

Facilitation of trade and investment in the GMS *What role for whom?*

*Ngo Huong**

Background

Vietnam, as well as other countries in the Greater Mekong Sub-region (GMS), is moving towards greater regional and global integration. This is also the prevailing trend of almost every economy in the world in which those that fall behind are bound to lose their competitiveness and market positions. The volume of trade and capital flows across borders around the globe has, by far, long surpassed the total Gross Domestic Products of all economies therein. Consequently, many countries have shifted their focus towards new investment determinants such as favourable domestic policies, improved transportation and infrastructure system, increased productivity of labour force and more efficient use of natural resources.

Not abstaining from these sweeping changes over the world economy, the process of trade liberalisation in Vietnam has, accordingly, sped up considerably in recent times, especially with the country's participation in ASEAN (Association of South East Asian Nations) Free Trade Area (AFTA) and its accession to the World Trade Organisation (WTO). This is also true for other GMS member States, in particular neighbouring countries like China and Cambodia, whose recent accession to the WTO are reflected in encouraging improvements of their economic performance.

Opportunities aside, the key issues and challenges for GMS countries, including Vietnam, also derive largely from these global and regional trends. Pressures from globalisation, such as new business practices, advanced technologies, and the operations of regional and global supply chains would help to modernise the local industry, and thus make it more productive.

On the other hand, the same might impose huge adjustment costs. To make matters worse, the rural-urban gap, risks to environment, land and natural resources, lack of labour efficiency and jobs in rural areas exist. The key thrusts for GMS countries, therefore, would include (i) creating a conducive environment for trade, investment and private sector development; (ii) human resources development; and (iii) protecting the environment and ensuring equitable development.

Lao Cai Province of Vietnam

Lao Cai province is strategically located in north-eastern mountainous areas of Vietnam, next to the Yunnan province of China. It is the main border crossing from Vietnam to China, the knot of the Kunming-Lao Cai-Ha Noi-Hai Phong economic corridor (KLHHEC).

The Asian Development Bank (ADB), in the GMS Summit in Manila, the Philippines in September 1998, introduced the concept of economic corridors. Since then, nine economic corridors in the GMS have been designed and developed. Amongst the North-South corridors that have been planned (namely, Kunming-Chiang Rai-Bangkok via Lao PDR, Kunming-Chiang Rai-Bangkok via Myanmar, Kunming-Lao Cai-Ha Noi-Hai Phong, and Nanning-Lang Son-Hai Phong-Quang Ninh), the KLHHEC has a strategic position as it involves many big and important cities of Yunnan, China and Vietnam. At the same time, this corridor is also one of the two corridors of the "two-corridors-one-belt" strategy that was agreed between Vietnam and China in a recent meeting of the leaders of the two countries in 2004.

The KLHHEC is to link the inland areas of China with the coastal regions and ports of

* Centre for Development and Integration, Vietnam

Vietnam. Amongst the economic corridors proposed by the ADB, the KLHHEC has the role to integrate and develop the northern part of the GMS, and is, therefore, very significant for the development of the GMS as a whole as well. In particular, the corridor would help implement Vietnam's policies on pushing socio-economic development in its northern mountainous provinces; while assisting China in carrying out its strategy to "open up" the west – an important part of China's overall economic development plan.

The building of the KLHHEC involves developing trade and economic ties, investment, technical cooperation, tourism, cross-border economic exchange, and land, railway and water transportation. Vietnam and China agreed to focus first on transport infrastructure, not only to meet the increasing demands of trade between the two countries but also to serve the transit needs of China and ASEAN member States. The two sides are also coordinating to promote cross-border trade and transit trade, which again emphasises the strategic role played by Lao Cai as the single border crossing here.

Cross-border trade facilitation has been amongst the highest priorities for development of the economic corridors, and their border crossing. Investment promotion is expected to contribute to the development of the private sector, especially the growth of small and medium-sized enterprises (SMEs) in the corridors, through improvement of agricultural-based and labour-intensive products as comparative advantages.

The corridors in the cross-Asia route have facilitated around US\$400mn trade to Southeast Asia of China. The trade volume between Vietnam and China alone has increased remarkably, from US\$1.3bn in 1999 to US\$4.6bn in 2003, reaching a record of US\$7.2bn in 2006. Imports from China grew by 47.9 percent in 2002–2003 while exports to China grew by 30.5 percent. Yunnan province is a major producer of tobacco, minerals, steel, and fertilizer.

Vietnam, on the other hand, excels in producing vegetables, fruits, seafood, crude oil, rubber, minerals, and light industrial goods (such as textiles and footwear). Therefore, it can be said that Yunnan

province and Vietnam have a complementary economic relationship through their border trade. The total trade value registered at the Hekou-Lao Cai border crossing points expanded by 36 percent in 2003 and 51 percent in 2004, amounting to US\$336mn, which accounted for 80 percent of Yunnan-Vietnam trade and 10 percent of China-Vietnam trade in 2004. Almost one million tons of cargo is transported annually across the Hekou-Lao Cai border crossing points.

The increase in connectivity that has taken place through transport linkages and infrastructure has highlighted the importance of complementary measures related to policies and institutions, including trade facilitation, which has emerged as a key element to spur investment and economic growth in Lao Cai province. Lao Cai is of significant relevance to deeper trade integration between Vietnam and China in particular, and in the GMS as a whole including policy and institutional issues related to the handling of border and behind-border issues. The integration is expected to further alleviate the high poverty rate of 61 percent, low literacy rate, low rate of trained labour and lack of skilled workers.

Key Issues and Challenges

As part of the economic corridor development plan, Lao Cai has laid much emphasis on trade facilitation and investment. The province gives priority to trade promotion through building up facilities like trade centres, markets, supply stores and processing units of agro-forestry products. The market demand for exports is huge from neighbouring Chinese areas, which underlines the need for better transport connectivity and infrastructure upgrade.

The upgrading of the transportation system from other Vietnamese provinces connected to Lao Cai would also be the means to increase investment into the area. As such, in 2005, Lao Cai started to build a border gate trade zone centre, which has an area of 22,000 square metres. Apart from that, a number of economic zones and industrial zones have been built and will be built along the corridor to promote trade and production activities. The Kunming-Lao Cai-Ha Noi-Ho Chi Minh City railways are also planned to be

upgraded. Much more, however, remains to be done, which would require huge amounts of capital – which the province might have difficulty in mobilising.

Besides, there are other challenges that Lao Cai is faced with. First, the issues of supply-demand imbalances and under-developed private sector capability persist. Most transactions of the province are done through very small-scale production-trade family businesses, with limited role in production-supply in the market chain and limited ability to help

Table 1: Main statistics of Lao Cai Province

	Lao Cai (2001-2005)	Lao Cai (1996-2000)
Population	576,800	575,000
Jobs created	9,000/year	Not available
Economic Structure		
- Agriculture	35.66 percent	40.80 percent
- Industry	25.66 percent	21.08 percent
- Services	38.68 percent	33.09 percent
GDP growth rate	11.90 percent	6.20 percent
Export-Import Volume	US\$430mn	US\$140mn

Source: General Statistic Office of Vietnam, Lao Cai socio-economic development plans

the poor farmers to supply to the supply chain. Second, while 80 percent of total businesses are very small and medium sized (employing less than 50 labourers), only few can apply modern technologies in production and process agricultural products. Third, while Lao Cai has to balance between potential agricultural production and industrial growth by increased investment, the province is in serious shortage of business associations and vocational centres that can build the capacity of its human resources for industry, which mainly originate from off-season agricultural production labour force.

The development of local businesses in Lao Cai also has inherent weaknesses: little involvement in product value chain; low competitiveness in terms of technology, management, human resources and labour safety, etc.

Policy Measures

Lao Cai's policy is to boost local production for neighbouring areas and to help in poverty reduction. One of the priorities of this province for the next five year period (2006-2010)¹ is to develop handicraft industries and traditional production. However, the province should pay more attention to develop labour-intensive industries like textile, footwear and farm product processing.

Consultation in the province showed that local officials favoured those measures that help develop processing industries, stimulating SMEs, cooperatives,

and family farms for rural economic restructuring. Moreover, reflections from local grassroots people showed that they preferred the provincial programme to develop fruit trees, to transform high-yielding rice, to help the poor and enterprises with credits and land resources. In the lowland, the conversion of a self sufficient economy to commodity production for market economy requires the establishment of specialised areas with industrial plantations such as tea, plum, peach, orange and vegetable.

The province investment attraction policy to the area has improved private sector growth. The ability of the province to attract investment is reflected through the provision of land and infrastructure and fast procedures in public administration, which have resulted in increased inflows of investment projects and number of enterprises. For example, the province is running a very good e-government website <www.laocai.gov.vn>, on which all information regarding business procedures, taxes, registration are published and regularly updated.

Moreover, policies are made upon the citizen's feedback. The consultation on local socio-economic development plan (SEDP) in 2006 resulted in some concrete policy measures.² Enterprise development with focus on private sector in the province would mainly focus on forestry, farm products processing, tourism, services and aquaculture. FDI is encouraged in high technology areas like hydropower, natural resources etc.

Table 2: Issues, policies and results from Lao Cai province, period 2000-2007

Issues	Policy actions	Empirical evidence ³
Limited foreign investment because of lack of business environment and facilities	<ul style="list-style-type: none"> Implementation of the law on Foreign Investment through stronger economic cooperation and partnership between Yunnan and Lao Cai Improvement of transport, infrastructure and service facilities 	To date, 16 enterprises from Yunnan have invested in Lao Cai in industry, agriculture, and health services, accounting for US\$220mn. 86 percent of total foreign investment, in a total of 37 foreign direct investment (FDI) projects, is mainly in energy, hydropower, mineral/natural resources exploitation
Inadequate ability of local business in trade, lack of market information and professionalism in trade services and customs	<ul style="list-style-type: none"> China-Vietnam trade facilitation is carried out through information exchange, exhibitions, cross-border trade, policies to attract investment cross-borders from China to Lao Cai. Promoting use of information technology with e-commerce portal at the www.laocai.gov.vn gateway and encouraging enterprises to use e-commerce. Customs modernisation 	<ul style="list-style-type: none"> In 2005, export-import volume reached US\$430mn, an increase of 22.5 percent compared to 2004 and in 2006 at US\$476.86mn, an increase of 11 percent over 2005 300 enterprises make transactions through the e-commerce portal In the first six months of 2007, export-import volume via Lao Cai Border increased by 150 percent
Shortcomings in implementation of the Law on Enterprises	<ul style="list-style-type: none"> Formation of a Business Support Task Force Encouraging policy to invest in highland by tax exemption Developing industrial zones 	<ul style="list-style-type: none"> To date, 100 investors in industrial areas, have used 60 percent of the total area Up to 600 Vietnamese enterprises are registered to operate in Lao Cai
Low quality/unskilled labour force (only 22 percent trained).	<ul style="list-style-type: none"> Job creation policy through involvement of small and medium sized enterprises using local labourers Supporting financial and vocational training for businesses 	<ul style="list-style-type: none"> Each year, 9000 jobs are created by the private enterprises Trained labour force has increased to 36 percent (2007) Per capita income, which was half of the country's average has now increased to US\$690 per annum

Another policy is to modernise trade services and facilities. Trading centres and markets have been built to provide basic infrastructure for trade facilitation. International fairs are hosted by the province so that international and Vietnamese companies have a chance to learn about each other's potential and offered opportunities.

In 2007, Lao Cai and Yunnan started the one-door Customs policy to minimise the number of customs procedures required for cross-border trade under the cooperation framework of the GMS. E-commerce is applied with the facilitation of an official business gateway and other forms of product marketing.

Encouraging Results

In the provincial competitive index (PCI) 2006,⁴ Lao Cai ranked 6 in the top competitive provinces against criteria such as low cost of market at 7.78 points, access to land at 5.93 points, transparency and access to information at 7.8 points, time for transactions at 4.33 points; dynamic leadership at 6.99 points, policies for private sector development at 7.01 points and labour training at 6.46 points.

Conclusion

Lao Cai province is one of the provinces where trade and investment in regional economic cooperation in the GMS have shown most positive impacts. The key development element is the private sector. The leadership therein has identified the role of private sector in provincial socio-economic development and is helping the poor farmers. The province has also adopted suitable policies to promote trade and investment into the local area through provision of incentives for the private sector. The important step is to strengthen institutional capacity to deliver and make further changes that improve investment environment, trade facilitation and ensures social benefits.

The policy focus is on boosting industrial development, production and economic restructuring from agricultural subsistence into market economy; creating a conducive investment and business environment and mobilising resources through

Case 1: Enterprises grow vegetables for export in Sapa – Lao Cai: New direction for farmers

Sapa district, with suitable climatic conditions has been identified for growing vegetables. Four Taiwanese companies and many Vietnamese enterprises have invested here, with technology on clean vegetation and using land and local labour for production of vegetables, Olong tea, flowers and fresh water fish. Seven local cooperatives also use this technology, which has helped local farmers with jobs. Farmers lease their land and work as labourers to earn salaries. Alternatively, farmers use the technology and seeds from enterprises and sign contracts with enterprises to grow and sell their products.

Case 2: Lao Cai: "Local enterprises boom"

Among 700 local enterprises, a female entrepreneur of Linh Duong Co. Ltd. has taken resource advantages of Lao Cai to invest in tea plants. With the credit support from the Agribank, after five years, she has grown 200 ha of tea for export. The women entrepreneur has invested in land, technology and new seeds, employed all local farmers and trained them in the new technology and tea-growing skills. The enterprise now produces 20,000 tons of fresh tea a day, and employs more than 200 workers and local households in production.

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participation from economic entities including households and establishment of small and medium sized enterprises; and, finally, development of labour force with provision of sufficient job information, vocational trainings and improvement of corporate responsibility to local labour forces.

The Key Advocacy Messages

- The central and provincial governments need to invest more on human resources development, and public administration in order to provide more efficient public services and to provide trade facilitation and investment.
- The development of SMEs is critical in providing employment for local workers and to support local farmers in adopting new technology, producing on their own land and resources, in the mean time, identifying the supply-chain for production networking with regional economies.

References

- 1 Lao Cai Province's Socio-economic Development Plan 2006-2010
- 2 Consultation with stakeholders on 5-year SEDP, carried out by Vietnam Institute of Economic, Jan. 2006. Ngo Huong in consultation with provincial leaders. June 2007
- 3 Ref. to articles and some in <http://www.doanhnghiep24g.com.vn/cms/detail.php?id=6021>
<http://www.molisa.gov.vn/frmdocchitiet.asp?mbien1=01&mbien2=113&mbien3=7911>
- 4 The Provincial Competitiveness Index (PCI) is the result of a major collaborative effort of the Vietnam Competitiveness Initiative (VNCI) and the Vietnam Chamber of Commerce and Industry (VCCI). It is an effort to explain why some parts of the country perform better than others in terms of private sector dynamism, job creation and economic growth. Using new survey data from businesses that describe their perceptions of their local business environments, as well as credible and comparable data from official and other sources regarding local conditions, the PCI rates all Vietnamese provinces on a 100-point scale. More about it at www.pcivietnam.org.

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