjin Port.

5.2.3 Road Transport Agreement between Mongolia and Russia

As in the case of the Mongolia – China agreement, there are no provisions for visa issuance for vehicle drivers and this should be amended. Bus and truck drivers and crew members of vehicles crossing neighbouring country should be given 72 hours free visa on arrival or alternatively 6 month multiple entries. This would apply however only for drivers of vehicles having proper entry permits.

The agreement covers transit cases and do not mention the need for bond requirements. This makes movements easier and therefore would not require any changes.

The agreement is silent on harmonization of BCP management and customs procedures stating that these are covered through Customs agreements. This should not prevent the inclusion of amendments dealing with these matters and therefore ensuring smoother border crossing transport movements:

“Hours of opening at land BCPs should be synchronized in order to avoid unnecessary delays for vehicles and passengers when crossing the border. Border crossing facilities if it is not yet the case should be designed and operated under an efficient layout. Harmonization of Customs procedures implies a series of measures:

- *Implementation on similar timeline of electronic single window by the participating countries with advance submission online of customs and other declaration required documents.*
- *Agreed timetable to jointly reduced number of documents required for exports and imports.*
- *Agreed on common risk management procedures*
- *Move to single inspection system and control only on entry vehicles*
- *Joint effort to combat smuggling and terrorism risk*
- *Move to common adoption of international trade facilitation conventions and international Customs Agreements”*

5.2.4 Road Transport Agreement between China and Russia

As in the case of the Mongolia – China agreement, there are no provisions for visa issuance for vehicle drivers and this should be amended. Bus and truck drivers and crew members of vehicles crossing neighbouring country should be given 72 hours free visa on arrival or alternatively 6 month multiple entries. This would apply however only for drivers of vehicles having proper entry permits.

As in the case of Mongolia – China Agreement, *“The issuance of permits and allowed routes should be greatly liberalized. Permits issued by competent authorities should be valid for one year. Transporters should be able to get on a yearly basis an “umbrella permit which will cover a list of vehicles properly identified in the document. Three months before expiration transporters could apply for a renewal of the permit and should get answers to their submission 45 days before permit expiration or before. At the end of the year contracting parties should jointly review the number of permits issued and the effectiveness of utilization. To the extent possible, contracting parties should avoid resorting to the use of quotas.”*

The agreement deals only with interstate road transportation and not with transit questions. Therefore the agreement should be expanded to cover transit and then require the following additions:

- Guarantee free circulation of transit goods
- Allow freight vehicles originating from the country of the transit goods to transport the goods through the host country before reaching destination provided that they carry proper permits issued from respective competent authorities.

- Exempt transit goods from import duties and taxes with transit vehicles under obligation to pay tolls and transit fee. The levy of a transit fee should be at the discretion of the host country but should not be more than the estimate of the incremental road maintenance expenditures.
- Host country should accept seals put by the originating country and exempt transit goods from Customs inspection.
- Host countries may require shippers of transit goods (whether transhipped at borders or transported through with original vehicles) to provide a security bond. The security bonds are protection against the no payment of import duties and taxes. The value of the security bond required should be agreed by all signatories of the amended transport and transit agreement.

5.2.5 Maritime Agreements between ROK and China, ROK and Russia as well as Japan and China and Japan and Russia

All existing maritime agreements should be amended to deal with the provision of granting temporary admission for vehicles coming at port under ferry or RO/RO services. This concerns cars, buses, trucks, semi trailers and trailers carrying containers or not. Ferries and RO/RO services are considered as “extensions of highways” and therefore vehicles coming onshore at host ports should have the same privileges and obligations that what prevails at land BCP.

Provided that vehicles carry proper permits, they should be allowed to enter host country under temporary admission conditions whether on transit or not. Seals on containers, semi-trailers or trailers should not be broken for transit vehicles and standard duties and taxes exemptions should apply.

Host country should have the right to levy a small transit fee and have the option to ask for submission of security bonds to cover the risk of no payments for due government charges for vehicles travelling in transit or not.

The issuance of 72 hours free visa for drivers, crew members and passengers should be strongly encouraged with the possibility of multiple entries long term visas for transporters plying the route on a regular basis.

5.3 OTHER SOLUTIONS

Three other solutions could be considered: implementing TIR in GTR, developing a customized transit approach for a design corridor and relying on the provisions of the SCO document.

5.3.1 Implementing TIR in GTR

There are a few steps involved here. Russia should continue to be a TIR supporting country even if she is not a full member of TIR. This means²² allowing TIR trucks to enter her territory without customs inspections and without breaking existing seals. This could only be a temporary measure as on long run Russia should become a full fledged TIR member. Mongolia should also join the TIR system and China who is currently in the process of joining the system should comply with all the requirements.

The above conditions may prove to be too difficult to be successfully implemented in all GTR countries. Joining the TIR system is often perceived as costly. Countries and associations in the Far East may resent depending on accounting operations dictated by IRU, a distant organization located in Geneva.

²² However since July 2013 Russia is preventing European TIR trucks to travel on her territory without Customs inspections.

5.3.2 Shanghai Cooperation Organization (SCO) Road Transport Agreement

SCO was established in 2001 as primarily an organization concerned about security and military alliances. SCO comprises China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan with observer status from India, Iran, Mongolia and Pakistan. Since 2004, the organization has been concerned with economic and trade matters. Under UNESCAP and ADB assistance, a draft of a road transport agreement was completed in 2007 and the framework document was adopted by SCO members in 2008. Negotiations on annexes and protocols are however still on-going with not yet any final ratification.

A brief analysis of the main document reveals that road carriers would be allowed to enter host countries when possessing valid permits. No details are given in the document on the validity period, number of permit issued and issuance process. Drivers would still need visas; but perhaps the most severe limitation is that under annex 1 only 4 routes are listed, all in Central Asia only.

5.3.3 Customized Transit Operation on Hunchun – Zarubino Sub-Corridor

The “GTI Transport Corridors Study” has recommended the setting up of special measures to the development of the sub-corridor Hunchun – Zarubino. It has been claimed that the interesting trade prospects along the corridor would be met only if major infrastructures and transport operation management schemes are being implemented. This would require the truck, railway and port operations to be privately developed through concessions allocated to successful bidders. The study also recommended the setting up of a joint Chinese-Russian organization comprising all stakeholders with the responsibility to overlook marketing, development and conflict resolution along the corridor.

In addition to the above it is suggested that China, Russia and ROK²³ sign an MOU to facilitate transit movements along the sub-corridor. The agreement would guarantee that transit goods, containerized or not, should move freely along the corridor without customs inspections and charges. Freight vehicles at the Hunchun/Kraskino BCP should be allowed to enter host country freely under temporary admission for say 72 hours and carry return shipments. Similar free temporary admission should be granted to trucks, trailers and semi-trailers entering Russia at Zarubino Port on ferries or RO/RO ships and travelling in Hunchun/Kraskino direction. Advanced electronic Customs declarations would be sent to Zarubino Port and Huchun/Kraskino. Transit goods coming by sea through Zarubino Port would be cleared at Hunchun facilities.

A 72 hours free entry visa should be given by Russia and China for freight driver vehicles.

²³ Japan may join later.

6 CONCLUSIONS AND RECOMMENDATIONS

6.1 CONCLUSIONS

In August 2013, the GTI Transport Board adopted the Transport Study with its list of recommended infrastructure investments. However, it was recognized that to turn the recommendations into reality, trade facilitation measures had to be improved. Trade facilitation has many aspects and among them there was a general consensus that existing transport agreements signed among GTR countries were inadequate to support the expected high volume of transit traffic. Therefore the Transport Board instructed the GTI Secretariat to carry out a study where the ultimate goal was to lay the foundation for future dialogue on possible “Cross Border Transport Agreements” (CBTA).

The study started by reviewing the GMS CBTA supported by ADB which is often quoted as the “reference”. The GMS CBTA with its 16 annexes and 3 protocols is a very comprehensive document regulating interstate and transit transport. Implementing CBTA has turned to be a long process. Negotiating all annexes and protocols took more than 3 years and was completed in 2003. But as, of now, some GMS countries have not yet fully ratified all the annexes and protocols. In reality full implementation of CBTA is still only applicable on a few border crossing posts. The content of the GMS CBTA could serve as example for GTR, the difficulties of implementation however should be noted.

In GTR, the analysis of existing bilateral and trilateral transport agreements has confirmed the inadequacy of the document to support the expected expansion of interstate and transit traffic volume. The China – Mongolia, the China – Russia and the Mongolia – Russia road agreements allow interstate movements of foreign vehicles under restrictive conditions without properly addressing the question of transit traffic. The absence of assistance to drivers for visa applications, the limited validity, the non-transparency and the quotas of permit issued and the route restrictions are obvious cases of weaknesses of the existing bilateral road transport agreements.

The transit situation in GTR merits some comments. Little road transit traffic has been recorded at Suifenhe/Pogranichny and Hunchun/Kraskino on two of the main corridors. The transit prospects at the Suifenhe/Pogranichny would likely remain limited. This is not the case for Hunchun/Kraskino. There is a large volume of container traffic forecasted between Jilin Province in China and ROK and Japan. Traveling through Hunchun and Zarubino port has clear distance advantages and therefore with infrastructure improvements sizeable volume of transit traffic could be expected if all the conditions (including trade facilitation measures and legal support) are met. The situation is more confused at the rail Manzhouli/Zabaykalsk border crossing. The Russian side does not report any transit traffic while on the Chinese side, as much as 7 million tonnes are being recorded as transit traffic. Transit rail operations in GTR require change of gauge and often full transshipment. In that context, the need for liberal transit agreements is certainly less pressing than for road transportation.

An effective and functional system to allow easy passage of transit goods and vehicles was developed in Europe back in 1960 and was called the TIR system (“Transports International Routiers”). The system is based on a “carnet” which is seen and stamped at all border crossing points. Customs declarations from the country of origin are accepted throughout the travel and no inspection and duty are being levied until the vehicle reaches its final destination. Issuance of the carnet and accounting of charges are being processed in Geneva, at the UN International Road Union (IRU). A total of 68 countries are signatories of the TIR Convention. The TIR system has a good past record and is said to function well. However it is not a solution which could be easily implemented in GTR.

There are other solutions which are more practical even if perhaps none of them are easy to implement. The first one is to push for the adoption of a comprehensive CBTA agreed, ratified and implemented by all country members the next few years. The second solution is less elegant and

consists in amending the existing transport agreement to lift up restrictions and support a transit system. The third solution could either be seen as a complement to the other solutions or as an alternative since it deals with transit measures where it matters more, between Hunchun and Zarubino.

Below the proposed solutions are elaborated through a series of recommendations.

6.2 RECOMMENDATIONS

6.2.1 Recommendation 1: Pursue efforts for rapid implementation of the SCO Road Agreement provided that liberal conditions are included

With the current efforts to bring the process of the ratification of the SCO Road Agreement to an end, there is no need to start negotiating a CBTA among GTR country members if certain conditions are met. Firstly the content of the SCO should not be more restrictive than the typical components of a CBTA as detailed above. Secondly countries like ROK or Japan should either join SCO or through MOUs abide to the content of the agreement. Thirdly, there should be confirmation by all members that implementation would be by 2017 or before. Should the above conditions fail to be accepted and implemented, then GTR country members could consider developing their own CBTA along the lines described above.

6.2.2 Recommendation 2: In parallel with Recommendation 1 amend the existing bilateral and trilateral road agreements to cover adequately interstate and transit traffic

Amending existing road agreements is a second best solution as such it would never be as comprehensive as a specially designed new CBTA. However well planned and un-restrictive amendments would without doubts contribute to better interstate and transit traffic and trade at border crossing points along the GTI corridors.

6.2.3 Recommendation 3: Implement a customized transit regime along the Tumen sub-corridor Hunchun/Zarubino

As mentioned before, the Hunchun/Zarubino sub-corridor has a vast potential for transit traffic. Many challenges however have to be met to realize that potential. This involves the signing of a MOU between China, Russia and possibly ROK (with Japan later) to offer special transit conditions for road and rail transporters carrying goods between Northeast China and ROK and Japan. The proposed transit system would be one of the components of an *Integrated Development Scheme*. Components of the scheme have been described in the Road Map and the Medium Term Action Plan. Besides, the rail, road and port operators, a dedicated new joint public private partnership company with participation of all stakeholders should be put in place to market utilization of the corridor and overlook its efficient functioning. The transit system comes as an addition and is intended to ensure no duty and inspection for transit goods containerized/or not at Zarubino Port and at Hunchun/Kraskino BCP. Received goods to Northeast China from ROK and Japan should be cleared in Hunchun ICD/dry ports. Chinese exports goods to ROK and Japan would be cleared at destination. Trucks and semi-trailers coming on ferries or RO/RO from ROK or Japan should proceed freely to Hunchun without any inspection or charges on a 72 hour free visa and temporary admission. Electronic customs declarations should be sent in advance to port of entry and final destination. The Integrated Development Scheme would be a pilot project and if successful could be implemented elsewhere.

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