

## The Cambodia, Lao PDR, and Vietnam (CLV) Development Triangle *Opportunities, Challenges and Options for Future*

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### Background

The Development Triangle including Cambodia, Lao People's Democratic Republic, and Vietnam (CLV) was initiated in 1999, when the Prime Ministers of these three countries agreed upon development cooperation among themselves. It aims to promote prosperity of people in the Member countries. Originally, the development projects was to focus in seven provinces namely, Ratanakiri, Stung Treng in Cambodia, Attapeu, Sekong in Lao PDR, Kon Tum, Dak Lak and Gia Lai in Vietnam. These seven provinces have similar terrain, climate, and socio-economic background providing great potential for agriculture, forestry, tourism, trade, and light industries.

The Member countries later proposed to expand CLV command areas covering Vietnam's Central Highlands, North-eastern Cambodia and South-eastern Lao PDR to serve in the greater areas. Now, CLV countries have agreed to establish the triangle in border provinces shared by the three neighbouring countries based on southern corridor of GMS transportation network strategies.

One of the priorities of this Development Triangle is to establish a transport network linking the triangle with the three capital cities (Attapeu, Stung Treng and Play ku) and Vietnam's seaports (see figure 1).

In 2004, the three Member countries' representatives finalised and approved the CLV socio-economic Development Master Plan in the third meeting during the 10<sup>th</sup> Association of Southeast Asian Nations (ASEAN) Summit. In the same year, Japan agreed to provide financial support to facilitate the development projects in the CLV Member countries. In this Summit of CLV Prime Ministers with Japanese Prime Minister in Vientiane, Lao PDR, all leaders exchanged their views on the promotion of development of the CLV and the international issues of common interests.

They stressed that the establishment of the Development Triangle not only marks an important step towards the traditional relations of friendship and cooperation among the CLV countries, but also contributes to the strengthening of peace and cooperation

Table 1: Basic Information about the Seven Provinces of the CLV Development Triangle

Country	Region	Province	Capital city	Area (km <sup>2</sup> )	Population (inhabitants)
Cambodia	Northeastern	Rattanakiri	Banglung	10,782.0	94,243 (in 1998)
	Northeastern	Stung Treng	Stung Treng	11,092.0	81,074 (in 1998)
Lao PDR	Southeastern	Attapeu	Attapeu	10,320.0	114,300 (in 2004)
	Southeastern	Sekong	Sekong	7,665.0	83,600 (in 2004)
Vietnam	Central Highlands	Kon Tum	Kon Tum	9,614.5	366,100 (in 2004)
	Central Highlands	Dak Lak	Buon Ma Thuot	13,062.0	1,667,000 (in 2004)
	Central Highlands	Gia Lai	Play ku	15,494.9	1,095,900 (in 2004)

Source: <http://en.wikipedia.org/wiki/>

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between the ASEAN and countries in the region. In the meeting, the development issues within the three countries and international issues were highlighted to achieve which are as follows:

- promotion of development in the CLV through facilitation of trade and investment; environment and water resources; promotion of human resource development; agriculture and rural development.
- international issues through reform of the UN and disarmament and Non-proliferation, Landmines and Unexploded Bomb, and Drugs.

<http://www.mofa.go.jp/region/asia-paci/clv/joint0411.html>,

**Figure 1: Seven Provinces of the three CLV Countries are seen in the map below**  
**(1) Ratanakiri and (2) Stung Treng in Cambodia,**  
**(3) Attapeu and (4) Sekong in Lao PDR,**  
**(5) Kon Tum, (6) Dak Lak and**  
**(7) Gia Lai in Vietnam**



Source: <http://earth.google.com/>

The fourth Summit of CLV countries on the Development Triangle was held in Vietnam, in December 2006. During the Summit, the Prime Ministers of the CLV countries reaffirmed initiatives and decisions approved at the previous meetings on building the Development Triangle in order to hasten economic growth, reduce poverty and promote cultural and social progress in the region on the basis of bringing into play potentials and advantages of each country, simultaneously contributing actively to peace, consolidation, stability, integration and development. In the same meeting, the three Prime Ministers set up a Joint Commission for the Coordination of CLV Cooperation for Development of the Triangle Area to jointly implement and harmonise policies among the CLV region.

## Objectives of the Development Triangle

The Development Triangle envisages the CLV region as an integrated, prosperous, and harmonious region. The objectives of Development Triangle are to:

- promote sustainable economic growth;
- reduce poverty and income disparities; and
- manage and conserve natural resources and the environment.

## Components of Development Triangle

To fulfil these objectives, there are various kinds of strategies to implement, namely, transportation networks; energy and electricity; trade and investment; tourism and environmental conservation; and human resource development and health care.

### Transportation Networks

The underlying strategy for Development Triangle is to link the border provinces of Cambodia, Lao PDR, and Vietnam. Enhancing physical linkages would overcome the lack of physical connectivity and promote cross border trade, investment, and tourism together. Important transportation projects are the route number 78 linking Banloug-OYadav (Mondulkiri, Cambodia) to Gia Lai (Vietnam), and the route number 18B linking Attapeu (Lao PDR) to Vietnam.

Moreover, it is expected that transportation networks would serve as economic corridors benefiting local communities rather than only transportation. The transportation networks would serve as vital economic linkage for transportation, trade and tourism among the three countries. Thus, reforms of regulation and policy as well as institutional framework are necessary to be formulated and implemented at the same time as the transportation projects.

### Energy and Electricity

The main energy policies within the region are to:

- promote the development of electricity trade and utilisation of energy potential;
- facilitate the development of grid interconnection infrastructure through the construction of transmission lines; and
- promote private sector investment in power projects.

For example, a project of hydropower station on the Sesan River in Cambodia has gone through feasibility study. The Cambodia Government will provide an incentive to Vietnamese companies, which are willing to invest in the project. The price of electricity will be agreed so that it could be affordable for the Cambodian provincial authorities as well as profitable for Vietnamese investors. There is also an ongoing power transmission project, building the first high-voltage transmission line between Cambodia and Vietnam. Besides cooperation within CLV members, Japanese

Government also initiated a project for rural electrification on micro-hydropower in remote area of Mondulkiri of Cambodia.

### ***Trade and Investment***

The strategy of trade and investment is to promote cross-border trade between and among the countries. Endowed with rich natural resources and fertile land for agriculture, the Triangle provides a good opportunity for small and medium-sized enterprises (SMEs) for processing of agricultural products and mineral exploration. Facilitation of cross-border trade in agriculture is expected to reduce poverty and promote food security within the region. Agricultural products like soybeans, cashew nuts, sesame, bananas, rubber, vegetables and spices were identified which could be traded in the Triangle.

The aim is to reduce or remove cross border barriers to ensure smooth and efficient flow of trade and investment. For example, Cambodia Government welcomes Vietnamese companies to invest in rubber plantation in Oyadav, Rattanakiri in order to promote export of rubber as well as promote technological transfer on planting and management techniques (<http://www.embassyofcambodia.org.nz/December06/December2.htm>). Additionally, construction of border market at Oyadav would expand and increase the volume of cross-border trade which is one of Cambodia's priority sectors for the reduction of poverty.

### ***Tourism and Environmental Conservation***

The cooperation in tourism sector focuses on "Three Countries One Destination Campaign". The programme facilitates movement of tourists within the region by developing tourism-related infrastructure.

Tourism is expected to be one of the keys to alleviate poverty in the rural areas of the region. In order to generate more income for the local people sustainably, the main focus is on ecotourism and cultural tourism to promote tourism development in the region.

The region is endowed with dense rainforest and rich biodiversity. Moreover, there are more than 10 ethnic minority groups in the area. These factors provide great opportunity for tourism development in the region.

The Cambodian Government is providing high priority to the tourism development, especially ecotourism of the Ratanakiri and Mondulkiri province, adjacent to the Vietnamese border. Master Plan of Tourism Development of both provinces was formulated in 1999-2000 with the objectives to develop natural resources and cultural environment for ecotourism, and promote appropriate markets, infrastructure and services.

Lao PDR has also expanded the investment opportunities for tourism-related business by allowing 100 percent foreign ownership in hotels and restaurants and 30-70 percent in tour companies. The country has also worked with international organisations and neighbouring countries to improve public infrastructure for the development of tourism sector.

In Vietnam, the Government has approved the tourism development strategy till 2010, under which tourism would spearhead the economic sector. It would also develop in line with cultural and ecological tourism while preserving cultural identity, good traditions and customs of the people.

Nevertheless, the main concerns are the side effects of tourism development such as degradation of rainforest as well as loss of biodiversity specially in Lao PDR natural forests are being replaced by monocrop. Transportation network may induce greater number of tourists than the natural capacity leading to environmental degradation. Therefore, the environmental conservation is also one of the most important issues for sustainable tourism. To conserve biodiversity, two national biodiversity conservation areas were established in Attapeu in Lao PDR, namely Dong Ampham forest and Xepaine forest.

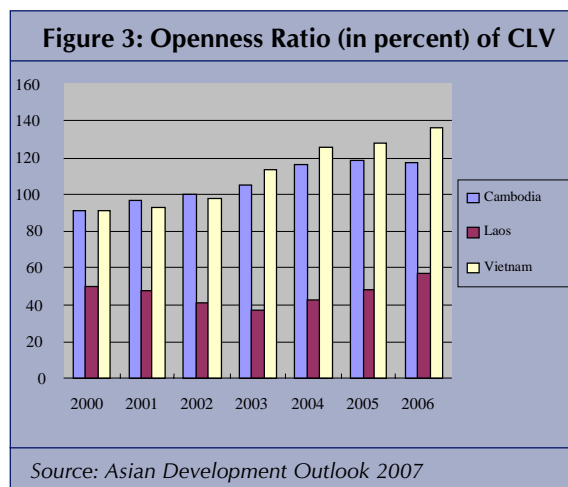
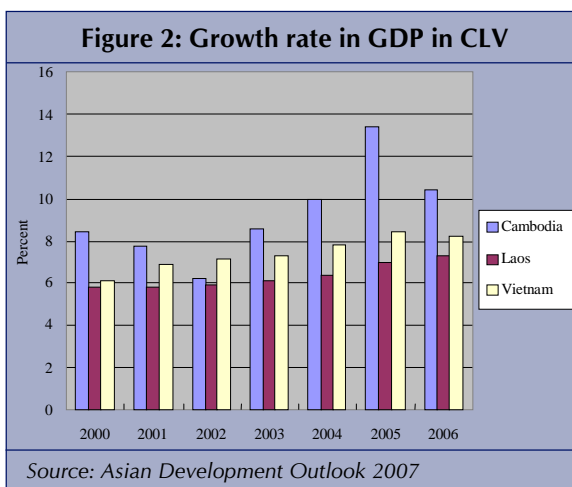
### ***HRD and Healthcare***

The programmes of Human Resource Development (HRD) and Healthcare have mainly covered the areas of:

- capacity building in education development and management skills;
- prevention and control of communicable diseases;
- education for ethnic minorities;
- prevention of the trafficking of women and children; and
- promotion of safe migration in the region.

In Cambodia, Phnom Penh Plan for Development Management (PPP) has been implemented to build capacity of government officials to support regional economic integration with the support from the Asian Development Bank (ADB). Vietnam Government financed construction of a dormitory for Cambodian students at Tay Nguyen University and vocational training schools in Rattanakiri and Mondulkiri. Besides CLV Members, the Japanese Government initiated primary education development in Attapeu, Sekong (Lao PDR) and constructed Tran Qui Cap primary school, Kim Dong primary school, and Le Dinh Chinh junior high school in Vietnam.

Communicable Diseases Control (CDC) project in CLV has been implemented in 2006. The first year action plan responded to the threat of the Avian influenza epidemic and later, the HIV/AIDS programme has been launched to provide preventive education in the region.



### Future Options of Development Triangle

Since early 1990s, CLV have started economic transition from centralised planning to market oriented economy. Now, they are among the fastest growing countries in the world where the economic growths on average are above six percent annually (see figure 2). A key feature of trade development is the openness ratio, defined as export plus import divided by Gross Domestic Product (GDP) at current price. Openness ratios in Cambodia and Vietnam are relatively high, on an average of 100 percent, where as openness ratio in Lao PDR is still relatively low. Nevertheless, there is continuous increase in openness ratio of Lao PDR from 37 percent in 2003 to 57 percent in 2006 (see figure 3). These indicate high opportunities for trade in the CLV region.

The main strength of the region is cheap labour cost combined with the agricultural-based economy that provides a good opportunity for food processing industries. The light industries that are relatively labour-intensive also have comparative advantage in the region such as rubber and textile industries.

Not only economic but also social progress provides opportunities for the region. Poverty incidence has declined significantly from 1990s to 2000s (see Table 2). There are two poverty lines to measure poverty incidence. First, there is national poverty line based

on country's household consumption data of how much money one should spend in order to consume food for basic nutritional needs as well as to consume essential non-food goods and services. Secondly, there is an international poverty line adopted by the World Bank and the UN agencies, considering people who live on less than US\$1 a day as the poor do.

(For more, please visit: <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/CAMBODIAEXTN/0,,contentMDK:20720197~pagePK:141137~piPK:141127~theSitePK:293856,00.html>)

Based on national poverty line, poverty incidence has drastically declined in Vietnam from 58 percent in 1990s to 20 percent in 2000s. In Lao PDR, percentage of people living below the national poverty line declined from 46 percent in 1990s to 33 percent in 2000s. In Cambodia, poverty incidence has declined from 39 percent in 1990s to 35 percent in 2000s. Based on international poverty line, proportion of people who sustain their living on less than US\$1 a day has also reduced significantly within the region. Vietnam has the most impressive outcome of poverty reduction among the three CLV countries.

In Vietnam, proportion of people living under international poverty line reduced from 51 percent in

Country	Per Capita GDP (US\$)		Poverty Incidence					
			Based on National Poverty Line (in percent)		US\$ 1- a -day			
					Head Count Ratio (in percent)		Magnitude (in mn)	
1992	2005	1992/93	2003/04	1990	2003	1990	2003	
<b>Cambodia</b>	220	393	39.0	34.7	46.0	33.8	4.0	4.5
<b>Lao PDR</b>	271	491	46.0	32.7	52.7	28.8	1.6	0.3
<b>Vietnam</b>	144	622	58.1	19.5	50.7	9.7	7.9	0.2

Source: Asian Development Bank, (2006). *The Greater Mekong Sub-region Beyond Borders: Regional Cooperation Strategy and Programme Update 2007-2009*.

1990 to 10 percent in 2003. In Lao PDR, the percentage of people living under US\$1 a day declined from 53 percent in 1990 to 29 percent in 2003. In Cambodia, poverty incident reduced from 46 percent in 1990 to

34 percent in 2003. Reduction in poverty incidence indicates a good prospect for HRD and enhances the welfare of the Member countries.

The CLV Development Triangle has potentiality to promote foreign direct investment and facilitate economic development in the triangle area. Through development of the economic corridors and other feeder roads, the CLV area will lower transport and transaction costs along with the reduction of production and distribution costs through economies of scales.

### Challenges Ahead

Besides opportunities, threats/challenges arise from an increase in the degree of interdependence with the regional and global economy. As shown by Asian financial and economic crisis in 1997, current account deficits, foreign debts and payment imbalances could cause capital flight and its contagion all over the region. In the CLV region, payment imbalance arising from reliance of foreign loans for economic development has been noticeable since 2000 (see figure 4). There are a series of current account deficit in Cambodia and Lao PDR. The current account deficit was as high as 14 percent of GDP in Lao PDR, in 2006.

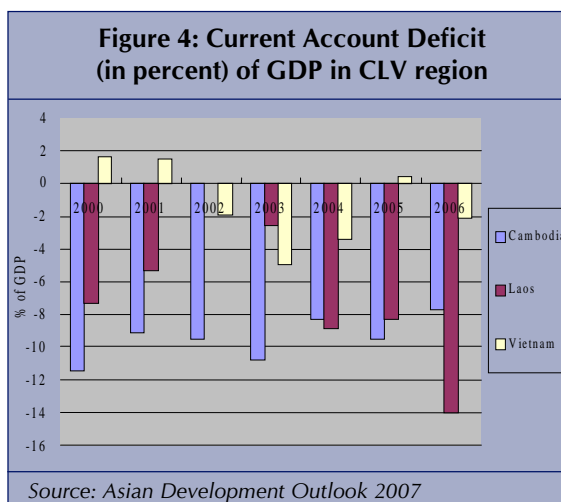
Apart from payment imbalances, the economic development causes social change as well as social problems, such as urbanisation, cultural conflict, and emergence of new diseases. Moreover, there is a possibility for resource allocation problems such as water shortage, energy scarcity, deforestation, and loss of biodiversity.

Though there are also various aspects of weaknesses and threats, which could be viewed as challenges more than threats. Current account deficit is necessary in the early stages of economic development. There will be relatively small level of risk as long as there is good economic prospect with moderate level of debt. The major concern is how to utilise development projects (mainly based on grants and foreign debts) in an efficient way so that the projects lead to HRD that generates higher level of income in a sustainable manner.

### Conclusions

The cooperation among the CLV Development Triangle can provide greater opportunity for regional development and prosperity. GMS Economic Corridors, other transportation networks and some basic infrastructure such as electricity are among the first priority of the Development Triangle.

However, basic infrastructure by itself cannot lead to sustainable economic growth and poverty reduction.



Coordination in trade and investment policies relating to custom and immigration procedure must be done simultaneously with infrastructure projects. Trade, investment, and tourism coordination policies tend to be pro-economic growth, where as human resource development and health care play a key role for poverty reduction and income distribution within the region.

The outcomes of development in terms of economic growth and poverty reduction are impressive. The CLV region can achieve above 6 percent economic growth on an average and the poverty incidence could drop significantly especially in Vietnam. Nevertheless, the payment imbalance problems result from reliance on foreign loans and could be a factor that interrupts the development in the future.

The CLV Development Triangle will attract businessmen and investors to explore the opportunities offered by the resource-rich area. The location of the Triangle in the GMS and ASEAN region provides a crucial geographic advantage for domestic and foreign investors. Full operation of East-West, North-South and Southern Economic Corridors are crucial for CLV areas to explore opportunities in trade and investment. These recent developments would provide comparative advantage and attraction for investors while contributing to the promotion of growth and employment that would help to reduce the poverty and transform the Development Triangle into an epicentre of growth and prosperity in the GMS.

It can be safely said that the establishment of the Development Triangle not only promotes multi-faceted relations, mutual understanding and trust among the CLV countries, but also contributes to peace, stability, cooperation, friendship and development in the GMS. Overall, the GMS programme will also help the CLV region through the facilitation of trade and tourism by development of infrastructure, information and communication technology, increased cross-border trade and investment in agriculture.

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