

## Border Trade in the GMS

### *Ground Realities and Future Options*

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#### Background

Trade between countries in the Greater Mekong Sub-region (GMS)<sup>1</sup> has seen an increasing trend over the past decade, primarily due to two reasons: the opening up of the Cambodia-Laos-Myanmar-Vietnam (CLMV) countries to trade, and the rise of trade and development cooperation among the GMS members. However, the intraregional trade volume in this sub-region still represents only a small proportion of total trade, compared with the rest of the world. GMS intraregional trade is around 12 percent of the total trade.<sup>2</sup>

A noteworthy point from these figures is the higher ratio in the poorer and less developed economies in the group, including landlocked Laos. This shows their higher dependence on intra-regional trade and accordingly, the significance of intra-regional trade in their economies. In addition, the percentage of overland cross-border trade to the total intra-

regional trade volume is even smaller. Various studies and research have identified the huge potential and the complementary nature of the regional economies, which could help to expand trade and together with that, maximise the benefits accrued from trade for local people. Some initiatives have also been undertaken by donor agencies in the region towards reducing the barriers to intra-regional trade here, and trade facilitation. However, the picture still looks grim.

#### Border Trade in the GMS

Border/cross-border/overland trade in general, refers to the flow of goods and services across the international land borders between countries. In this sense, it is a part of normal trade that flows through standard export-import frameworks of nations. It is necessary, in this case, to differentiate trade over 'international border points' from other 'local border points' in the GMS, where only the residents in

**Table 1: Share of intra-regional trade to total trade of the GMS\***

Unit: Percentage of total trade with the world											
	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
<b>Cambodia</b>	20.1	34.5	39.0	36.4	33.6	40.0	31.5	22.0	19.5	27.3	24.5
<b>China**</b>	1.2	1.2	1.3	1.9	1.7	1.8	1.7	1.7	2.1	2.1	1.9
<b>Lao</b>	63.3	48.9	55.8	57.3	61.1	66.8	65.7	70.6	65.5	68.6	67.8
<b>Myanmar</b>	23.4	23.6	22.8	24.1	18.1	17.5	18.5	27.6	28.9	34.0	35.6
<b>Thailand</b>	2.8	2.5	3.4	4.0	4.0	4.6	5.3	6.0	6.8	7.7	8.9
<b>Vietnam</b>	4.7	8.0	9.9	10.4	7.9	8.9	10.9	11.9	14.9	14.6	13.9
<b>Average for GMS#</b>	5.7	6.2	7.2	7.6	6.7	7.4	8.3	9.5	10.7	12.0	12.6

Notes: \* Ratio of total trade with GMS countries to total trade with the world.

\*\* Ratio of the total trade of entire China with GMS countries to total trade of entire China with the world. According to Chinese customs data, the total bilateral trade volume between China and the other five GMS countries in 2004 exceeded US\$25bn, double that of 2002. Trade between the two participating Chinese provinces, Yunnan and the Guangxi Autonomous Region, and the five GMS countries of Southeast Asia was worth US\$1.87bn in 2004, a 21.4 percent increase over 2003.<sup>3</sup>

# Weighted average based on purchasing power parity-gross national income shares.

Source: ADB (2004), *GMS Regional Economic Cooperation Strategy and Programme*

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immediately neighbouring provinces/states can cross borders and trade freely. The volumes of trade over international border crossings are always recorded and contribute to the total volume of intra-regional trade mentioned above, except in the case of illegal smuggling. On the contrary, the local border points might carry noticeable trade volumes as well, but they are unrecorded, their traffic would mainly be limited to those immediate neighbouring provinces/states and thus, of limited economic impact on the sub-region as a whole. Another way of referring to this trade is, therefore, 'informal border trade'.

Border trade has a rather significant role to play in the relationship between two or more neighbouring countries; and in this case, the GMS members. It is considered a key indicator of health of such relationships and provides quite largely for the livelihoods of their people. That is, if people of neighbouring countries can live together, sharing resources and opportunities, there will be regional peace, security, economic prosperity and development.<sup>4</sup>

Border trade in the GMS, similarly, also has the same characteristics and bear the same significance to the trading partners. With the increasing interest in sub-regional cooperation, international assistance and the spurt in tourism and services sector growth, the border zones of the countries in the GMS are undergoing rapid transformation, most notably through infrastructure and

institutional development. However, not always, trading activities could keep up with such changes, resulting in a mixed picture for overland cross-border trade in the GMS.

Informal border trade, which includes trading activities across the thousands of kilometres of international boundaries in the region, is carried out largely by small merchants and itinerant traders. Such trade includes goods as diverse as vegetables, fruit, fish and fish products, livestock, rice, fertilizers and pesticides, processed foodstuffs, gemstones, timber, forest products, animals and animal parts. Border trade – especially in the Golden Triangle area – also includes narcotics and sex work, although this is rarely recorded in official economic reports about the region.<sup>5</sup>

Much of this trade is unregulated and some is illegal, but it serves as an important source of livelihood for the people living along the borders. The traders often use small amounts of capital and deal in low volumes and, usually, low value products for sale in the local market within the border zone. In all the border zones, the number of such small/petty traders is large, although the total volume of goods that they account for is relatively a small fraction of total trade (20-30 percent). Very few formal mechanisms or rules affect this flow, which is either approved by law or tolerated *de facto*. Usually, small payments have to be made at the border as bribery to officials. Key elements frequently

**Table 2: International crossing points in the GMS used in distinction between cross-border and domestic road infrastructure**

	GMS member A		GMS member B	
<i>Borders between A/B</i>	<i>Name of border city/town</i>	<i>Name of border province/state</i>	<i>Name of border city/town</i>	<i>Name of border province/state</i>
Cambodia/Lao PDR	Trapeangkreal	Stung Treng Province	Khinak	Champassack Province
Cambodia/Thailand	Poipet	Bantreay Meanchey Province	Arayaprathet	Sa Kaeo Province
	Cham Yeam	Koh Kong Province	Hat Lek	Trat Province
Cambodia/Vietnam	Bavet	Xvay Rieng Province	Moc Bai	Tay Ninh Province
Lao PDR/Thailand	Huoyxay	Bokeo Province	Chiang Khong	Chiang Rai Province
	Thanaleng	Vientiane Municipality	Nong Khai	Nong Khai Province
	Thaknek	Khammouan Province	Nakhon Phanom	Nakohn Province
Lao PDR/Vietnam	Savannakhet	Savannakhet Province	Mukdahan	Mukdahan Province
	Nam Phao	Borikhamxay Province	Cau Treo	Ha Tinh Province
Lao PDR/Yunnan	Densavanh	Savannakhet Province	Lao Bao	Quang Tri Province
	Boten	Luangnamtha Province	Mengla	Xishuanbanna Region
Myanmar/Thailand	Myawadi	Kayin State	Mae Sot	Tak Province
	Taichilek	Shan State	Mae Sai	Chiang Rai Province
Myanmar/Yunnan	Mongla	Shan State	Daluo	Xishuanbanna Region
	Muse	Shan State	Ruili	Baoshan Region
Vietnam/Yunnan	Lao Cai	Lao Cai Province	Hekou	Wenshan Region

Source: Fujimura & Edmonds (2006), *Impact of Cross-border Transport Infrastructure on Trade and Investment in the GMS*, ADBI Discussion Paper No. 48, p. 18

**Box 1: Border trade in South Asia: is it similar?**

India, Bangladesh, Bhutan, China, Myanmar, and Nepal, together boast a total population of about 2.5 billion, and their rapid economic development has demonstrated broader prospects for regional cooperation.

However, while the tariffs in this region tend to decline and despite geographical contiguity, these countries trade less among themselves overland. The fact is that except India's trade with Bangladesh, Bhutan and Nepal, and to a lesser extent that between China and Myanmar, around 85 percent of the merchandise trade of this region passes through sea and rest overland. Most of India-Bangladesh trade is conducted overland and the same between India and Myanmar is very negligible. At the same time, due to a phenomenal rise in the India-Bangladesh overland trade, land customs stations dealing trade between the two countries are highly congested which results in high transaction costs.

At a glance, overland trade between India and her immediate eastern neighbours is not the preferred way of trade transactions. The reasons include absence of integrated and harmonised transportation networks (virtually in the entire region), adequate and active overland official trade outlets and associated facilities (e.g. India and Myanmar) and trade facilitation policy measures (e.g. inadequate land customs stations).

*Source: Prabir De (2006), Facilitating India's Overland Trade in the Eastern Neighbourhood, RIS Policy Brief No. 29, p.1-2*

associated with these informal flows include dependence on personal relationships that have evolved over time and are sustained by repeat transactions between traders or between traders and customers.<sup>6</sup>

The informal sector has strong implications for anti-poverty policy and distribution of gains from trade. It can be huge, generating work and income for myriad of small traders, processors, artisans, transport workers, etc. However, as border trade develops and becomes more formal, enterprises become larger, complex and more competitive, often crowding out the smaller firms or individual operators from the market. Generally, Cambodian and Lao border trade remains overwhelmingly informal and dominated by small traders. The experience on the Vietnamese, and particularly on the Thai border suggests that the crowding-out effect is well under way.

At the formal end of the spectrum are the various unilateral policies adopted by regional governments, bilateral trade and investment agreements, and regional cooperation agreements through the Association of

Southeast Asian Nations (ASEAN), the GMS, and the more recent Ayeyawadi-Chao Phraya-Mekong Economic Strategy (ACMECS) framework.

In terms of volume, formal trading channels account for the bulk of border trade in the region, constituting some 70-80 percent of the total volume of trade. These flows are formal in the sense of being recorded, requiring paper work, appropriate documentation and processing, i.e. in terms of export-import procedures. Frequently, even these formal flows include an informal component, in terms of under-invoicing, tax evasion and partial payments and partial recording.

The formal flows tend to be dominated by big traders, who are able to mobilise large amounts of capital. These traders provide multiple services, including transport, payments, clearing and forwarding, handling and storage. In addition, they have excellent networking with border trade officials, including customs and immigration. In fact, there is a distinct impression that in some cases at least, the border trade is closely controlled by a small number of powerful

**Table 3: Proxies for export, and import environment in the GMS**

Selected Proxy	<i>Export environment</i>			<i>Import environment</i>		
	No. of documents required for export (number)	Time spent on clearing export regulations (days)	Cost to export (US\$ per container)	No. of documents required for import (number)	Time spent on clearing import regulations (days)	Cost to import (US\$ per container)
Cambodia	11	37	722	11	46	852
Lao PDR	9	50	1750	10	50	1930
Myanmar	Not available					
Thailand	7	17	615	9	14	786
Vietnam	6	24	669	8	23	881
PRC	7	21	390	6	24	430

*Source: World Bank (2007), "Doing Business" Database*

intermediaries acting in collusion with border authorities, and able to restrict entry.

A big problem and a cause of complaint by the traders of the formal trading channel in this region are the customs procedures of various countries, bureaucracy and red tapism, as well as the outdated and bulky system of clearance, which are extremely time-consuming and increase costs significantly. The intended effect of anti-smuggling and security of such systems is not achieved; instead they are the main reasons why many traders opt for the informal/illegal method.

### **Institutional Arrangements and Impacts**

One important measure to promote border trade in the region was the conclusion and ratification by all member countries of the Framework Agreement to Facilitate Cross-Border Movement of Goods and Peoples in the GMS, also known as the GMS Cross-Border Transport Agreement (CBTA), in December 2003. The agreement covers all the relevant aspects of cross-border transport facilitation in one document, which include:

- single-stop/single-window customs inspection;
- cross-border movement of persons (i.e., visas for persons engaged in transport operations);
- transit traffic regimes, including exemptions from physical customs inspection, bond deposit, escort, and agriculture and veterinary inspection;
- requirements that road vehicles will have to meet to be eligible for cross-border traffic;
- exchange of commercial traffic rights; and
- infrastructure, including road and bridge design standards, road signs, and signals.<sup>7</sup>

The CBTA applies to selected and mutually agreed upon routes and points of entry and exit in the signatory countries. It includes a preamble and 10 parts, and has 20 annexes and protocols.

One of the first and foremost activities undertaken under this framework is the pilot establishment of single-stop customs inspection initially in border crossings at Mukdahan in Thailand and Savannakhet in Lao PDR and Lao Bao-Dansavanh to Savannakhet, Poipet in Cambodia and Aranyaprathet in Thailand, Moc Bai in Cambodia and Bavet in Vietnam, and Hekou in China and Lao Cai in Vietnam. The experience in the initial implementation of the CBTA at the Dansavanh-Lao Bao border-crossing point has been positive, realising significant results and providing valuable lessons to the other pilot border-crossing points. Processing time for cargo trucks crossing the border has been reduced from four hours to 70-80 minutes and for passenger cars, from two hours to 30 minutes. The processing time for cargo trucks is expected to be reduced further to 30 minutes and for passenger cars, to around 10 minutes or less.<sup>8</sup>

The other significant activity was the development of several economic corridors in the GMS, which gained approval at the eight Ministerial conference in Manila as a priority initiative under the GMS programme framework in the late 1998.<sup>9</sup> “Economic corridors” refer to major hubs or centres of economic activities and exchanges in well-defined geographical areas, usually centred around transport routes or “transport corridors” where infrastructure development and economic activities are integrated.<sup>10</sup>

Transport corridors, budgeted at US\$6.5bn, form one of the 27 infrastructure projects under the ADB-supported GMS economic corridors development. Construction of trans-boundary highways, as well as national and provincial roads that connect international highways, is projected to be completed in three economic corridors by the year 2015. The three economic corridors are:

- *The East-West Economic Corridor (EWEC)*: About 1,450 kilometres (km) long, this corridor is the only direct and continuous land route between the Indian Ocean (Andaman Sea) and the South China Sea. This corridor has been completed, except for a 40 km road section in Myanmar, and is the first GMS corridor to have reached this stage. The Second International Mekong Bridge between Mukdahan in Thailand and Savannakhet in the Lao PDR was inaugurated on December 20, 2006. An initial impact assessment of the development impact of EWEC on Savannakhet Province found significant benefits, such as (i) reduced travel time from the Lao-Vietnam border of Lao-Bao-Dansavanh to Savannakhet by bus from about 12 hours to only about three hours presently; (ii) increase in foreign direct investment and joint ventures in Savannakhet Province, much of which has been influenced by EWEC development; (iii) expansion in employment and income-generating opportunities; and (iv) improvement of access of rural students to secondary schools.
- *The North-South Economic Corridor (NSEC)*: Three different routes along the north-south axis of this corridor are Kunming-Chiang Rai-Bangkok via the Lao PDR or Myanmar route, Kunming-Hanoi-Haiphong route, and the Nanning-Hanoi route. The Mekong bridge between Houayxay on the Lao PDR side and Chiang Khong on the Thai side remains to be the missing link along the first route of the North-South corridor. In this regard, the Lao PDR and Thailand have agreed on a site for the bridge. Overall, work on the transport links under the two routes of the NSEC is progressing towards the target completion date of 2010, with many sections in the PRC, Lao PDR, Myanmar, Thailand, and Vietnam having been completed in the last 2-3 years.

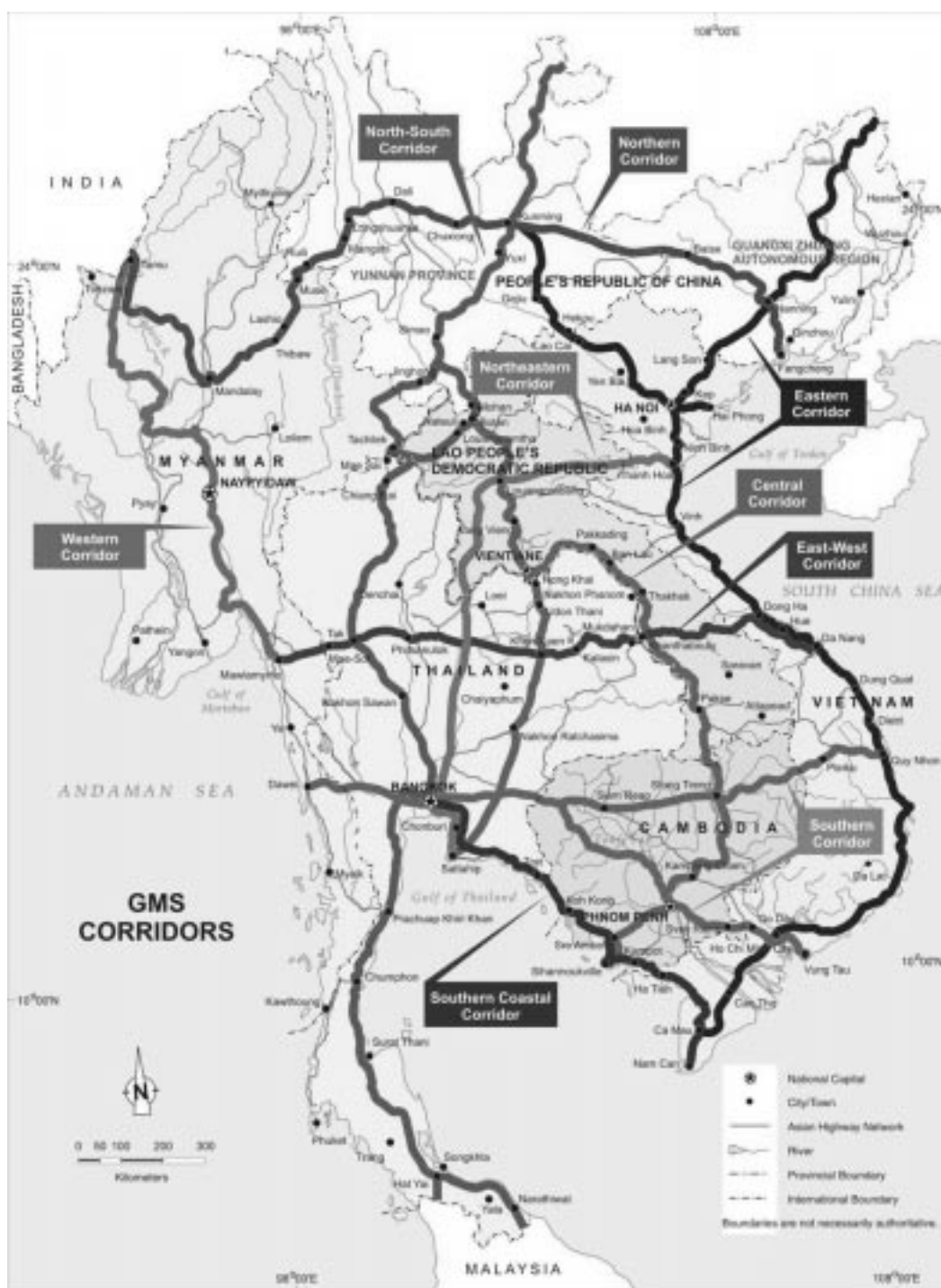


- *The Southern Economic Corridor (SEC):* The SEC is defined by three main road sub-corridors connecting major points in Cambodia, Thailand, and Vietnam. The three sub-corridors are making good progress toward realising the target completion date of 2010, with many sections in the sub-corridors already completed. Benefit monitoring reports for completed sections of the sub-corridors indicate that benefits are already being realised in terms of savings in travel time, lower travel costs for passengers and lower maintenance costs for vehicles, increased volume of trade, and generation of employment opportunities for the local population.

A number of economic effects can be expected from these economic corridors. The corridors will connect several cities that have high population, income level and purchasing power such as Bangkok, Ho Chi Minh City, Kunming, Hanoi, and Phnom Penh. What is more important is the domino effect they would have on the lives of people living in poor border areas, rural areas and landlocked provinces and states.

## Conclusions

As compared to other regional and sub-regional groupings, the level of cooperation within the GMS has already been considered as quite progressive, especially after taking into account the low level of



economic development of most of the member States, as well as the remaining deep differences between them. The GMS cannot quite match groupings such as the European Union, but it certainly has outpaced groupings such as Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), or even ASEAN in several aspects, in particular, the development of institutional arrangements promoting border trade among member countries.

As some of its positive impacts, border trade in the GMS helps to decentralise economic development, provides relative freedom from foreign exchange fluctuations, fosters friendship and facilitates communication among neighbouring countries because of similarities in their language and culture. For poorer countries, access to health services across borders is essential. Challenging problems also include control of contagious diseases and quarantine of animals and plants. Political instability in border areas because of fragile bilateral relationships affects livelihoods. Border trade needs to be more regulated and legalised to prevent illegal trade of drugs and ammunitions and human trafficking.<sup>11</sup>

In some areas, as mentioned above, border trade is controlled by the state and is, therefore, under the monopoly of specific state enterprises. In other areas, barter trade only exists between nearby border areas because of poor road and transportation conditions. With the official opening of the borders in some places, opportunities for small traders have increased.

However, in other places, they have been displaced by large traders.

The development of economic corridors, as well as implementation of the CBTA, needs to be completed with full support from member governments; whereas the risks mentioned above needs to be foreseen and prevented to the best extent possible. In addition to harmonised customs procedures, reduced red tape and bureaucratic delays, modernised customs checkpoints, and improved transport linkages, perhaps the provincial governments at the borders should consider the building of more industrial zones and free trade zones, so that border trade, and more importantly economic development and poverty reduction along the borders, could be promoted holistically. Besides, associated soft infrastructure to support trade facilitation should be in place, which means approval and implementation of required legal and policy reforms; effective agreement on trade and transit treaties; pro-active involvement of the local economy in border trade; and measures to address social disruptions and environmental impacts caused by new projects in the region.

Finally, there is a need to study more intensively the impact of border trade policies and the governance of border trade and border towns, as well as existing economic structures and organisations and power relations, so as to ensure that border trade in the GMS region would contribute to the overall welfare of the local people and growth of the local economy.

## Endnotes

- 1 The GMS is a sub-regional cooperation framework initiated and supported by the Asian Development Bank since 1992. The programme involves the participation of Cambodia, Lao PDR, Myanmar, Thailand, Vietnam, and Yunnan Province of China, and most recently the Guangxi Autonomous Region.
- 2 Ake-Aroon Auansakul (2007), *Policy Strategy to Increase GMS Intraregional Trade*, International Institute for Trade and Development (ITD), Thailand.
- 3 Thomas Chang (2006), *China's Participation in the Greater Mekong Sub-region (GMS): A Review and Analysis of Chinese News Media*, at <<http://www.stimson.org/southeastasia/?SN=SE20060518998>>.
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- 6 K.A.S. Murshid (2005), *The Cross Border Economies of Cambodia, Laos, Thailand and Vietnam*, Cambodian Development Research Institute (CDRI).
- 7 As per the ADB's website content on the GMS, available at <http://www.adb.org/GMS/Cross-Border/default.asp>, as of May 2007.
- 8 ADB (2007), *Mid-term Review of the 10-Year GMS Strategic Framework 2002-2012*, p.15.
- 9 ADB, *Linking Nations Coast to Coast*, <[http://www.adb.org/Documents/Periodicals/ADB\\_Review/2002/vol34\\_6/linking\\_nations.asp](http://www.adb.org/Documents/Periodicals/ADB_Review/2002/vol34_6/linking_nations.asp)>.
- 10 Mekong Institute (2007), *Socio-Economic and Environmental Impacts of Roads Infrastructure Development in the Greater Mekong Sub-region*, Policy Brief Series, p.4
- 11 Kusakabe *et al* (2006), *Impact of Promoting Border Trade among GMS Countries on the Well-Being of Local People*.

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