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THE CROSS BORDER TRADE AND ITS IMPACT ON THE  
GROWTH OF LAO BAO BORDER TOWN, QUANG TRI  
PROVINCE, VIETNAM



Miss Doan Thi Thanh Mai

A Thesis Submitted in Partial Fulfillment of the Requirements  
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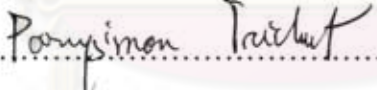
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ด่วน ทิ ทาง มาย: อิทธิพลของการค้าชายแดนต่อการเติบโตของเมืองชายแดนลาวบ่าว จังหวัดกว๋างจิ ประเทศเวียดนาม (THE CROSS BORDER TRADE AND ITS IMPACT ON THE GROWTH OF LAO BAO BORDER TOWN, QUANG TRI PROVINCE, VIETNAM) อ. ที่ปรึกษาวิทยานิพนธ์หลัก: นางสาว พรพิมล ตรีโชติ, 155 หน้า.

วิทยานิพนธ์ฉบับนี้มีวัตถุประสงค์เพื่อศึกษาทิศทางของการค้าข้ามพรมแดนระหว่างเวียดนามและลาว โดยศึกษาจากด่านลาวบาว ในช่วง 12 ปีที่ผ่านมา (ค.ศ.1998 – ค.ศ.2010) รวมถึงการศึกษาผลกระทบด้านเศรษฐกิจ - สังคม ที่เกิดขึ้นจากการค้าข้ามพรมแดน โดยเดิมลาวบาวนั้นเป็นเมืองชายแดนที่ไม่ได้รับความสนใจและเป็นพื้นที่ยากจนที่สุดของจังหวัดกว๋างจิ ประเทศเวียดนาม นอกจากนี้การวิจัยยังแสดงให้เห็นปัจจัยหลักที่มีผลต่อการทำธุรกรรมการค้าข้ามแดนของทั้งสองประเทศโดยผ่านด่านพรมแดนลาวบาว – แดนสะหวัน ด้วย

การศึกษาพบว่าในช่วงเวลา 10 ปีที่ผ่านมา การค้าข้ามแดนของเวียดนามที่ค้ากับลาวโดยผ่านด่านลาวบาวนั้นมีการเติบโตอย่างมาก ซึ่งปัจจัยสำคัญที่สุดที่ส่งผลให้มีการค้าข้ามแดนเพิ่มขึ้นคือ การก่อตั้งเขตเศรษฐกิจพิเศษลาวบาวและพื้นที่เชิงพาณิชย์(Commercial area)ในปี1998 ส่วนปัจจัยสำคัญอื่น ๆ ที่เอื้อต่อการเพิ่มการค้าข้ามแดนคือ การที่เส้นทางกระเบียงตะวันออก-ตะวันตกได้ดำเนินการมาถึงขั้นเสร็จสมบูรณ์ รวมทั้งการเริ่มต้นข้อตกลงขนส่งข้ามแดน (Cross Border Transport Agreement) และการดำเนินพิธีศุลกากรแบบ “Single stop”

งานวิจัยชิ้นนี้ยังพบว่า การค้าข้ามแดนบริเวณด่านลาวบาวที่เพิ่มขึ้นนี้ ได้ส่งผลในเชิงบวกอย่างมากต่อการเจริญเติบโตของพื้นที่ชายแดนลาวบาว ผลโดยตรงที่จะสังเกตได้ชัดคือ การพัฒนาโครงสร้างทางเศรษฐกิจและอัตรา การเจริญเติบโตทางเศรษฐกิจที่สูงในลาวบาว คนท้องถิ่นมีรายได้มากขึ้น ลดปัญหาความยากจน ส่วนผลอื่นๆ ก็มีเช่นกันได้แก่การพัฒนาด้านสาธารณูปโภคพื้นฐาน และความสะดวกในการเข้าถึงบริการขั้นพื้นฐาน นอกจากนี้เศรษฐกิจของลาวบาวยังมีการเปลี่ยนแปลงจากการเกษตรสู่การเป็นแหล่งการค้าที่มีความคึกคัก มีการพัฒนาด้านอุตสาหกรรมและการบริการ ซึ่งล้วนแต่มีส่วนช่วยในการปรับปรุงมาตรฐานการครองชีพของคนในท้องถิ่น รวมทั้งการพัฒนาเศรษฐกิจและสังคมของจังหวัดกว๋างจิ อย่างไรก็ตาม ยังคงมีอุปสรรคที่ขัดขวางการขยายตัวของการค้าข้ามแดนกับลาวอยู่หลายประการ รวมทั้งเป็นอุปสรรคต่อการพัฒนาพื้นที่ด้วย ซึ่งได้แก่ ช่องว่างนโยบายการให้สิทธิพิเศษ การลักลอบขนส่งสินค้า จุดอ่อนในการนำข้อตกลงขนส่งข้ามแดนมาปฏิบัติ และขั้นตอนดำเนินพิธีศุลกากร ซึ่งทั้งหมดนี้ต้องอาศัยการกำหนดนโยบายที่มีประสิทธิภาพจากรัฐบาลกลาง รวมทั้งต้องอาศัยทักษะการจัดการและการดำเนินงานของรัฐบาลท้องถิ่นลาวบาว

สาขาวิชา เอเชียตะวันออกเฉียงใต้ศึกษา

ปีการศึกษา 2553

ลายมือชื่อนิติ.....

ลายมือชื่อ อ.ที่ปรึกษาวิทยานิพนธ์หลัก. *Tanpimol Tri-uti*

## 5287659620: MAJOR SOUTHEAST ASIAN STUDIES

KEYWORDS: CROSS BORDER TRADE/ LAO BAO/ DANSAVANH/ EAST-WEST  
ECONOMIC CORRIDOR (EWEC) / GREATER MEKONG SUB-REGION (GMS)

DOAN THI THANH MAI: THE CROSS BORDER TRADE AND ITS IMPACT  
ON THE GROWTH OF LAO BAO BORDER TOWN, QUANG TRI  
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The thesis aims to study the current trend of cross border trade between Vietnam and Laos through the Lao Bao international checkpoint over the recent years (1998-2010) and the impacts of cross border trade (CBT) on the socio-economic development of Lao Bao border town which was previously an isolated and the poorest border area of Quang Tri province, Vietnam. Moreover, the study also shows the main factors affecting the border trading transactions of the two countries through Lao Bao-Dansavanh border gates.

The study finds out that the cross border trade of Vietnam with Laos through Lao Bao border gate has increased with an impressive growth rate over the ten years. And the most important factor fostering the rise of border trade is the establishment of the Lao Bao Special Economic and Commercial Area initially in 1998. Other important factors contributing to the boost of CBT including: the completion of East West Economic Corridor in 2006, the initial implementation of Cross Border Transport Agreement (CBTA) and a single stop customs inspection applied at the Lao Bao-Dansavanh border checkpoints.

In addition, the research also discover that the increased cross border trade at Lao Bao checkpoint has brought about many positive effects to the growth of Lao bao border area. Of which, the direct impacts which are easily noticed include economic restructure and high economic growth rate in Lao Bao, the income improvement and poverty reduction for local residents. Other impacts such as infrastructural improvements, easy access to basic service are all found out. The Lao Bao economy has been changed from pure agriculture to an active centre of trading, services and industrial development, that contributes significantly to improvement of living standard of local people as well as social economic development of Quang Tri province. However, there still exist many obstacles that hinder Lao Bao from expanding CBT with Laos as well as further developing the area include: gaps in special preferential policies, smuggling, shortcomings in CBTA implementations and customs procedures. These require more effective policy intervention from central government and management skill and operation of the local government of Lao Bao.

Field of Study : Southeast Asian Studies

Student's Signature.....

Academic Year : 2010.....

Advisor's Signature..... *Pornpimon Trichot*

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## LIST OF ABBREVIATIONS

ADB	-	Asian Development Bank
AFTA	-	ASEAN Free Trade Area
ASEAN	-	Association of Southeast Asian Nations
CBT	-	Cross Border Trade
CBTA	-	Cross-Border Transport Agreement
CEPT	-	Common Effective Preferential Tariff
EWEC	-	East West Economic Corridor
GDP	-	gross domestic product
GMS	-	Greater Mekong Subregion
Lao Bao SECA	-	Lao Bao Special Economic and Commercial Area
Lao PDR	-	Lao People's Democratic Republic
SSCI	-	Single Stop Customs Inspection

ศูนย์วิทยพัทพากร  
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# CHAPTER I

## INTRODUCTION

The first chapter presents the rationale of the study on cross border trade between Vietnam and Laos in Lao Bao border town. This chapter also provides objectives of the study, the methodology of the research, the scope of study, significance of research, literatural review on cross border trade issues as well as the limitation of the research.

### 1.1. Rationale

In 1986, the government of Vietnam decided to implement a new course of economic reforms called “Doi moi” (renovation) to shift from a centrally-planned economy to a market-oriented economy with the country’s open-door and international economic cooperation policies. Since then, the Party of Vietnam has adopted a policy “to be friends with all countries,” especially with those countries that share a border with Vietnam with the aim to cooperate and develop together in correspondence with today’s trends of economic integration and globalization. Given the geographical conditions of Vietnam, with long borders (4512km) connecting a number of its underdeveloped and remote rural areas to neighboring countries including Lao PDR, Cambodia and China, fostering cross border trade to improve the trading activities and living standards of people in these areas has long been considered one of the most critical issues facing the Vietnamese government. Cross border trade also plays a “big role in promoting economic development of border regions, improving the living standards of people, eradicating poverty, bringing more equitable income distribution, fostering friendship and accelerating transnational economic cooperation” with neighboring countries (DAN, 2005). Border trade development has been promoted under the Vietnamese Government’s

foreign trade policy in the context of regional integration and globalization with the general objectives of promoting economic growth and reducing poverty.

Of the three countries sharing border lines with Vietnam, Lao PDR has always been considered Vietnam's closest strategic neighbor. Vietnam and Laos together experienced a long struggle against French occupation for national independence and now cooperate closely with one another to further their development. Vietnam and Laos share a long border line (about 2,026 kilometres long) with at least six main border crossings that allow the flow of goods and people. Of these, Lao Bao is regarded as the main border crossing between Vietnam and Laos, connecting the Centre of Vietnam with Savannakhet Province of Laos. This was the first land border between Laos and Vietnam open for international travelers and has been for a long time the most popular border for trade between the two countries.

Lao Bao is a small town in the Huong Hoa district of Quang Tri Province, Vietnam, located in the North Central Coast region, sharing the border with Laos through Savannakhet province and along the Highway No. 9 (or National Highway No. 9), which is part of the East-West Economic Corridor. Ten years ago, the isolated land of Lao Bao was the poorest area in Quang Tri Province. Today, this remote border area neighboring Laos has become a special economic-commercial area and an important trade hub on the East-West Economic Corridor that links Vietnam, Laos, Thailand and Myanmar. Cross border trade between Vietnam and Laos via Lao Bao's international border crossing has played an important role in the socio-economic growth of Lao Bao to transform the previously poor border area into a region with a high rate of urbanization.

However, to what extent the cross border trade contributes to the development of Lao Bao, as well as the factors influencing border trading activities in the area, have not been fully studied yet. In addition, although Lao Bao is an important strategic area for the Vietnamese government to promote border trade to further develop cooperation in all fields with Laos, there still lacks complete and systematic research about cross border trade in Lao Bao as well as its impact on the development of the remote border area in recent years. Therefore, a serious and comprehensive assessment of the actual state of border trade between Vietnam and Laos through the Lao Bao border checkpoint is a matter of urgency. This type of assessment should consider successes and limitations as well as propose policies and measures aimed at developing further export-import trade across the border. This study, moreover, will hopefully contribute to the deeper knowledge and broader understanding about one of Vietnam's most important border towns.

## **1.2. Objectives**

The aims of this study are:

1. To identify the current status and trends of the cross border trading activities of Vietnam with Lao PDR at the Lao Bao border town in the recent years.
2. To analyze the main factors accounting for the boom in cross border trade in Lao Bao border town
3. To assess the impact of the cross border trading activities on the growth of Lao Bao border town.

## **1.3. Hypotheses**

1. An increase in border trade in Lao Bao has contributed to the transformation of

some local zones in Lao Bao from an agriculture-based economy into an economy in which industry and services play an increasingly important role.

2. The rise of cross border trade in Lao Bao has transformed a poor remote border town into an important transit point and one of the commercial centers of Vietnam.
3. Although the livelihoods of local people in Lao Bao must continue to improve, participation in cross border trade has proved to be an important route for local people to escape from poverty and to become gradually acquainted with the rules of a market economy.
4. The local people in Lao Bao participate more in doing business in border trade or get new economic opportunities, and consequently improve their income and quality of life.

#### **1.4. Scope of Research**

The study focused on the cross border trade between Vietnam and Laos through Lao Bao international checkpoint during the period 1998 (the time of Lao Bao SECA establishment) to 2010. After gaining the current trend of the cross border trade at Lao Bao checkpoint, the research started to analyze the main factors contributing to this trend and then exploring the impacts of cross border trade on the development of Lao Bao border area in general and livelihoods of local border people in particular. Due to the limitation of time and sources, the thesis focused on the border trading activities in Vietnamese side and emphasized on the impacts on local people in economic perspectives such as income, poverty rate, economic restructure and so on. The main primary sources of the study were from interviews and real observations at Lao Bao border town



(Vietnamese side) while the main secondary sources came mainly from official reports collected from People's Committee of Quang Tri province and official documents which Quang Tri authority sent to Ministry of Planning and Investment annually.

## **1.5. Methodology**

The qualitative research methodology was adopted for this research. The information in this research was mainly collected from primary sources by conducting field work in Lao Bao border town of Quang Tri province in Vietnam and secondary sources received from the documentary research.

### **1.5.1. Fieldwork**

For primary sources, the thesis collected information and data mainly based on fieldwork conducted at Lao Bao by using two methods, as follows:

- In-depth interviews with key-informants by using constructed and guided-questions: the author carried out individual and group interviews with local people living and doing business in Lao Bao; in-depth interviews with the officers of Lao Bao Border Gate Customs Department and People's Committee of Quang Tri province.
- Observation with participation: the author participated in a trip from Dong Ha to Lao Bao to measure the real travel time for Dong Ha-Lao Bao distance and to witness the ways goods and people are transported between the two areas. Moreover, the author also spent time at the Lao Bao international border checkpoint to observe the movements of people and goods passing through, as well as the customs procedures at the border gate.

Details of the target groups interviewed include:

- Mr. Le Huu Thang, vice chairman of People's Committee of Quang Tri province, Vietnam.
- Mr. Son, an official working at the Lao Bao Border Gate Customs Department.
- One group (four women) working in a black exchange currency market in front of the Lao Bao border checkpoint and over the border at the Dansavanh border checkpoint on the Lao side.
- Two employees working at the Bao Son Hotel in central Lao Bao. Two motorbike taxi drivers operating near the Bao Son Hotel. And one shop-keeper selling groceries at the Lao Bao Trade Center in Lao Bao border town.

### **1.5.2. Documentary Research**

The information was collected from various sources including books, articles, journals, official documents, trustful reports (e.g. documents and reports from the Ministry of Planning and Investment) and from the official website of Lao Bao Special Economic-Commercial Area and other reliable websites. Particularly, statistics and data about economic activities and border trade transactions in Lao Bao SECA were mainly collected from reports of the People's Committee of Quang Tri province and official reports that Quang Tri province submitted to the Ministry of Planning and Investment.

### **1.6. Significance of Research**

1. This research will help readers who are interested in issues related to cross border trade to have a better understanding of cross border trade between Vietnam and Laos through a case study of Lao Bao border town.

2. The research also serves as a useful reference for Vietnamese policy makers and researchers who want to conduct research on other Vietnamese border towns or intend to adjust/amend policies and regulations related to border trade activities in Lao Bao for further boosting border trade between Vietnam and Lao in general and at Lao Bao in particular. Besides, the study will act as a reference for local government officials in Lao Bao to know more about the real situation of border trade with Laos in their border town. They can provide practical measures for their town based on the author's recommendations.

### **1.7. Literature Review**

The nature of cross border trade (CBT) and its importance to the development of border towns have long been of interest to economists and researchers. There has been growing scholarly interest in recent years in the particular social, economic, and political circumstances of populations living around borders, and cross border economic transactions have also attracted extensive studies in recent years. CBT is one of major components of the cross border economy. This economy is also a key indicator of the relationship between two or more neighboring countries and the livelihoods of their people. That is, if people in neighboring countries can live together, sharing resources and opportunities, there will be regional peace, security, economic prosperity and development (DAN, 2005). CBT studies cover all the issues of cross border activities, such as the flows of capital, goods and people, and the social and environmental concerns in regional and national contexts. However, there have not been a lot of studies concerning this issue in Vietnam. Although there have been some academic works on cross border trade between Vietnam and China (such as through Lao Cai border checkpoint at Lao Cai border town), the cross border trading activities between Vietnam

and Lao PDR have received little concern. There are only a few works considering the cross border economy in the Greater Mekong Sub-region (GMS). In these studies, cross border trade between Vietnam and Laos was mentioned briefly and sketchily. There have been no comprehensive and specific studies about the cross border trade of Vietnam with Laos at Lao Bao border town and its impact on the growth of Lao Bao.

The most closely related and up-to-date study focusing on the impact and implications of cross border trade on five GMS countries appears in a publication prepared by a research team (including Theera Nuchpiam, Mya Than, Pornpimon Trichot, Nuttapon Tantrakunsab and Duanjai Denkesineelam) called “Study on Cross Border Economic and Social Transformation in the GMS: Impacts and Implications” published in March 2010 by the Institute of Asian Studies at Chulalongkorn University. This study of cross border economic relations in the GMS focuses on relations between and among five sub-regional states including China’s Yunnan Province, Laos PDR, Myanmar, Thailand and Vietnam. The research investigates various types of cross border economic activities in the five countries by analyzing the flows of trade (formal and informal), capital (foreign direct investment), and people. Besides, the work also analyzes the impacts of cross border activities on the border regions as well as their implications for sub-regional and regional relations within ASEAN and beyond.

Many border towns in the five countries were presented in the study. Of these, Lao Bao, the border town of Vietnam which shares a border with Savannakhet Province of Laos, was mentioned. The study found that the main three factors accounting for recent developments in cross border economic relations in the five countries included the impact of the GMS on sub-regional development cooperation, the opening of China’s southern border to Southeast Asia, and policies of the countries participating in this sub-regional

cooperation framework. The research also conducted surveys and fieldworks in border towns of the five GMS countries to find out the nature, the main types and patterns of cross border activities, including the flows of trade, capital and people. These border towns had been characterized as “actors” in cross border economic relations in their own right, in that their conditions, ranging from the existing infrastructure to local stakeholders and their policies, significantly affect cross border exchanges, contacts, and other activities.

The study also discovers that apart from the three factors taken as influencing the recent rise in cross border economic relations, both stakeholders and cross border procedures also have positive as well as negative impacts on cross border contacts and cooperation. The importance of the state’s role in initiating new policies and enforcing new laws, operational procedures and regulations is undeniable; however, the ones who push for cross border collaborative activities are the private sectors. Apart from the private sector, the local administrative organizations have assumed more active roles in cross border relations. Their roles have emerged in conjunction with the new decentralized policy, which has enabled them to assume a larger role in border towns’ growth.

Cross border procedures of the five countries were also analyzed. The study addresses certain cases in which they greatly facilitate these activities, while in others they seem to be part of the obstacles to free cross border flows of goods, people and capital among the GMS countries.

The authors also refer to two kinds of trade, including formal trade and informal trade occurring in the five participating countries; the impacts of informal trade to each

country are clearly analyzed. For example, in the case of the Lao Bao border area in Vietnam, the study identifies informal trade (particularly smuggling) along the border as a serious problem. By observing the border at the Lao Bao checkpoint, the authors noticed that the products smuggled from Laos into Vietnam were mainly liquor, beer, soft drinks, cigarettes, consumer and household products while the goods smuggled from Vietnam to Laos were mainly gasoline and diesel. And then the study points out some main reasons for this smuggling phenomenon.

Finally, the study of social and economic transformations as a consequence of cross border movements and activities was restricted to the border areas where these activities had been investigated. The research identifies social changes in these border areas, such as levels of household incomes and poverty, growth of border towns and communities as well as the livelihood of the migrant workers. For the case of Vietnam's border areas with Laos, like smuggling, cross border flows of people between Laos and Vietnam have both positive and negative effects on the Vietnamese side of the border; and the most benefit Vietnam gains from CBT with Laos is to create a labor market and increase the incomes of Vietnamese people living along the border.

The study concludes that cross border economic activities are necessary to the development of previously poor border areas. Many "border towns" have become centers for the development of trade and investment. "Certain remote districts where once only agricultural and forest products were available have been transformed into cross border trade and investment zones."

The most important point mentioned in the research regarding the Lao Bao border town is the strategic location of Lao Bao, which is situated on Route No. 9 (the main

transportation route of the East-West Economic Corridor). It passes through this checkpoint and reflects the Vietnamese government's policy of attracting foreign direct investment to the poorest part of the country – the central region. The study also stresses that the cross border economic activities at this border have not yet been developed, even though the potential for such development exists. Cross border activities are mainly limited to formal trade. Informal trade volumes are small and mainly in the form of smuggling. Besides, the flow of people is also not very active, with Vietnamese people mostly migrating to Laos to work for wood processing companies.

The research has given an overview of cross border economic activities in the GMS countries as well as its impacts on the society and growth of border towns and communities. The study has identified a number of factors that have contributed to the growth and emergence of new patterns of cross border movements and activities. The findings of this study on cross border economic activities are crucial and useful in the form of better understanding the nature and impact of cross border issues. Especially, for the study of Thailand, the authors provided a comprehensive analysis of the case study of the eight districts and provincial towns in the border regions; the stakeholders' role including State, private sectors and organizations, and local government administration to the development of border towns; the statistics of cross border trade with Myanmar, Laos and China throughout recent years and the social and economic impacts of cross border economic relations.

However, the study did not pay much attention to Vietnam, instead providing sketchy information and lacking of much crucial analysis compared with the comprehensive study of Thailand. The authors gave little information on the two border towns of Vietnam with Laos (Lao Bao and Bo Y) and one border town of Vietnam with

China (Lao Cai). The study also did not mention or analyze the general policies and specific regulations of the Vietnamese government, the roles of private sectors and local government administrative to the development of border towns in the three border towns (except to mention a little bit about the Vietnamese government's interventions in Lao Bao border town). Besides, the statistics of trading in border with Laos (especially cross trading in Lao Bao border town) and China in recent years also were not given out. Moreover, the impact of cross border economic activities on social change, and the lives of people living along the border, were also sketchily analyzed.

Another related and important study looks at four countries, including Cambodia, Lao PDR, Thailand and Vietnam (CLTV) and the cross border economies of each country, namely "The Cross Border Economies of Cambodia, Laos, Thailand and Vietnam" published in 2005 by Development Analysis Network (DAN) with funding from the Rockefeller Foundation. The book examines the nature of the cross border economies and gives insight into the benefits each country gained. "A central focus of the study is to explore trading conditions across borders to identify constraints and bottlenecks and provide some idea of transactions costs, facilitation needs and degree of competitiveness in cross border trade (CBT)." Each participating country conducts specific case studies of products traded across the frontier, examining trade circuits, actors, transport, handling, prices and financing. However, for the Vietnamese side, the author does not focus on specific items of trading activities, but takes a broader approach instead. It reviews the overall trade structure and highlights genetic problems and constraints faced by traders. The study also analyses two types of trade operating for CBT in all four countries: informal flows (involving small or petty traders, who use small amounts of capital and deal in low volume and low value products for sale in the local



market within the border zone, accounting for 20-30 percent of total trade) and formal flows (tending to be dominated by big traders, who are able to mobilize large amounts of capital, provide multiple services and have excellent networking with border trade officials such as customs and immigration). Moreover, the study conducts research on the welfare impact on each participating country through joining CBT. In all four countries, the welfare consequences of CBT seem very positive with some welfare benefits but the extent varied with the country and the border community. A common “gain from trade” means greater access to cheaper consumer goods. Both the direct and indirect impacts of CBT occur through labor market (Cambodia); agriculture (Laos); living standards (Vietnam); and incomes and consumption levels, labor market and service sector (Thailand). Any benefit of one country depends to a great extent on the direction and clarity of the particular border trade promotion policy, and the level of human resource and infrastructural development. Direct benefits, however, are limited and occur clearly in the areas along the major communication arteries. By contrast, indirect effects appear to be large, mainly through higher consumption levels and increased real incomes due to the easy access of cheaper imports.

The study finds greater levels of economic activity along some borders and some countries. The study concluded that the more advanced economies are in a better position to gain from CBT (such as Thailand and Vietnam) since they have clearer and more focused policies aimed at maximizing such benefits.

In the study of Vietnam, a participating country, the author examines the importance and impact of CBT on the living standards of people living along the border by giving out relevant analysis and empirical evidence of two case studies: Lao Bao and Moc Bai border areas. Prior to presenting the two case studies of Vietnam, the research

evaluates the necessity of CBT to the development of Vietnam, analysing the changes in policy to support for CBT of the Vietnamese government, and providing the current status of CBT areas in Vietnam. For the case study of Lao Bao, the study focuses on the establishment of Lao Bao Preferential Economic and Commercial Development Area in 1998 by the government in order to gain the full advantages of economic development in the area and to promote the friendly relations between Vietnam and Laos and its impact on the increase of CBT. Besides, the research also identifies the impact of cross border economy on living standards of the local population in Lao Bao and Moc Bai.

The two case studies of Vietnam conclude that participation in the cross border economy “has proved to be a way for people to escape from poverty.” This was proven by data and statistics from households. For both Lao Bao and Moc Bai, the data on income and expenditure indicate that participation in CBT has a positive impact on living standards. Furthermore, the results of the study also point out that in areas where there are more people involved in CBT and other transactions, the living standards of the people are higher. Therefore, the study reports that there is a significant difference in living standards between participants and non-participants in CBT. Other impacts of CBT on local income and expenditure are also noteworthy. Another important factor contributing to the boost in trade diversification and scale is the implementation of the CBT policy by the Vietnamese government. Overall, the rise of CBT in Lao Bao and Moc Bai have made these areas focal points for the flow of goods, services, currencies and transportation to and from Vietnam. However, there still exists a big disparity in performance and economic gains achieved by different border economic areas. Although participation in CBT has a positive impact on living standards, in fact remains that there is still a relatively low level of participation of local people in CTB in Lao Bao and Moc Bai

(around 10 percent of households in the region). The study also points out other shortcomings of CBT in the two case studies: the beneficiaries of open border markets are mainly from large cities or business centers rather than the local populace; and increased illegal trade and fraud, social evils in the regions are concerned with the increase in CBT.

The study provides comprehensive and relevant information about CBT of the four GMS countries in general and Vietnam in particular. The author identifies and analyses factors contributing to the rise of CBT in the four participating countries and the impacts of CBT on the living standards of local people. The most important and relevant point of the study is the finding regarding the necessity of participating in CBT as a way for local people in border areas to escape from poverty. However, this book was published five years ago (2005), so the data and statistics are not updated. Moreover, some new factors affecting the development of CBT are also lacking in this book such as: the completion and putting into use of the East West Economic Corridor (EWEC) in 2006, which has impacted the development of CBT of the four GMS countries, the changes in CBT policy from government which also affects the CBT of each country, especially for the case of Lao Bao, Vietnam. The issuance of the decision to promulgate together with the old one, Decision No.11/2005/QĐ-TTg dated 12th January 2005 (which was not mentioned in this research) promulgating the Regulation on Lao Bao Special Economic - Commercial Area, Quang Tri province in November 2005 by Vietnam's Prime Minister has much influence to the boosting of CBT in Lao Bao.

Other related studies about cross border trade include: the newly issued report of the Asian Development Bank in 2010 titled: "Strategy and Action Plan for the Greater Mekong Sub-region East–West Economic Corridor." This aims to revise and update the strategy and action plan for the EWEC as a means of consolidating planning and

programming activities by government authorities and development partners. This report also mentions the impacts of EWEC on the CBT of GMS countries (except China). The report points out that the current trade flows along the EWEC give rise to relatively large trade imbalances. For example, in Thai-Myanmar border, trade originating in Thailand is over ten times larger than that originating in Myanmar. In the Lao-Vietnam border, trade flows from Lao PDR to Vietnam are nearly four times larger than those from Vietnam to Lao PDR. Similarly, exports from Thailand to Vietnam are nearly five times greater than exports from Vietnam to Thailand. The study clearly shows the positive impact of EWEC on the rising of CBT in Vietnam-Lao border. After completing EWEC in 2006, cross border trade of Vietnam-Lao surged and continued this trend for the year 2007-2008. However, the value of exports of each country is becoming unbalanced, such as the value of exports originating in Lao PDR has been four times greater than the value of exports from Vietnam. The study also refers to the importance of EWEC for the trade and investment of participating countries “In the context of medium and long-term framework, the EWEC trade and investment model is one that not only determines the growth potential of intraregional trade resulting from differences in factor endowments, but also one that builds on the growing worldwide trend toward the globalization of production and lower production costs from economies of scale and expanding extra-regional trade.”

The Mekong Institute Research Working Paper “Social and Environmental Impacts of Border Trade in Sino-Vietnamese Border Areas on Border Communities: Case Study on Lao Cai Border Gate” (authors Pham, Lai, and Nguyen), was published by the Research and Learning Resource Department of the Mekong Institute in 2008. The study examines social and environmental impacts of CBT between China and Vietnam on the

local communities in the border region. The social impacts include social ills such as trafficking, alcohol abuse and drug addiction, and environmental impacts such as air pollution and litter in the local commune.

The report “Cross-Border Trade within the Central Asia Regional Economic Cooperation” prepared by the World Bank in August 20, 2007, based on surveys of cross-border trading conditions, profiles the key features of cross-border trade and its employment and income effects. The focus of the report lies in its analysis of the impact of government interventions that facilitate or impede cross-border trade by “inter alia” affecting the movements of local people, vehicles, and goods between the countries of the Central Asia Regional Economic Cooperation. The study provides a comprehensive conceptual framework for CBT including characteristics of CBT, benefits gained from CBT, barriers to the development of CBT. Government intervention is another factor that limits the rise of CBT in Central Asia.

Srawooth Paitoonpong – a senior research specialist of Thailand conducted research in 2006 titled “Thailand’s Cross-border Trade in the Greater Mekong Sub-region: some Issues Never Solved.” It focuses on selected social issues such as trafficking, HIV, and migration workers on CBT along the border of GMS countries (Laos, Cambodia, and Thailand). According to the author’s empirical analysis, a considerable off-record or underground movement of goods and services has taken place including the movement of people who carried contagious diseases. Furthermore, CBT also leads to social problems such as migration of workers, human trafficking, drug trafficking, border robbery, and environmental pollution along the Mekong River. The study also provides an overview of CBT in terms of definition and classifying types of

CBT, which are useful for constructing conceptual frameworks of CBT in my thesis paper.

The Technical Background Paper for the third National Human Development Report in Lao PDR 2006 prepared by UNDP, namely “Impact Of Border Trade In Local Livelihoods: Lao-Chinese Border Trade in Luang Namtha & Oudomxay Provinces” were written by Sirivanh Khontaphane & Sathanbandith Insisiangmay & Vanthana Nolintha. The research aims at expanding the study of CBT in the Lao PDR and exploring its economic and social impact on human development, particularly on educational attainments, health issues, access to information, and time savings as a result of infrastructure improvement and so on. It focuses on CBT with China which has been somewhat neglected and also studies in-depth the border trade in Luang Namtha and Oudomxay since these provinces are Chinese trade corridors for both the region and the nation. Some border trade areas such as Densavanh-Laobao Border with Vietnam in Savannakhet, Vangtao-Xongmek Border with Thailand in Champasak and Boten-Mohan Border with China in Luang Namtha and their impacts on local livelihood are clearly presented. The development of such border trade zones demonstrates government recognition of their importance for trade development.

Moreover, other books such as *The Lines that Continue to Separate Us: Borders in Our 'Borderless' World* of Newman (2006); *We Are the Border: Identity, Exchange, and the State along the Benin-Nigeria Border* of Donna (May, 1997); *Cross-Border Connection between Hong Kong and Mainland China under 'Two Systems' before and beyond 1997* of Shen(2003); *Globalization, Regionalization and Cross-Border Regions: Scales, Discourses and Governance* of Perkmann and Sum (2002); *Cross-Border Trade and The Parallel Currency Market – Trade And Finance In The Context Of Structural*

Adjustment: A Case Study From Kano, Nigeria of Hashim and Meagher (1999) are all valuable resources that provide crucial background for the border related issues of the researcher's topic.

In summary, there are few comprehensive and systematical academic studies relating directly to the researcher's topic interest. Though not directly relevant to the researcher's study, this literature provides an essential background for CBT issues as well as the impact of CBT on the development of border towns.

## **1.8. Related Theories and Concepts**

### **1.8.1. Related Theories**

The theoretical model which will be used in this research includes: Globalization Theory, Border Theory and Cross-border cooperation.

#### **1.8.1.1. Globalization Theory**

Globalization is not a new phenomenon and was used for the first time in the late nineteenth century (United Nations, 2002). Globalization presents "the process by which regional economies, societies, and cultures have become integrated through a global network of communication, transportation, and trade".

Currently, globalization is a widely-used term that can be interpreted in a number of different ways in various aspects such as industry, finance, health policy, politics, and economics and so on. When used in an economic context, it refers to the "reduction and removal of barriers between national borders in order to facilitate the flow of goods,

capital, services and labor... although considerable barriers remain to the flow of labor...” (United Nations, 2002).

The International Monetary Fund (IMF) also notes the growing economic interdependence of country worldwide through increasing volume and variety of cross border transactions, free-flow of international capital, and more rapid and widespread diffusion of technology. Also according to the United Nations (2002), globalization “improves the access of countries to large markets, and enables them to tap a wide variety of products and benefit from higher capital inflows, as well as technological progress. These factors lead to greater efficiency, more investment, higher outputs and better standards of living.”

Globalization has been advancing in the world in two main ways. First, various initiatives of institutional changes have been proposed and introduced at various spatial scales to abolish certain barriers and border controls to form “borderless region states” such as the European Union to facilitate free movement of information, labour, goods, capital and technology. This conforms to a general shift towards a “borderless world economy” which we can see by the establishment of WTO (World Trade Organization) and NAFTA (North American Free Trade Agreement) area. Second, the international capital, via the transnational corporations especially, has engaged actively in the organization of new international or regional division of labour to make best use of worldwide resources, notably labour, land and capital, for maximum profit. The world economic system and the international division of labour have been remolded under such globalizing forces (Shen, 1997).



With the continuing decline in the cost of transportation and communications and the significant reduction of barriers to the flow of goods, services and capital, although considerable barriers remain to the flow of labor, the world is rapidly becoming a global village (United Nations, 2002).

Globalization theory has well described the economic integration policy of Vietnam's government with other countries in the world, especially with Lao - the neighboring country that shares a border with Vietnam through Lao Bao border checkpoint in order to promote cross border trade and people movements between the two countries.

#### **1.8.1.2.Border theory**

While it may not be possible to construct a single theory of borders, the contemporary study of borders has become a major growth industry during the past decade (Newman, 2006).

Border is a complex term that is difficult to define commonly and precisely. The concept of a border is interpreted dissimilarly by people with different backgrounds or engaged in different activities in their everyday experiences, heritage and cultural backgrounds, specific interests or occupational perspectives. Geographers, political scientists, lawyers, sociologists and anthropologists all have their own interpretations of what "border" means. There are a wide variety of different conceptions of border and these are subject to continual change, as they have been in the past. However, for all disciplines, "borders determine the nature of group (in some cases defined territorially) belonging, affiliation and membership, and the way in which the processes of inclusion and exclusion are institutionalized" (Newman, 2006).

According to The Border Poetics Working Group at the University of Tromsø, traditionally the border concept has mainly been related to topography, and has been the particular domain of geography and law, though also philosophers and mathematicians have developed concepts of the border, or more specifically, the limit. The geographical concept of border was first developed in the 19th Century and described “borders (or boundaries) as constituting the physical and highly visible lines of separation between political, social and economic spaces” (Newman, 2006), and often charged with nationalistic energy.

Moreover, the concept of border has changed in the last few decades in a historical shift that has occurred in academic study, giving border new areas of application. Borders can have political, historical, ethical, psychological and artistic implications and connotations. Borders are increasingly seen as dynamic phenomenon that can emerge, disappear, and re-emerge, as having a transitional character, as being internal zones of negotiation. Borders are no longer necessarily seen as barriers, but often thought of as points of contact. The spatial turn within the field of cultural studies aims to connect topographical spaces with the medial spaces of culture. The focus has moved to local, urban, intimate and subjective spaces physically distanced from the more traditional borders of nations.

Only more recently have we begun to understand that “it is the bordering process, rather than the nature of border, which affects our lives on a daily basis, from the global to the national and, most significantly, at the local and micro scales of sociospatial activity” (Newman and Paasi, 1998; cited from Newman, 2006).

The border theory has helped to create better knowledge about the border issues in Lao Bao as well as border trade occurring in the area.

### **1.8.1.3. Cross-border co-operation**

The first ‘official’ cross border region, the EUREGIO, was established in 1958 on the Dutch–German border, in the area of Enschede and Gronau. Since then, such ‘Euroregions’ and other forms of cross-border co-operation (CBC) have developed throughout Europe. Today, there are hardly any border areas in which public authorities are not involved in some kind of cooperative initiative with their neighboring countries.

CBC can be defined as “a more or less institutionalized collaboration between contiguous subnational authorities across national borders” (Perkmann, 2003). CBC is also defined by Schmitt-Egner as ‘cross-border interaction between neighbouring regions for the preservation, governance and development of their common living space, without the involvement of their central authorities’ (Schmitt, 1998: 63; cited from Perkmann, 2003).

There exist some barriers that do not allow the full potential of cross-border relations in the European region (Dimitrov et al, 2003), which are described as below:

1. The condition of infrastructure: roads, railways, public transport, telecommunications, and post service;
2. The condition of border crossings: proximity of checkpoints, visa regulations, passport and customs officers’ treatment;
3. Trade conditions as a barrier: tariffs, quotas, duty fees, and technical requirements;

4. Financial conditions as a barrier: availability of funds and access to finance resources;
5. Lack of assistance as a barrier: by local government, national government, local business associations, national business associations, and European organizations;
6. General conditions as a barrier: political stability, corruption, security, changing of the rules, income and demand prospects, inflation, exchange rate, stability of the banking system, quality of the banking system, and labor protection;
7. Language as a barrier.

For the Lao Bao border area of Vietnam, barriers of language and lack of assistance from local and central governments are not factors that hinder the full potential of cross-border relations between Vietnam and Laos. The local and central governments put special concern on the development of Lao Bao area by issuing many preferential policies to the area; moreover, people living and doing business along the borders of the two countries can communicate with each other easily in both Vietnamese and Laotian. Therefore, the barrier of language is not a matter for local people in Lao Bao border area.

### **1.8.2. The Concept of Economic Growth**

The concept of economic growth “is a relatively recent invention, a by-product, as it were, of industrialization. It is the rate of increase, from one period to another, in the flows of goods produced and/or consumed within a given institutional space, which may be a firm, an industry, a national or regional territory...” (Gadrey, 2002).

Economic growth is the increase in the value of goods and services produced by an economy. It is measured by any of a number of indicators such as the percent rate of increase in real gross domestic product, or GDP.

In the case of Lao Bao border area, the impact of CBT on the growth of the area will be analyzed by many indicators, such as GDP, poverty rate, average income per capita, economic restructure, and infrastructural improvements and so on.

### **1.8.3. The Concept of Cross Border Trade (CBT)**

#### **1.8.3.1.Characteristics of CBT**

The World Bank (2007) defines CBT as the flow of goods and services across international land borders within a reach of up to 30 kilometers. Srawood (2006) addresses that border trade is officially defined as the trade of goods among local habitants or enterprises of border areas of both countries. The amount of border trade is usually small, and goods traded are usually for daily consumption or natural products. CBT involves the trade of goods, or exports, and imports that go across borders to and from neighboring countries, both formally and informally, and both locally or from/to other parts of the participating countries (Theera et al., 2010).

CBT is also used to refer to informal, and often illegal, trading activities that move goods across national borders. In conformity with the convention in the literature, only legal goods will be considered under the rubric of CBT. Besides, CBT is used in conjunction with the term “parallel trade” which refers to the trading of legal goods through unofficial or illegal channels (Lindauer, 1989:1874; cited from Hashim and Meagher, 1999)

The World Bank (2007) also identifies some main characteristics of CBT. The unique feature of cross-border trade lies in geographical proximity rendering transportation costs almost irrelevant, thereby allowing traders to take advantage of differences in the supply, demand, and prices of various goods and services available on either side of the border.

Most cross-border trade activities are not reported in foreign trade statistics. Cross-border trading is carried out mostly by individuals/small traders and their families, who often are producers of traded goods. Quantities traded are small, usually less 100 kilograms and less than a few hundred US dollars in value. Agricultural products and consumer goods are the main kinds of traded goods. Small traders trade their goods on foot, using a bicycle, taking a minibus or a car to the other side of the border.

Cross-border trade is highly sensitive to the treatment meted out to traders by conditions imposed by national governments. Its success depends critically on the ability of individuals to routinely cross the border without paying a large unofficial payment or prohibitive tariff duties and border charges, and to cross the border with their own passenger vehicles or with light vehicles from bordering regions (World Bank, 2007).

#### **1.8.3.2. Benefits of CBT**

Border trade plays an important role in the development of neighboring countries as it provides knowledge and information about demand and supply of goods and services in the border areas and serves as a stepping stone for further economic development of border communities and provides employment opportunities for the local people. Border trade can play a bigger role in promoting economic development of border communities, improving people's living standards, eradicating poverty, creating more equitable income

distribution and fostering friendship and greater economic cooperation in cross border regions (Yen et.al., 2008)

Besides, the World Bank (2007) argues that CBT benefits traders' lives and incomes but also strengthens local production, and fosters service provisions (such as storage facilities, transportation, and ancillary services in local bazaars). Such trade generates income for people working in bazaars as well as for activities associated with bazaars and trade. Since CBT is also a significant driver of employment, income is generated for households that otherwise would live in poverty. In remote regions, where employment is scarce and salaries low, cross-border trade, when eased, generates income for a whole household and is more profitable than most other economic activities available.

Moreover, cross-border trade lowers import prices of goods available to consumers in bordering areas (in the absence of cross-border flows, prices and price differentials would be higher) and enables exporters to benefit from higher value-added. Finally, the World Bank (2007) concludes that CBT has a gender dimension: women are more actively involved in border-trading activities, such as selling goods in bazaars, as well as moving goods through border crossing points. Many heads of traders associations involved in cross-border activities are women.

On the other hand, Sam et al. (1996) argues that border trade has both positive and negative impacts on local people. CBT has positive impacts as it creates favorable conditions for the people of two countries to export and import goods that meet local people's need. However, CBT exerts negative impacts and the most crucial problem is smuggling.

For the case of Vietnam, Development Analysis Network (DAN, 1995) argues that CBT is necessary for the development of Vietnam for many reasons. First, CBT exploits the comparative advantages of border provinces and border areas. Second, CBT functions as a new channel for Vietnam to promote foreign trade for attracting more foreign investment in the world. Third, CBT helps Vietnam to improve living standards of the local population. Forth, CBT takes a step toward realization of the government's open-door and "friendship with other countries and nations" policy. And finally, CBT fosters the economy of border provinces and the border gate areas; at the same time, CBT helps to achieve unity of ethnic groups and social stability, ensuring safety in border regions.

### **1.9. Limitations**

During conducting the research, the researcher encountered several difficulties and limitations.

First, due to lack of information, documents, studies and materials about the Lao Bao border area in English, the researcher had to mainly use sources and documents from the Vietnam side and in Vietnamese. Therefore, bias in the study is unavoidable on the side of the researcher about Lao Bao.

Second, due to a lack of information and data, some of the negative impacts of CBT on the growth of Lao Bao border area were not analyzed and presented in this research. These include negative social impacts of CBT including the extent of HIV/AIDS spread due to the increased cross border trade between the two countries, prostitutes at the border, the illegal immigration of people through Lao Bao border gate and so on.



Finally, due to some limitations of time and finance, the fieldtrip of Lao Bao border town was conducted within seven days (less than three days as planned). Therefore, the number of local people and officers working in the Lao Bao area interviewed was not a lot as expected (11 people interviewed) and workers in the Lao Bao industrial zone as well as large enterprises doing business in the area were not interviewed.



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## **CHAPTER II**

### **CROSS BORDER TRADE OF VIETNAM WITH LAOS IN RECENT YEARS**

In this chapter, the overview of relations between Vietnam and Laos (including diplomatic relation, border relation, investment relation and trade relation) is presented. Then, the current trend of cross border trade of Vietnam with Laos through Lao Bao international border gate over the recent years (1998-2010) is analyzed fully.

#### **2.1. Economic Trading Relation between Vietnam and Lao PDR**

##### **2.1.1. Overview of Vietnam – Lao relation**

###### **2.1.1.1. Vietnam – Lao diplomatic relation**

Vietnam is bordered on the west by Cambodia and Laos, on the north by China and on the east by the South China Sea (which is called the East Sea by the Vietnamese term). Vietnam has a long land boundaries with the three neighboring countries up to 4,639 km, of which the longest land boundary is the land border with Laos by 2,130 km long (with Cambodia 1,228 km, and with China 1,281 km).

Vietnam and Laos have had a durable relationship for a long time. Vietnamese communists actively engaged revolutionary works in Laos as early as the 1930s. Nonetheless, the essence of the ‘special relationship’ that developed between Vietnam and its Lao counterpart was developed in the three decades after World War II. During these difficult years of struggle against the French and Americans, Vietnam and Laos developed close ties based on their common ideology and shared revolutionary experience.

On 5th September 1962, the Government of the Democratic Republic of Vietnam and the Government of the Kingdom of Laos established formal diplomatic relations.

After the Lao People's Democratic Republic was established on 2nd December 1975, the Lao People's Democratic Republic and the Socialist Republic of Vietnam formalized the close relationships developed over the previous years in a series of important agreements, such as a Treaty of friendship and cooperation and a Treaty of border defining signed on 18th July 1977. Since then, Vietnam-Laos relations have moved into a new phase which is the relationship of friendship, special solidarity and comprehensive cooperation between the two Parties and the two States; the special relationship Vietnam-Laos has increasingly consolidated and developed.

For the relationship with Laos from then until now, Vietnam has continued to pursue its "special relationship" with Laos both on party and state levels. At the party level, regular exchanges focused on ideological and cultural issues. At the state level, the two neighbors concluded and expanded a number of cooperation agreements. For example, they signed an agreement on cross-border goods transport in February 1996 and a plan for cooperation in the areas of culture and information later in the year. They also held joint talks on the construction of a port in central Vietnam, important for landlocked Laos, as well as cooperation in improving road links between themselves and other countries in the Southeast Asian region. In 2000, the two sides signed the Strategic Cooperation Agreement on economics, culture, science and technology for 10 years, 5 years and annually to monitor and promote the comprehensive cooperation between the two countries for the new period.

Moreover, the Vietnamese government always appreciated and emphasized the special relationship existing with Laos. The two sides strengthen the mechanism of frequent contact exchange between leaders of the two parties and states. Vietnam and Laos have exchanged many visits from high to local levels, especially the official friendship visit to Vietnam by General Secretary and State President of Laos, Mr. Choummaly Sayasone from 19th June to 22nd June 2006 and the official friendship visit to Laos by General Secretary of Vietnam, Mr. Nong Duc Manh from 10th October to 13th 2006 have opened a new era for bilateral relations between Vietnam-Laos after the two sides successfully finished their party congress with changes in senior personnel arrangement in the party and state. After the Party Congress in 2006, the frequency of visits by leaders of the two countries has been maintained.

#### **2.1.1.2. Vietnam – Lao border relation**

Vietnam has 25 provinces that share borders with China, Laos and Cambodia. Of these, the border with China is found in the provinces of Quang Ninh, Lang Son, Cao Bang, Ha Giang, Lao Cai, and Lai Chau; the border with Lao PDR is found at Dien Bien, Son La, Thanh Hoa, Nghe An, Ha Tinh, Quang Binh, Quang Tri, Thua Thien Hue, Quang Nam and Kon Tum provinces; and the border with Cambodia is found along Kon Tum, Gia Lai, Dak Lak, Dak Nong, Binh Phuoc, Tay Ninh, Long An, Dong Thap, An Giang and Kien Giang.

Vietnam and Laos have signed many legal documents about the border such as a 1977 Treaty of border defining, a supplemental Treaty of border defining and a Protocol on border demarcation signed on 24th January 1986, and the Agreement on the Regulation on Vietnam-Laos border signed on 3rd January 1990.

The project to upgrade and increase the system of border markers between Vietnam and Laos prepared by the two sides in 2005 was based on legal grounds of the above documents. The project is significant to the political security and socio-economic development of the two countries, especially for localities along the common border. The objective of this project is to upgrade and increase the border marker system in the necessary places to clarify the borderline; to restore the existing border marker system at the border crossings to ensure them to be permanent, secure and spacious; to improve legal documents on the borderlines of Vietnam and Laos. There will be 792 landmarks along the border of Vietnam and Laos with an average of 2.5km per landmark, of which 199 landmarks are the restored existing ones and 593 are embellished landmarks.

On September 5<sup>th</sup> 2008, the first pair of landmarks (No. 605) of this Project was completed at the Lao Bao-Densavan international border gate in central Quang Tri province and Laos' Savanakhet province on the occasion of the 46th anniversary of the establishment of Vietnam-Laos diplomatic ties. The inauguration of this landmark had an important meaning for the cooperation development on the Vietnam-Laos border and the East-West economic corridor in Lao Bao and Densavan economic areas.

On May 19<sup>th</sup> 2010, the pair of landmarks (No. 790) was held the inauguration at the international border gate Bo Y (Vietnam) - Phou Keau (Laos) by the provincial People's Committee of KonTum and coordinate with the provincial government Attapu Committee (Laos).

The project is scheduled to be completed in 2014. When this project is finished, the two countries will have a modern and sustainable landmark system, clear borderlines with the aim to facilitating the management and protection of social security border areas,

limiting the negative impact arising from commercial activities, money laundering crimes, trafficking in women, children, weapons, explosives, drugs, etc. At the same time it will strengthen the special neighboring relationship and the comprehensive cooperation between the states and peoples of the two brothers Vietnam-Laos. The project will foster solidarity and comprehensive cooperation between the two sides, build the Vietnam-Laos borderline into an area of peace, friendship, cooperation, stability and sustainable development.

### **2.1.1.3. Vietnam – Lao investment relation**

Investment cooperation of the two countries aims to supplement and promote advantages of each country, mutually supporting one another's development. Hence, investment cooperation between Vietnam and Laos represents “an important cooperative field to determine overall cooperation results between the two countries”.

The two sides have carried out many measures to encourage investment development such as implementation of preferential and clear policies for investors of both countries, the 50% tax free rate for imported goods originating from each country, economic development zones at the border, border market construction, etc. In recent years (2006-2009), the total investment value of both sides has increased.

#### **Investment of Vietnam in Laos**

Encouraged by the Laos government and supported by Lao people, some Vietnamese enterprises have invested in Laos in a number of sectors. These include helping to build and develop roads, schools, and housing, irrigation, the production of

construction materials, handicraft development and commercial network expansion, transport, tourism and forestry (rubber planting).

Since 1991, Vietnam's investment in Laos has increased in both quantity and quality. According to the statistics of Ministry of Planning and Investment of Vietnam, as of July 2009, there were 186 investment projects of Vietnamese investors licensed in Laos with a total value of over USD2.08 billion. Of these, 121 projects are 100% owned with Vietnamese capital and 65 projects are joint ventures with Laos. As of May 2010, the Lao government has licensed 219 investment projects of Vietnamese enterprises with a total value of over USD2.4 billion. Import-export turnover in the first six months of 2010 reached USD212 million (up 8% over the same period in 2009). Some typical projects include: Sekaman 3 Hydropower Plant with a total value of USD275 million, accounting for 36.3% of total national investment, and the exploration and evaluation of Iron Reserves Project with a total value of USD3 million.

The main sectors Laos is investing in include energy, minerals, agriculture, construction, telecommunications, industry, handicrafts, services, finance, insurance and so on. Of these, industrial sector sees the most investment; it accounts for 52.7% of total projects and 69% of total investment value; next is investment in agriculture-forestry (timber processing, planting and exploiting rubber latex), which accounts for 32% of total projects and 28% of total investment value; service sector accounts for 15% of total invested projects and 2.94% of total investment value.

From Vietnam's side, besides the policy of import tax exemption and reduction from 0-5% for Vietnamese enterprise invested in Laos is being applied, the two countries also are discussing how to allow the transport of goods across borders to occur

more easily and to promote raising capital to build trade centers, such as the shopping center in the Vientiane capital. The two countries have established a free trade zone at the international border at Dansavan - Lao Bao (Quang Tri), allowing the border provinces to open the side border gates; they have also opened 11 border markets.

In order to facilitate the payment of enterprises, a Laos – Vietnam joint venture bank was established in 1999 with charter capital of USD10 million (now increased to USD15 million). This bank acts as a bridge connecting direct marketing and arranging finance for investment projects of enterprises of Vietnam in Laos; consulting and providing Lao market information; supporting Vietnam enterprises in the implementation of the survey, information collecting and investment decisions in the Lao market.

### **Investment of Laos in Vietnam**

In turn, the investment environment in Vietnam is also opening and welcoming Laotian enterprises. As of 2009, Laos has invested in six projects in Vietnam with a total value of USD48.35 million in many sectors: food processing (52.7%), transportation and post office (22.3%), agriculture-forestry (14.5%), finance and banking (10.3%) and heavy industry.

Although the scale and value of Laotian investment in Vietnam is small, this investment is very important for the investment cooperation of the two countries, contributing to the economic potential of each country.

#### **2.1.2. Bilateral trade between Vietnam and Laos over the recent years**

Vietnam and Lao PDR are neighbors with traditional relations for a long time.



Today, under the leadership of the two parties, the cooperation and friendly relations between the two countries grows stronger, broader, and more comprehensive. The economic and trade relations between the two sides are growing and have made significant achievements, contributing to the cause of national construction, economic development and the improvement of people's lives in each country. The two sides have carried out many measures to encourage trade development, such as reduced tax rates for imported goods originated from each country.

Both Vietnam and Lao governments have issued favorable policies to create a convenient mechanism for the development of bilateral trade relations. In the framework of the Vietnam-Lao Inter-Government Cooperation Committee, trade has always been placed in the center. Apart from the mechanisms and incentives in the framework of the ASEAN Free Trade Area (AFTA) and the Common Effective Preferential Tariff scheme (CEPT) among ASEAN countries, the two countries have established Vietnam-Laos Incentives on tax reduction and export-import exemption, in which the goods of a country when exported to the other country enjoy tax privileges and reduction. The two sides have actively implemented the Bilateral Trade Agreement, Agreement on Transit of Vietnam - Lao goods and other agreements on trade and economic cooperation, culture, science and technology. These are signed annually between the two countries and feature agreements on trade facilitation within the GMS cooperation framework. The two states have also stepped up cooperation on border trade and border markets, trade cooperation between border provinces of the two countries, strengthening trade promotion activities and supporting enterprises in developing commercial activities.

The issuance of a 2007 agreement between the government of the Socialist Republic of Vietnam and the Government of the Lao People's Democratic Republic

on creating favorable conditions for people, vehicles and goods across the border in order to strengthen further investment and trade cooperation between the two countries has opened a new era in bilateral trade relations, encouraging organizations and individuals to take part in goods exchange. According to this agreement, Laos enjoys preferences of 16 tariff types with 0% tax rates for the merchandise groups of engine and automobile and motorbike spare parts from Vietnam. Moreover, Vietnam also gives Laos the preferential quota of 0% for some goods originated from Laos, such as leafs and stems of tobacco, rice, and more. In turn, Vietnam enjoys a 0% tax rate on 87 tariff types for products ranging from vegetable materials, processed fruits, tobacco, garments, motorbikes and interior goods.

Thanks to these sound and suitable mechanisms, the trade cooperation between the two countries has developed steadily.



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**Table 1: Bilateral trade between Vietnam and Laos for the year 2001-2010***Unit: million USD*

<b>Year</b>	<b>Total</b>	<b>Export from Vietnam</b>	<b>Import from Vietnam</b>	<b>Balance (Export-Import)</b>
2001	130.00	62.30	67.70	-5.4
2002	122.00	59.60	62.40	-2.8
2003	110.80	51.80	59.00	-7.2
2004	142.50	62.00	80.50	-18.5
2005	162.15	66.74	95.41	-28.65
<b>2001-2005</b>	<b>667.45</b>	<b>302.44</b>	<b>365.00</b>	<b>-62.55</b>
2006	259.69	93.07	166.62	-72.91
2007	312.30	104.38	207.92	-103.53
2008	422.85	149.77	273.08	-123.30
2009	450.00	201.00	249.00	-48.00
2010 (estimated)	1000.00	450.00	550.00	-100.00
<b>2006-2010</b>	<b>2,444.86</b>	<b>1,098.23</b>	<b>1,446.62</b>	<b>-348.39</b>

*Source: Report from Ministry of Commerce of Vietnam*

As seen in Table 1, bilateral trade turnover from the year 2004 upwards increased by 30-40% compared with the previous year. For the period 2001-2005, trade turnover increased with the moderately good growth rate. The two countries have set a target of one billion dollars of bilateral trade turnover in the year 2010. If so, the estimated bilateral trade turnover for the period 2006-2010 will reach USD2,444.86 million with an average of USD488.97 million per year, increasing about 3.66 times compared to the period 2001-2005 (with total trade turnover around USD667.45 million and the average of USD133.49 million per year). The trade turnover of export-import between the two countries in 2001 was quite low with a value of USD130 million; however, after 10 years this value is expected to reach USD1000 million, up nearly 9 times compared with the year 2001. As shown in Table 1 for the year 2001-2010, the export value of Vietnam to Laos is always less than the import value of Vietnam from Laos. Vietnam has a trade deficit with Laos. The trade turnover of Vietnam with Laos is the excess of imports over exports (about 30%).

### **Export**

In the period 2001-2005, the turnover of exports from Vietnam to Laos was small in value and fell from 2001 to 2003 (from USD62.30 million to USD51.80 million). From 2001 to 2005, the average annual turnover reached USD60.4 million with a lowest value of USD51.80million in the year 2003 to a highest value in the year 2005 (USD66.74 million). In 2006, export turnover increased sharply, reaching around USD93 million, up 41% over the year 2005. From the year 2006 upwards, the growth rate of export values from Vietnam to Laos increased steadily with a rate around 20-40% annually. Total export turnover of Vietnam to Laos in the period 2006-2010 reached

USD1,098.23 million, up 3.6 times compared with the period 2001-2005. The estimated export value for 2010 is USD450 million, which increased nearly nine times from 2003.

### **Import**

Like the trend in trade exports to Laos, the turnover of imports to Vietnam from Laos was also low in value in the period 2001-2005 with the lowest value of USD59 million in 2003. From 2001 to 2003, import turnover from Laos fell from USD67.7 million to USD59 million. After decrease in 2003, import value increased steadily to reach USD95.41 million in 2005. The average import turnover for the period 2001-2005 is about USD73 million per year. While the import value of Vietnam is small in the years 2001-2005, the next 5 years (2006-2020) witnessed a boom in value with the total amount of USD1,446.62 million, up nearly 4 times compared with the period 2001-2005. The growth rate of import turnover around 30-50% for the period 2006-2010 has shown a boost in Lao goods being exported to Vietnam.

### **Commodity Composition**

Before 2000, Vietnamese enterprises primarily crossed the Laos border to trade in motorcycles, Thai products, timbers and minerals. Payment and purchasing methods at this time were mostly spontaneous; therefore, disputes and debt matter occurred frequently. After 2000, motorcycles could no longer be imported in Vietnam by the barter method, and the Lao government decided to further control illegal forest exploitation. Hence, some Vietnamese enterprises switched to wood processing careers or returned to their hometown. The proportion of barter trade in the Vietnam-Laos' borders has declined due to the rise in formal transactions.

**Table 2: Main commodities from Vietnam to Laos in 2007***Unit: million USD*

	<b>Items</b>	<b>Value</b>
<b><i>Main Commodities Exported</i></b>		
	Garments and textiles	7,518
	Coal	2,044
	Plastic products	1,972
	Electric wires and cables	1,050
	Shoes	962
	Instant noodles	538
	Ceramic and porcelain products	459
	Rice	227
<b><i>Main Commodities Imported</i></b>		
	Wood and forest products	95,407
	Other metals	86,801
	Automobiles	1,896
	Machinery equipments and spare parts	681
	Tobacco materials	321
	Computers and components	241

*Source: Vietnam Customs Head Department*

The main commodities Vietnam exports to Laos are agricultural and consumer products (accounting for 80% of total exports from Vietnam to Laos). These include rice, all kinds of meat, live cattle, seafood, vegetables, foodstuffs, pharmaceuticals, cements, steels, garments and textiles, plastic products, shoes, and more. The main commodities imported from Laos to Vietnam include timbers and forest products, metals, automobiles, tobacco materials, computers and components, as shown in the Table 2.

Vietnam - Laos trade relations are expected to reach one billion dollars in 2010, of which Vietnam's exports to Laos are estimated to reach USD450 million and Vietnam's imports from Laos are aimed to reach USD550 million, achieving an average growth rate around 40% per year for the period 2008-2010. This is due to the potential growth from the exports of complete equipment and machineries, as well as equipment for construction work and investment projects of Vietnam in Laos.

By 2015, import-export turnover between the two countries is expected to reach over two billion dollars, of which exports of Laos to Vietnam is USD1,340 million, achieved at an average growth rate of 14.6% annually for the period 2011-2015. Vietnam's exports to Laos will be 1,080 million, achieving an average growth rate of 21.5% per year for 2011-2015.

Moreover, the two countries also continue to implement many measures and actions to promote bilateral trade. These include the new Agreement of Goods Transit and Supplemental Agreement signed in 2000 to replace the old one in 1994; unanimously implementing a project on trade development for the period 2008-2015; agreement on

export-import tariff preferences, border market and border trade development, and beginning construction of Laos-Vietnam Commercial Center in Khua Din, Vientiane.

## **2.2. Current trend of cross border trade of Vietnam with Laos through Lao Bao international border gate**

### **2.2.1. Lao Bao background**

Vietnam and Laos have border areas along 10 provinces including Son La, Dien Bien, Thanh Hoa, Nghe An, Ha Tinh, Quang Binh, Quang Tri, Thua Thien Hue, Quang Nam and Kon Tum, of which Quang Tri is the province sharing the longest border with Laos. Lao Bao is a small town in the Huong Hoa border district, the southern part of Quang Tri Province, Vietnam; located in the North Central Coast region and close to the border with Laos about 2km. Across the border is Savannakhet province of Laos. From here, Lao Bao has a strategic location as it shares a border with Laos and is located along Highway No. 9, a bridgehead position of Vietnam in the East-West Economic Corridor (EWEC). Lao Bao also has an international border gate, adjoining the Densavan international border gate of Laos to bring out the most important land gate of the two countries to expand the exchange of goods, tourism and services of each country. At the same time, it helps to develop trade with potential markets in regional countries such as Thailand, Myanmar and other countries.

Historically, under the Nguyen Dynasty (1802-1945), Lao Bao was built as a border post to defend border areas. By 1909, the French renovated this border post to become a prison called Lao Bao prison to imprison Vietnamese patriotic scholars and faithful revolutionary soldiers. In the war against America, Lao Bao was considered a revolutionary base area of the Vietnam-Laos' soldiers.



After the complete liberation of the South, the country was unified. In September 1975, implementing a policy of gradual migration of the committee of Quang Tri province, a part of the population of Trieu Phuoc commune, Trieu Phong district set foot on that wild place to explore and build this land into a new economic zone. Tan Phuoc commune of Huong Hoa district, Quang Tri Province was established.

On August 1st 1994, the Vietnamese government issued Decree 79/CP-1994 on the establishment of Lao Bao border town based on its administrative area of Tan Phuoc commune. Tan Phuoc was renamed Lao Bao border town.

**Table 3. Lao Bao border town at a glance**

<b>Indicators</b>	<b>Lao Bao</b>
Land area	1,700.46 hectares, of which: - 33.4% agricultural land - 16.2% non-agricultural land - 50.4% unused land
Population	9,460 people
Average economic growth (1998-2008)	13.5%
Labor resources	5,654 people, of which: - 7.3% working for agricultural sector - 92.7% working for non-agricultural sector
Ethnic groups	Kinh, Van Kieu, Pako
Poverty rate in 2008	7.5%
Economic structure in 2008	- Agriculture: 12.5% - Industry-construction: 20.5% - Services: 67%

*Source: summary by author from report of Quang Tri People's Committee in 2009*

Lao Bao border town has an area of 1,700.46 hectares, of which 33.4% is agricultural land, 16.2% is non-agricultural land and unused land accounts for 50.4%. Lao Bao town has a population of 9,460 people with three ethnic groups including Kinh, Van Kieu and Pako. The ratio of ethnic minorities accounted for 14% of the population of the town. According to the data of Quang Tri People's Committee in 2008, labor resource of Lao Bao is about 5,654 people, of which the number of people working in the agricultural sector has been decreasing rapidly to only 7.3% while labors for non-agricultural sectors have been rising, reaching to 92.7%. The average economic growth of the Lao Bao border town for the period 1998-2008 was 13.5%. The poverty rate fell from 23.3% in 2003 to only 7.5% in 2008. The economic structure of Lao Bao also has been moving toward an increase in industrial and service values and decrease in agricultural values. For 2008, agricultural value accounts for 12.5% while industrial-construction value accounts for 20.5% and service value makes up 67% of the total economic value of Lao Bao.

In order to create a dynamic economic area with specific natures of Central Vietnam and to open socio-economic development in mountainous areas, the government issued the 219/1998/QĐ-TTg Decision for setting up the "Lao Bao Preferential Economic and Commercial Development Area" to encourage the regional economic development of Lao Bao. Lao Bao town is considered the economic center of the Lao Bao Preferential Economic and Commercial Development Area.

Sharing a 15km-border with Laos, Lao Bao is in the process of development and integration with the close neighbor Laos. People living along the border have created a noble sentiment, mutual respect and solidarity to build safe and friendly borders.

### **2.2.2. Cross border trade of Vietnam with Laos through Lao Bao international border gate in recent years**

The trade flow between Vietnam and Laos has witnessed an increasing trend in the recent 10 years. Located on National Highway No. 9, along the East-West Economic Corridor, Lao Bao has a strategic position and is important for the integration process and economic development of Quang Tri in particular and the Central region of Vietnam in general. Through the process of building and development, Lao Bao has formed a dynamic open economy and an important point of trade, service and industry exchange of central Vietnam with the Democratic Republic of People's Lao and northeastern provinces of Thailand.

The Lao Bao international border gate is in the planned area of Lao Bao border town, Huong Hoa district, Quang Tri Province. Opposite to the Lao Bao international border gate over the border is the Densavan border gate of Laos. The Lao Bao border gate is located on National Highway No. 9 from Dong Ha to Lao, to Dong Ha town about 80 km; it is right next to the river Xe Pon (flowing through Vietnam and Laos). Lao Bao international border gate was the first land border between Laos and Vietnam to open for international travelers and also the most popular for a long time. Currently, Lao Bao border gate is the main frontier of border trade between Vietnam and Laos.

Lao Bao international border gate zone features an area of 30 hectares and includes border gate shops, bonded warehouses, exit-entrance parking lots and the border management office. Lao Bao international border gate accounts for the largest volume of export-import goods, means of transports and tourism of Quang Tri province.

The geographical advantages of Lao Bao international checkpoint have contributed to the significant growth in trade with the neighbouring country. It is reported that trade has increased in recent years along the border with Laos through Lao Bao international border gate.

**Table 4: Economic Exchanges through Lao Bao Border Gate for the period 2000-2007**

	Items	Unit	2000	2001-2005	2004	2005	2006	2007
<b>I</b>	<b>Trade</b>	<b>Mil. USD</b>	<b>58.00</b>	<b>240.00</b>	<b>58.00</b>	<b>68.70</b>	<b>158.60</b>	<b>155.50</b>
	Exports	Mil. USD	31.00		23.80	20.00	34.10	36.90
	Imports	Mil. USD	27.00		34.20	48.70	124.50	118.60
<b>II</b>	<b>Number of exits/entrances through Lao Bao Border Gate</b>	<b>People</b>	<b>70,000</b>	<b>About 80,000/year</b>			<b>184,000</b>	<b>247,000</b>

*Source: report of ADB in 2008 and report of Quang Tri People's Committee in 2009*

For export-import, the growth rate of export-import turnover in the period 2001-2007 increased 14.4% per year, especially for the period 2005-2006 (it peaked at 131% per year). Import-export turnover in 2000 reached USD58 million, of which USD31 million for exports to Laos and USD27 million for imports from Laos. The total export-import turnover through Lao Bao international checkpoint for the period 2001-2005 reached approximately USD240 million, of which USD58 million was for 2004 and USD68.7 million belonged to 2005. As seen in Table 4, the trade turnover of Vietnam

with Laos through Lao Bao checkpoint increased remarkably from USD68.7 million in 2005 up to USD158.6 million in 2006 and USD155.5 million in 2007 (2.3 times compared with 2005 and nearly 65% of total trade turnover of the five years 2001-2005).

Besides, the activities for temporarily import for re-export, goods transits, etc. also take place in this checkpoint. In particular, immigration and travel activities have seen many positive changes with a rapid increase in the number of passengers and vehicles doing entry and exit procedures. The growth rate of exit-entry during 2001-2007 was 26.3% per year, of which the exit rate reached 26.5% and 26.1% on entry rate per year. For 2006-2007, the number of travelers to this region increased remarkably to around 34% per year. Before 1999, there were only about 50,000 passengers exiting and entering through Lao Bao border gate each year; in 2000, it reached over 70,000 visitors. For the period 2001-2005, there were roughly 80,000 people annually crossing through Lao Bao border. In 2006, the number of exit-entry people rose sharply to approximately 184,000 and by 2007 reached almost 247,000 travelers (3 times over the period 2001-2005 and nearly 5 times compared to 1999).

Recently, from 2008 to 2010, as seen in Table 5 below, export-import turnover between Vietnam and Laos has increased steadily with a growth rate of about 20-40% per year.

**Table 5: Economic Exchanges through Lao Bao Border Gate for the period 2008-2011**

	Items	Unit	2008	2009	2010 (estimated)	2011 (planned)
<b>I</b>	<b>Trade</b>	<b>USD</b>	<b>193,413,600</b>	<b>288,100,878</b>	<b>316,800,000</b>	<b>355,116,000</b>
	Exports	USD	30,047,492	70,924,061	79,000,000	88,780,000
	Imports	USD	163,366,108	217,176,817	237,800,000	266,336,000
<b>II</b>	<b>Number of exits/entrances through Lao Bao Border Gate</b>	<b>People</b>	<b>262,550</b>	<b>233,461</b>	<b>256,807</b>	<b>287,622</b>
	Exits	People	132,699	116,431	128,074	143,442
	Entrances	People	129,851	117,030	128,733	144,180
<b>III</b>	<b>Number of vehicle exits/entrances</b>	<b>Vehicle</b>	<b>55,594</b>	<b>52,301</b>	<b>57,530</b>	<b>64,433</b>
	Exits	Vehicle	28,278	26,133	28,746	32,195
	Entrances	Vehicle	27,316	26,168	28,784	32,238
<b>IV</b>	<b>State revenue collected at the Lao Bao Border Economic Zone</b>	<b>VND mil.</b>	<b>215,709</b>	<b>187,613</b>	<b>206,128</b>	<b>226,740</b>
	Import-export tax	VND mil.	27,793	15,962	17,558	19,313
	Other fees and taxes	VND mil.	187,916	171,651	188,570	207,427

*Source: Report from People's Committee of Quang Tri province in October 2010*

Trade turnover of Vietnam –Laos through Lao Bao international border gate has been large in value and rose sharply from 2008 to 2009. In 2008, trade turnover reached

about USD193 million and in 2009, the turnover increased to USD288 million, up 50% compared with the previous year and higher than the total value of trade for the five years 2001-2005 (USD240 million). It is estimated that the export-import turnover of Vietnam and Laos for the year 2010 will reach USD316.8 million (1.3 times over the period 2001-2005 and 5.5 times compared to the year 2000).

The number of passengers and vehicles doing exit-entry procedures also has kept a stable rate for the period 2008-2010. The number of people crossing through Lao Bao international border gate fell a bit from 262,550 in 2008 to 233,461 in 2009. In 2010, the estimated number of travelers crossing the border is around 256,807 people. For the number of vehicles exiting-entering through Lao Bao border gate, the average number for the period 2008-2010 is about 55,000 vehicles per year. The estimated number for 2010 is around 57,530 vehicles.

State revenue collected in the Lao Bao economic zone was VND215.7 billion in 2008. It fell to VND187.6 billion in 2009, of which revenue from import-export tax was VND27.8 billion in 2008 and VND15.96 billion in 2009. It is estimated that State revenue for 2010 will reach about VND206.1 billion with VND17.558 billion from import-export tax.

#### **Exports from Vietnam to Laos:**

As seen in Table 4 and 5, export turnover from Vietnam to Laos through Lao Bao international border gate was small during the period 2000-2008 with the average annual value of approximately USD30 million. It increased quickly to USD70.924 million from 2009 onwards. In 2010, estimated export value reaches USD79 million (2.6 times compared to the average value of 2000-2008).

**Imports from Laos to Vietnam:**

As seen in Tables 4 and 5, imports from Laos to Vietnam are large compared to export turnover and increase from USD27 million in 2000 to the peak of USD124.5 million in 2006 (4.6 times over the year 2000). From 2006 to 2010, Laos has exported to Vietnam with an increasing value, USD118.6 million in 2007 to USD163.37 million in 2008. In 2009, the import turnover of Vietnam from Laos increased sharply, reaching approximately USD217.17 million, up 33% over 2008 and nearly double compared to 2006. The import value of 2010 is estimated to reach around USD237.8 million. Currently, imports from Laos through Lao Bao checkpoint is in the process of increasing with a sharp rise seen from 2006 upwards.

It is also easily noticed that the export value of Vietnam to Laos through Lao Bao international checkpoint is less than the import value of Vietnam from Laos in recent years (2006-2010). Or Vietnam has been in a trade deficit position with Laos in recent years. Exports account for 70% to 80% of the total trade turnover.

For the upcoming year (2011), People's Committee of Quang Tri province has planned to reach a value of trade turnover of USD 355.116 million, with USD88.78 million for exports to Laos and USD266.336 million for imports from Laos. The number of people crossing through Lao Bao border gate is planned to be 287,662 travelers, of which 143,442 are the number of exits and 144,180 are the number of entrances. The number of vehicles transporting through the checkpoint is about 64,433 vehicles. State revenue collected at the Lao Bao economic zone is planned to be approximately equal to



previous years, reaching VND226.74 billion with VND19.313 billion from import-export tax.

### **Export – Import Commodity Composition**

The main import and export commodities through Lao Bao border gate include finished products from wood, plasters, copper plates, electronic goods, automobiles, rice, fruit, frozen suckling pork meat, air-conditioners, building materials, etc.

The main commodities exported to Laos through Lao Bao international border gate include: agricultural products (garlic, onions, vegetables, etc.), building materials, frozen suckling pork meat, coffee, finished wood products and rubbers. The main commodities imported from Laos through Lao Bao international border gate include: natural plasters, sticky rice, wood, cathodes copper plates, chemicals, automobiles, electronic goods and electrical appliances.

ศูนย์วิทยทรัพยากร  
จุฬาลงกรณ์มหาวิทยาลัย

**Table 6: Main commodities of export-import through Lao Bao Border Gate***Unit: USD*

	<b>2008</b>	<b>2009</b>	<b>2010 (estimated)</b>	<b>2011 (planned)</b>
<b>Exports</b>				
Coffee	16,963	1,844,985	96,331	107,890
Vegetables		15,875,684	12,128,395	13,583,802
Rubbers	688,919	134,880	405,397	454,044
Finished products from wood	2,979,573	5,840,868	23,876,040	26,741,164
<b>Imports</b>				
Milk and dairy products	311,859	304,505	146,739	164,347
Chemicals	95,598	2,829,969	6,131,002	6,866,722
Wood and wood products	42,136,198	32,571,108	63,173,670	70,754,510
Computers, electronics and components	1,865,635	6,308,431	492,759	551,890
Machines, equipments, tools and spare parts	591,964	14,188,390	6,775,826	7,588,925
Automobiles	2,234,492	1,470,537	451,858	506,080
Other products	65,064,844	74,010,672	93,796,615	105,052,209

*Source: Report from People's Committee of Quang Tri province in October 2010*

As shown in Table 6, vegetables are one of the main commodities exported to Laos, with a value of USD15.87 million in 2009 and USD12.128 million estimated in

2010. Besides, finished products from wood are also main commodities of Vietnam to export to Laos, with a value of USD5.84 million in 2009 and booming to USD23.876 million in 2010 (estimated). Wood products are also commodities that account for the largest value of Vietnamese commodities exported to Laos.

Among commodities imported from Laos, wood is a commodity which Vietnamese enterprises import most from Laos with a value of USD42.23 million in 2008, falling a bit to USD32.571 million in 2009 and estimated rising (roughly doubling) to USD63.173 million in 2010. Besides, electronic goods and electrical appliances (including air conditioners, rice cookers, refrigerators, televisions, electric fans, etc.) are main commodities imported to Vietnam with a value over USD6 million in 2009 but estimated falling sharply to USD0.492 million in 2010. Other main commodities imported from Laos include: chemicals (USD2.829 million in 2009 and increasing to USD6.131 million in 2010), machines and equipments (USD14.188 million in 2009 and falling to USD6.775 million in 2010) and automobiles (USD2.234 million in 2008 and decreasing sharply to USD0.451 million in 2010).

From analyzed statistics of export-import turnover above, it is clear that the cross border trade of Vietnam with Laos through Lao Bao checkpoint has increased significantly over recent years (2000-2010) with a rising value and in a trade deficit position. Especially for 2006-2010, the value of border trade between Vietnam and Laos has experienced a large expansion and reached an impressive number (to around USD218 million per year), nearly equal to the total trade turnover of 2001-2005 (USD240 million). The main factors contributing to the rising of current trade flows between Vietnam and Laos through Lao Bao border gate will be given carefully in the next chapter.

## **CHAPTER III**

### **MAIN FACTORS AFFECTING THE ACTIVITIES OF CROSS BORDER**

#### **TRADE IN LAO BAO**

The increase in cross border trade between Vietnam and Lao PDR through Lao Bao international border gate in recent years has been detailed in the previous chapter. However, one important question arises: what are the main reasons to make an increase of cross border trade in Lao Bao? In this chapter, main factors contributing to the booming of CBT will be presented and analyzed comprehensively.

#### **3.1. Government's Intervention**

##### **3.1.1. Policy context of the Vietnam border trade**

###### **3.1.1.1. The new economic mechanism “Doi moi” (after 1986)**

Border trade has always been considered an important part of Vietnam's foreign trade policy and contributes to the overall economic growth of the nation. Therefore, Vietnamese government has attached special importance to the development of border trade with neighboring countries including Lao PDR, Cambodia and China. However, cross border trade and other economic transactions did not receive full attention before 1986 due to the fact that Vietnam was fighting against the invasions of the French and Americans during that time. After unifying the north and south to become the Socialist Republic of Vietnam in 1975, the Vietnamese government started to implement many policies to support economic development in general and border trade in particular through a comprehensive economic renovation called “Doi moi”. Economic renovation, both as a theoretical and practical concept, has enjoyed a long history in Vietnam. However, the year 1986 remains an important benchmark.

In 1986, the Vietnamese government launched the "Doi Moi," or all-around renovation process, stepping in the general development trend and the process of gradual globalization and regionalization. The 6th Congress of Vietnam's Communist Party in December 1986 criticized its past mistakes, assessing its achievements, analyzing mistakes and drawbacks, and setting forth all-round renovation policy.

The package of reform measures adopted by Vietnam at the end of 1986 focused on six policy areas in an attempt to quicken the pace of "Doi Moi". First, Hanoi established the independent status of public enterprises with the intent they would operate according to socialist accounting principles, a concept calling for economic and financial independence. Second, price liberalization policies moved the entire economic system from administratively determined prices toward market-determined prices. Third, ownership diversification reforms encouraged non-state ownership and provided for partnerships between the state, cooperative and private sectors. Fourth, segments of the economy were opened to commercial relations with foreigners with attendant encouragement for foreign investment. Fifth, the Party strengthened both agricultural incentives and institutional support for agriculture in a reversal of the earlier emphasis on the industrial sector. Finally, Vietnam undertook a fundamental reform of the financial system to separate central banking and commercial banking functions. At the same time, it implemented adjustments in official exchange rates and liberalized foreign exchange regulations.

Economic renovation represented a sustained attack on the central planning model; thereafter, market-type relations existed alongside the central planned economy throughout Vietnam. With top priority being given to economic reform for creating a multi-sector market economy regulated by the Government, at the same time

consolidating legal environment and renovating Party's and State's structure. Since then the Vietnamese economy became more open and transformed from a centralized planned economy heavily based on imports to a market-oriented one.

Since 1986, transactions across the nation's borders have started to develop thanks to the implementation of "Doi moi" and broadened external relations with many countries in the region and the world (DAN, 2005). Vietnam has reopened border gates and established diplomatic relations to free the country from blockage and isolation during the wars.

Vietnam has issued many policies supporting the development of trade and investment such as a tariff law, domestic investment law, banking law, state budget law and business law. One of the most important policies promulgated is the issuance of Foreign Investment Law which was first approved in late 1987 and then was replaced by a new Investment Law in 2005 - the newest version covers both domestic and foreign investment activities and is still effective. The Investment Law aimed to create attractive conditions for overseas investors, especially those from Western and non-communist countries. In the process, Vietnam hoped to lay the basis for expanded foreign economic relations and increased integration within the world economy.

Before "Doi moi," Vietnam mainly had trade relations with the countries in the communist bloc. Since "Doi moi" and especially the promulgation of the Foreign Investment Law in 1987, Vietnam's export markets have expanded. However, Vietnam's exports only grew considerably after the US lifted its embargo against Vietnam in 1995, and Vietnam joined ASEAN in 1995. Moreover, after the Vietnam-US Bilateral Trade Agreement was signed in 2000 and Vietnam became a member of the

World Trade Organization (WTO) in early 2007, trading activities of Vietnam with neighboring countries (Laos, Cambodia and China) and other foreign countries developed significantly.

### **3.1.1.2.Export and import policies**

Besides the Foreign Investment Law, the development of laws and regulations relating to export-import transactions also contributes to trade encouragement in general and border trade in particular. The promulgation of the Law on Export and Import Tax in 1993, the Laws on Amendment of and Addition to a Number of Articles of the Law on Export and Import Tax in 1993 and 1998 have created a favorable legal environment for export-import activities of Vietnam with foreign countries. The Law on Import Tax and Export Tax, which was passed on June 14th, 2005, by the National Assembly of the Socialist Republic of Vietnam and became effective as from January 1st, 2006, provides for import tax and export tax applicable to goods imported or exported through Vietnam's border-gates or borders; goods sold, purchased or exchanged by border residents and other sold, purchased or exchanged goods, which are considered import or export goods. This law repeals all previous Laws on Export and Import tax and unifies all regulations on duty exemption and reduction previously found in the Law on Foreign Investment, Law on Domestic Investment, Petroleum Law, Law on Science and Technology and other laws.

Under the Law, all goods which are exported or imported across Vietnamese borders, or pass between domestic market and a non-tariff zone and vice versa are subject to export or import tax except goods in the following circumstances:

- Goods in transit;

- Humanitarian and grant aid goods;
- Goods exported abroad from a non-tariff zone, goods imported from abroad into a non-tariff zone for consumption there, and goods passing between non-tariff zones;
- Oil and gas exports which are subject to natural resources royalties.

This Law also provides details of preferential and standard rate of duty for exports and imports; goods to be exempt from export or import duty, goods to be subject to a reduction of applicable duty and goods to be refunded of applicable duty.

### **3.1.2. Border trade policies**

#### **Border economic zones**

According to Decree No. 29/2008/ND-CP, dated 14th March, 2008 of the Government of Vietnam regulations on industrial zones, export processing zones and economic zones, a border economic zone in Vietnam is a “defined economic space, adjoining with an international borders or a national main border, with residents settling and is implemented by specific mechanisms and development policies; consistent with the characteristics of each locality in order to bring the highest socio-economic efficiency based on the planning, exploitation, usage and sustainable development of resources, established by the Government or the Prime Minister.”

In 1996, the Government of Vietnam began to pilot new mechanisms for promoting trade through the establishment of Mong Cai border economic zone (in Quang Ninh province and bordering with China) and approving a preferential mechanism for this economic area. After the experiment in Mong Cai, the government expanded the pilot to a



wider scale with the approval of the preferential policies for the border economic zones of Moc Bai (Tay Ninh province), Lao Cai (Lao Cai province), Dong Dang (Lang Son province), Cau Treo (Ha Tinh province) and Bo Y (Kon Tum province). Particularly, Lao Bao economic zone (Quang Tri province) was established in 1998 with a specific mechanism that was analyzed carefully in the next section. This is the first time the “border economic zone” is used officially in Vietnam.

The main goal of the pilot policies was to give greater autonomy to local authorities in managing cross border economic activities with focus on trade, investment and tourism. The main objective of this pilot was “to test new policies and mechanisms to foster industries and sectors in which these provinces have comparative advantages, such as trade, services and tourism; to attract domestic and foreign capital; to create favorable conditions for restructuring the economy within the areas; to improve living standards of the inhabitants and to develop and support friendship between the two localities” (cited from DAN, 2005).

### **Some recent policies on border trade**

Based on the positive results from the experience of the pilot, the government decided to replicate the model nationwide by promulgating Decision No. 53/2001/QD-TTg on promoting cross border economy dated 19<sup>th</sup> April 2001. The decision brings to remote border areas the preferential policies on investment, trade, tourism and services. The main objectives of Decision No. 53/2001/QD-TTg are: “to foster development of border economic zones by granting the actors policy support, incentives and better business conditions, thus increasing the restructuring of the economy to accelerate trade, tourism, other services and industry; to improve the living conditions of inhabitants of

border areas and surrounding territories and raise the access and awareness of ethnic minority groups about the market economy; and to increase efficiency, effectiveness and operational coordination among state agencies at the local level” (cited from DAN, 2005).

The same year, in July 2001, the Ministry of Finance issued a Circular No. 59/2001/TT-BTC on guiding the implementation of financial policies applied to the border economic zones. In late December 2002, the government held a conference for summing up the implementation of policies on the border economic zones. After the conference, the government confirmed that:

*"As to economy, there has been development progress in the border economic zones; contributing to economic restructure of the provinces having border gates in region and country; promoting the development of some production sectors while contributing to increase of budget revenue, creating infrastructure for the border economic zone and related areas. As to society, there has created more jobs for workers; gradually improving the living standards of residents living in the border areas; and creating a new face for the previously poor and remote frontier areas to become vibrant areas; accelerating the process of "urbanization" in those areas".*

In October 2005, the government officially allowed the establishment of tax reserves in the border economic zones and pledged to target support for local budgets in the infrastructure development of the border economic zones by promulgating the Decision No. 273/2005/QD-TTg dated 31<sup>st</sup> October, 2005 on amending and supplementing some articles of Decision No. 53/2001/QD-TTg on promoting cross border economy. The Ministry of Finance also immediately issued a Circular No.

78/2006/TT-BTC on guiding the implementation of financial policies applied to the border economic zones managed by People's Committee of provincial level.

For the development of border areas in Lao Bao checkpoint, apart from the promulgation of Decision No. 53/2001/QD-TTg and Decision No. 273/2005/QD-TTg, the government has attached special importance to this border area by enacting many particular regulations, of which Decision No. 219/1998/QD-TTg and Decision No. 11/2005/QD-TTg are the most important regulations contributing to the increase in cross border trade between Vietnam and Laos through Lao Bao checkpoint, which will be presented and analyzed in the next section.

## **3.2. Establishment of Lao Bao Special Economic and Commercial Area**

### **3.2.1. Background**

#### **3.2.1.1. Establishment context**

Originating from the purpose to exploit the advantages of economic development strategies in the area and to promote the friendly special relations between Vietnam and Lao PDR, the politburos of the two countries agreed to build a policy to transform Lao Bao (Vietnam) - Densavanh (Laos) border area to an economic development area. In order to quickly implement this longterm policy, the Ministry of Trade, cooperating with relevant ministries and Quang Tri province, submitted a proposal for construction of Lao Bao Commercial Area to the government after an intensive preparation process with high sense of responsibility. On 12<sup>th</sup> November, 1998 the government of the Vietnamese side signed Decision No. 219/1998/QD-TTg on promulgation of Regulation on "Lao Bao Commercial and Economic Developing Encouragement Area, Quang Tri province" (hereinafter referred to as Lao Bao Commercial Area). This Decision showed the concrete

result of the two politburos and cooperation agreements of Vietnam and Laos; implementing renovation policies of the parties and supporting for the socio-economic development of Quang Tri province as well as the whole Central region. On May 11<sup>th</sup>, 1999 the Ministry of Trade issued a Circular No. 11/1999/TT-BTM on guiding the implementation of the Decision No. 219/1998/QD-TTg.

After three years of operation, on 11<sup>th</sup> January 2002 the Prime Minister promulgated Decision No. 08/2002/QD-TTg on amending and supplementing a number of articles of Regulation on "Lao Bao Commercial and Economic Developing Encouragement Area, Quang Tri province" with more incentive policies for this area and in accordance with the Foreign Investment Law of Vietnam and changes of the amended tax laws.

To further improve the preferential policies towards integration and exploit the full geographical advantages of Lao Bao on the East West Economic Corridor, the Prime Minister issued Decision No. 11/2005/QD-TTg dated 12 January, 2005 promulgating the Regulation on "Lao Bao Special Economic - Commercial Area, Quang Tri province". Since then, the Lao Bao Commercial and Economic Developing Encouragement Area has been officially renamed the Lao Bao Special Economic - Commercial Area (hereinafter referred to as Lao Bao SECA) with more preferential incentives and open points. On May 16<sup>th</sup>, 2005 the Ministry of Trade also issued a Circular No. 10/2005/TT-BTM on guiding the implementation of the Decision No. 11/2005/QD-TTg.

The main objectives for establishment of the Lao Bao SECA are: (i) further strengthening economic - commercial cooperation relation between the Socialist Republic of Vietnam and the Lao People's Democratic Republic with neighboring nations; (ii)

exploiting economic advantages through regional cooperation mechanisms in order to boost socio-economic development of the Central region of Vietnam, thus contributing to the nation's development and international economic integration; (iii) pilot applying some new economic management mechanisms while there have been no conditions yet for their application nationwide; (iv) creating an attractive environment for luring foreign investment; making full use of available resources; developing production and services of all types; promoting export and extending markets; (v) creating jobs, stepping up the training and raising of the quality of human resources; and (vi) building a mountainous urban, creating a motive economic region, thus contributing to strongly promote the restructuring of economic mechanism of Quang Tri province.

The regulation of the Lao Bao SECA was built on an open view integration in line with the current status and strategic orientation for economic development - economic development of the region and the nation at present and in the future. The Lao Bao SECA has been a very new model of economic zone permitted to develop as a first pilot by the government in Vietnam, operating under separate regulations and mechanisms and benefit from special preferential policies.

The Lao Bao SECA is located at the starting point of the EWEC, the most favorable and shortest route to expand exchange of goods, tourism and services with Laos, Thailand, Myanmar and other countries in the Greater Mekong Sub-region (GMS). This is a synthetic economic model that possesses characteristics and natures of Industrial Zones, Export Processing Zones, Border Economic Zones; while also operates as a “special free trade zone” which was initiated by the government and managed under a separate regulation applied in Vietnam for the first time with the highest

incentives according to current regulations of Vietnam laws and international treaties signed or acceded to by Vietnam.

In fact, the promulgation of the regulation on Lao Bao SECA has expressed the great concern from the central authorities towards the locality which has suffered a lot of hardship and sacrifice during the two past wars of aggression, especially in the war fighting against the invasion of the Americans. The decision also creates favorable conditions with the aim of exploiting the potentials and advantages of the border economic area located on the EWEC, at the same time expanding trade and attracting foreign investment in the process of international economic integration; implementing the policy of hunger elimination and poverty alleviation; improving living standards of residents in the border area both physically and mentally; contributing to the cause of socio-economic development of the area and Quang Tri province, and reinforcing and boosting all-sided cooperation relationship between the two countries Vietnam and Laos as well as among countries in the region.

### **3.2.1.2. Overview of Lao Bao Special Economic and Commercial Area**

The Lao Bao SECA is located in Huong Hoa district, Quang Tri province, away from the provincial capital of Dong Ha town around 60 km, Cua Viet harbor 72 km to the west and Hue city 150 km to the northwest. The Lao Bao SECA is an area with a delimited geographical boundary within Vietnamese territory but has a particular economic-commercial space, being situated at the border between Vietnam and Lao PDR (Savanakhet province) and stretching along the EWEC; trading with Lao PDR, Thailand and Myanmar through Lao Bao international border gate.

The Lao Bao SECA has a total area of 15,804 hectares, including 2 townships: Lao Bao and Khe Sanh, and five communes of Tan Thanh, Tan Long, Tan Lien, Tan Lap and Tan Hop of Huong Hoa district, Quang Tri province; stretching 25 kilometres long along the National Highway No. 9 with the current population of 37,746 people (up to 2010). In 2010, there were approximately 3,000 labors working in the Lao Bao SECA. There are three main ethnic groups living in the Lao Bao SECA including Kinh, Van Kieu and Pako.

The Lao Bao SECA has been divided into production and business areas as follows:

- Lao Bao Industrial - Trade and Service Sector is designed and planned to modern standards, technical infrastructure (such as transportation systems, electricity supply, water supply and drainage, etc.) that has been invested synchronically to each planned plot, satisfying demand of production and business of investors.

This sector was built to facilitate business activities including wholesale and retail trade, product showrooms, trade fairs, representative branches and offices, trade centers, warehouses, import and export transactions, transit of goods, temporary import for re-export, food processing and reprocessing, sorting and packaging, assembly, production for exports and other related services (transportation and transfer, storage of goods, hotels, restaurants, telecommunications, banking and insurance)

The Sector is divided into three functional sub-sectors:

- o Trade and Services: Planning is elaborate for main activities such as the trading center, supermarket, show rooms, hotels, restaurants, bonded

warehouses,... and other services such as banking, posts and telecommunications, insurance,...

- Industrial: Planning is elaborate for the main activities, such as light industries, processing, reprocessing, classifying and packaging, assembling, garment, leather shoes, etc.
- Lao Bao border gate: Has an area of 30 hectares. Planning is elaborate for border gate management agencies such as Lao Bao border gate Station, national gate, border post, animal, medicinal guarantee stations, etc., as well as investment projects serving activities in the border gate such as parking, duty-free shops, bonded warehouses, etc.
- Northwestern Industrial Sector: Has an area of 27 hectares. Its planning is for investment projects in industrial production, processing, forest products, etc. It includes two subdivisions, A and B.
  - Subdivision A: with an area of 11 hectares it features synchronically invested technical infrastructure (transportation, electricity supply, water supply and drainage, etc.).
  - Subdivision B: with an area of 16 hectares it is being prepared for developing synchronical construction of technical infrastructure (transportation, electricity supply, water supply and drainage, etc.).
- Lao Bao cultural park: has an area of 25 hectares (7 hectares of lake surface). Its topography and geographical location is greatly favorable, has been planned for main activities, such as entertainment and leisure activities, park, hotel, cultural center, art exhibition, gallery and convalescent home.



- Lao Bao Trade Center: with a building area of 35,000 m<sup>2</sup>, of which the main blocks with a floor area of 10,205 m<sup>2</sup> include a stall area of 3,200 m<sup>2</sup>, supermarket area of 3,100 m<sup>2</sup>, office for rent area of 2,000 m<sup>2</sup>, meeting-hall area of 600 m<sup>2</sup> and other services area of 400 m<sup>2</sup>. The Lao Bao Trade Center is built with contemporary design, offering to meet the needs of product introduction, trade fairs, seminars, office rental and other services.

The Lao Bao SECA is managed directly by a Management Board. The Management Board of Lao Bao Special Economic - Commercial Area is a state management agency with legal person status, national emblem seal, and its regular personnel staff, established by the Prime Minister's decision (at the proposals of the Chairman of People's Committee of Quang Tri province and the Minister of Internal Affairs) so as to exercise the concentrated and unified management over all activities in the area by the "one - stop, on - the - spot" management mechanism, which solves problems during the course of operation of Lao Bao Special Economic - Commercial Area quickly and conveniently. The Management Board of Lao Bao SECA has its operating fund allocated by the State Budget, and acts as the planning body with its capital construction fund separately balanced from the State Budget.

### **3.2.2. Preferential regulations**

According to Decision No. 11/2005/QĐ-TTg of the government, the Lao Bao SECA is authorized to apply the highest level of preferential policies by the government in accordance with current provisions of Vietnamese laws and international treaties that Vietnam has signed or acceded to. This is a specific advantage of the Lao Bao SECA compared with other border economic zones nationwide.

Under the Regulation on the Lao Bao SECA, enterprises investing in the area enjoy the most preferential policies applicable to regions with especially difficult socio-economic conditions in accordance with the Law on Investment and other preferences in international agreements that Vietnam has signed or acceded to. Apart from economic and tax preferences applied to all cross border areas, investors doing business within the area are granted much greater preferences on tax, land rent and infrastructure as follows:

### **3.2.2.1. Tax preferences**

Enterprises and tourists enjoy some specific tax preferences that could not be found in other border economic zones. Some of the main tax preferences are:

- For enterprises investing in the Lao Bao SECA, they are exempted from corporate income tax for first 04 years from their taxable incomes first generated, and enjoy a 50% reduction of payable corporate income tax for 09 subsequent years and apply a 10% tax rate during their taxable duration.
- For people working in the Lao Bao SECA who are subject to personal income tax and for people with high income according to provision of law will enjoy a rebate of fifty per cent (50%) payable tax.
- For export-import goods, goods imported from domestic Vietnam and imported from abroad into Lao Bao Special Economic - Commercial Area are exempted from import tax. Goods produced in Lao Bao Special Economic - Commercial Area are exempted from export tax when being exported abroad.

- Goods and services produced and consumed within Lao Bao Special Economic - Commercial Area as well as those imported from abroad therein are not subject to Value Added Tax (VAT). Moreover, goods and services imported from domestic Vietnam into Lao Bao Special Economic - Commercial Area enjoy 0% VAT and 0% of special consumption tax.
- Domestic and foreign tourists on entry into Lao Bao SECA are allowed to purchase duty-free imported goods (goods not subject to the List of Goods prohibited from import) with a value not exceeding five hundred thousand Vietnamese dong (VND500,000) for one person with one turn in one day to bring into domestic market. In cases where such values of goods exceeds five hundred thousand Vietnamese dong (VND500,000), people with such goods have to pay import tax on such exceedings as per current provisions of Vietnamese law.

#### **3.2.2.2.Land rent preferences**

Apart from being exempted or reduced from corporate income tax as well as benefited from other tax preferences, enterprises investing in Lao Bao SECA also enjoy incentives of land rent such as: Organizations or individuals having investment projects in Lao Bao SECA are exempted from land rent for first eleven (11) years from the date of signing the land lease contract and enjoy a rate of thirty per cent (30%) land rent applicable to Quang Tri's mountainous regions from the twelfth (12th) year forwards. Besides, the maximum time of leasing land for projects invested in Lao Bao SECA is seventy (70) years.

#### **3.2.2.3.Infrastructure preferences**

Enterprises doing business in Lao Bao SECA also enjoy preferences in

infrastructure construction investment as provided for in the border economic zone.

Accordingly, Lao Bao SECA attracts investment by giving the right for sale, lease or transfer to enterprises investing in constructing infrastructure of the area: Vietnamese including those residing overseas, foreigners permanently residing in Vietnam and foreign investors are allowed to invest in constructing houses for sale or for lease; invest in constructing infrastructure for lease or transfer right to use land which have already constructed infrastructure and are allowed to purchase a house in Lao Bao SECA according to provisions of the law. Moreover, enterprises that have investment projects located in the concentration sectors have the right to use all completed construction facilities in the area without paying any fee.

As a result, with special preferential policies including VAT tax with a rate of 0%, goods exempted from import-export tax, tourists allowed to buy duty-free imported goods with limited value etc, the Lao Bao SECA is becoming a promising destination for both domestic and foreign enterprises and investors as well as tourists; contributing to the comprehensive development of socio-economy of Lao Bao in general and the increase in border trade in particular.<sup>1</sup>

### **3.2.3. Socio-economic development of Lao Bao SECA**

#### **3.2.3.1. Before the establishment of Lao Bao SECA**

Before 1998, the area of Lao Bao SECA was a mountainous solitary region with underdeveloped socio-economic infrastructure; people lived without clean water, they lacked electricity, and they faced separate and obstructed transportation. This was the

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<sup>1</sup> See detail of preferential regulation in Appendix B

poorest area of Quang Tri province with an economy primarily based on agriculture, poor and backward material facilities and infrastructure. The poverty rate was very high (reaching 61.5%) with an average income of VND1.4 million per capita per year (equivalent to approximately USD70 per capita per year). The total local budget was just VND6.4 billion per year.

The agricultural sector accounted for 72.1% of the total economy with a rice monoculture and low output; industry and handicraft industry were not developed through investments. In 1997, there were no factories or processing production units in the area. They mainly used the existing types of household business such as brick-kilns, blacksmith's, wood sawing workshops, etc.

For services infrastructure: there was only Khe Sanh market with around 250 households doing business in 2007 and Lao Bao market with provisional condition and 100 household businesses. The area did not have any hotels and just had some guesthouses. Other types of services, such as banking, telecommunication and transportation, were underdeveloped.

For socio-economic infrastructure such as transportation: National Highway No. 9 was unfinished upgraded while transport systems in the area were behind the times with poorly planned roads. Electricity network: there was just one electricity station in Khe Sanh town with a capacity of 35KV, connecting to the two townships of Lao Bao and Khe Sanh and some commune centers. Clean water: there was a lack of clean water; residents mainly used natural water from rivers, wells and streams. Schools, hospitals, culture houses, stadiums, working places and media stations were all in bad and temporary conditions and received little investment.

For export-import trading activities: these activities mostly took place at the Lao Bao international border gate by domestic enterprises and some businessmen from Quang Tri province. There were only 12 domestic enterprises doing business in the area in those times. Moreover, the number of people and vehicles passing the Lao Bao frontier gate was also low. In 1998, export-import turnover of Lao Bao through Lao Bao checkpoint was only USD58 million; the number of travelers crossing the border through Lao Bao frontier gate was 50,000 people and the number of vehicles for exit-entry was around 42,164 vehicles.

### 3.2.3.2. Current socio-economic development of Lao Bao SECA



**Figure 1. Lao Bao township nowadays– the center of Lao Bao SECA**

*Source: taken by the author*

After more than 10 years, Lao Bao SECA has developed strongly and comprehensively with a high economic growth rate annually and positive shift in economic structure. Potentials and advantages of the area have been exploited effectively; the area is on the way toward significant growth, and the living standards of residents

have improved noticeably. In the period 2000-2007 the growth rate of production value of Lao Bao SECA reached 27.5%. The Gross Domestic Product in 2008 reached VND1,003 billion, an increase of 7 times compared with 1998.

With special concern from central authorities in recent years, Quang Tri province has concentrated on investing and constructing the Lao Bao SECA in all aspects. Infrastructure such as transportation, electricity, services, clean water and telecommunications have been renovated and developed quickly to be ready for providing those services to enterprises.

The Lao Bao SECA has created a fascinating environment and favorable conditions for enterprises to do business in the area by giving special incentives of tax and land rent as well as providing ongoing improvement of infrastructure. As a result, the Lao Bao SECA has attracted a number of enterprises, especially enterprises on export-import sector, contributing to the rise of trade value between Vietnam and Laos through Lao Bao international border gate.

The establishment of Lao Bao SECA over 10 years with many specific preferences has affected the booming export-import trade activities and trade value between Vietnam and Laos through Lao Bao. Many domestic enterprises have found investment and trading opportunities in the area, and many domestic and international tour agencies have noticed the travel potentials in Lao Bao SECA.

As shown in Table 7 below, before the establishment of Lao Bao SECA, the export-import turnover between Vietnam and Laos through Lao Bao checkpoint was low in value and reached only USD58 million. After 10 years, the trade value increased more than 3.3 times to USD193.4 million in 2008 and rose nearly 5 times to USD288 million in

2009. Import-export businesses have achieved a remarkable performance with the estimated trade volume for 2010 reaching USD316.8 million.

**Table 7: Comparison of economic development in Lao Bao SECA after 10 year establishment**

Items	Units	1998	2008
<i>Export-import turnover</i>	<i>Million USD</i>	<i>58</i>	<i>193.4</i>
Number of vehicles exits/entries	Vehicle	42,164	55,594
Number of people exits/entries	People	50,000	262,550
Number of enterprises	Enterprise	12	250
Individual household businesses	Household	1,000	2,200
Guesthouses/hotels	house	14	250
GDP per capita (current price)	Million VND/year	5.7	50

*Source: Report of People's Committee of Quang Tri province in 2009*

The establishment of Lao Bao SECA also affects the number of exits-entries through Lao Bao border gate. Currently, the number of vehicles going in and out of Lao Bao SECA reaches about 250 to 300 vehicles per day, of which about 50% of vehicles exit abroad through Lao Bao checkpoint. Although there is no clear trend in freight



movements and little change in vehicle numbers crossing through Lao Bao international border gate after 10 years of Lao Bao SECA establishment (42,164 vehicles in 1998 comparing with 55,594 vehicles in 2008), the number of exit-entry passenger movements over the 10 years has raised significantly. In 1998, there were only 50,000 people crossing through Lao Bao checkpoint, but in 2008, the number of passengers crossing the border increased sharply to 262,550 people, over 5 times more compared with ten years ago.

**Table 8: Some main projects operating in Lao Bao SECA**

No.	Name of Project	Investor	Products	Capital (VND)	Capacity	State	Date of Est.
1	Tunnel brick factory	Bach Dang JS. Company	Tunnel brick	7,000,000	10 mill units/year	Vietnam	15/12/2000
2	Pep drinking factory	Viet- Thai Chaichareon limited company	Canned & bottled drinking; bottled juice drinking	51,712,000	9 mil units/yr; 15 mil bottle/yr; 3 mil units/yr	Thailand	10/3/2001
3	Cafe processing	N. road No. 9 Coffee Services Investment Company	Coffee	19,036,000		Vietnam	10/10/2002
4	Bao S. hotel	Quang Tri Construction Limited Company No.1	Hotel, travel, service.	5,467,000	24 rooms	Vietnam	31/12/2005
5	Engineering and Electrical Factory Lao Bao	Lao Bao Engineering Electrical Limited Company	Electrical equipment	10,000,000	2200 units/year	Vietnam	20/05/2002
6	Sepol hotel	Quang Tri Trade Limited Company	Trade, services	8,537,000	24 rooms	Vietnam	9/6/2003

Source: EWEC Strategy and Action Plan in May 2009 by ADB

The establishment of Lao Bao SECA has affected not only the growth of export-import volume and activities through Lao Bao international border gate but also the entire socio-economic development of Lao Bao.

Lao Bao is a “golden address” for many domestic and foreign producers and traders to do business in different fields, such as agricultural, forestry and foodstuff processing, drinks, electronics, household appliances, cosmetics and laminated steels.

Previously, enterprises in the area were mainly household businesses trading in consumer goods with only 12 businesses and low production value. The total number of enterprises has increased remarkably over 10 years. At present, there are more than 250 domestic and foreign enterprises registered and doing business in the area (around 70% of the total are export-import enterprises). With the current population of Lao Bao SECA about 37,746 people, the ratio of resident per enterprise is 150 people/enterprise; this is a high ratio if comparing with the ratio of the whole Quang Tri province currently about 480 people/enterprises.

Besides, the Lao Bao SECA has also attracted a number of investment projects. At the end of 2008, there were more than 50 investment projects with a total registered capital of nearly VND2,300 billion; of these, 27 investment projects had been licensed and put into effective operation, many other projects are still in process. Particularly, there were 10 foreign direct investment projects with 100% foreign-owned capital from Thailand and China with a total registered capital of over USD32 million; of which 5 foreign investment projects have been put into operation including a factory manufacturing the energy drink Super Horse invested by Chaichareon Viet Thai Co, Ltd. with an investment of USD 2.8 million; a factory manufacturing tires and tubes for

motorbikes invested by Camel Rubber (Vietnam) Co, Ltd. with the investment of USD 4.9 million; a factory manufacturing spare parts for motorbikes and bicycles invested by Asean Autoparts Alliance Co, Ltd. with capital of USD 4.9 million; and a factory manufacturing the fishing nets invested by Dechapanich Fishing Nets Company with capital of USD 4.9 million. Trade name of products produced from the Lao Bao SECA has presented throughout most of the domestic market of Vietnam and been exported to many countries around the world.

A total labor force in Lao Bao SECA has reached approximately 3,000 workers. GDP per capita (in current prices of goods) in 2008 reached VND50 million per person, an increase of almost nine times compared with the value of 1998 (VND5.7 million).

In addition, investment, production and trading activities of domestic private entrepreneurs and individual households have taken place ebulliently. After 10 years, the number of individual household businesses in the area has increased to more than 2,200 business stores compared with 1,000 business stores in 1998; of those, 400 households and 20 private entrepreneurs are doing business in Lao Bao Trade Center; 500 household businesses are at Khe Sanh market.

Also, with promotion by the provincial authorities, such as organizing seminars, international fair, festivals of culture – tourism, the Lao Bao SECA has become a tourist and shopping attraction, annually attracting 100,000 to 150,000 tourists.

After 10 years of construction and development, Lao Bao SECA has created a steady infrastructure system to meet basic needs for production and trade development as well as improve the life of local people in the area. The Lao Bao SECA has also made the

development of all aspects in socio-economy of Lao Bao in particular and Quang Tri province in general. It is confirmed that the establishment of Lao Bao SECA is the most important factor to promote cross border trade between Vietnam and Laos through Lao Bao international checkpoint in the past 10 years; it contributes to the economic growth of this previously poor and remote border area.

With the specific incentives and advantages of the Lao Bao SECA in comparison with other border economic zones, along with special concern from central and local authorities in recent years, the Lao Bao SECA has created favorable conditions to attract more and more enterprises to do business in the area; it promotes export-import activities of Vietnam with Laos; strengthens the cooperative relations in all aspects between Vietnam and Laos; and fosters friendship and solidarity with the two nations.

### **3.3. Completion of the East West Economic Corridor (EWEC)**

The Lao Bao international border gate is located on National Highway No. 9, a part of the Trans-Asia Highway, now called the East-West Economic Corridor, linking central Vietnam with regional countries including Laos, Thailand and Myanmar. One of the main reasons for the rise in cross border trade between Vietnam and Laos through Lao Bao border gate is the opening of the East-West Economic Corridor in 2006, making it easier for Vietnamese products to penetrate Laos and other regional countries such as Thailand and Myanmar; at the same time, the completion of EWEC also creates convenient routes for commodities and services from regional countries to cross the Lao Bao border gate to Vietnam. As a result, trade relations between Vietnam and Laos through Lao Bao frontier gate has developed both in quality and quantity, contributing to the boom in cross border trade of Vietnam with Laos.

### 3.3.1. Overview of EWEC

The East-West Economic Corridor is an economic development program launched in 1998 as a flagship initiative of the Greater Mekong Subregion (GMS); supported by the Asian Development Bank (ADB) and Japan, proposed by the Ministerial Conference of GMS organized in Manila, the Philippines in order to enhance economic cooperation relations and integration between and among the four GMS countries, namely Lao PDR, Myanmar, Thailand, and Viet Nam.

**Figure 2: Map of the East-West Economic Corridor**



*Source: ADB website*

The East-West Economic Corridor stretches 1,450 km, starting from Da Nang Port in Viet Nam, passing through Lao PDR, Thailand, and ending at the Mawlamyine Port in Myanmar. This corridor was constructed to link the transportation networks of countries along the Mekong River with the expectation to help boost trade, investment and tourism among the four countries. EWEC is also the shortest overland route and serves as a continuous land route between the Indian Ocean (Andaman Sea) and the South China Sea, intersecting the North-South Economic Corridor at the provinces of Tak and Phitsanulok in Thailand.

The EWEC links important commercial nodes in each member country including:

- Mawlamyine-Myawaddy in Myanmar;
- Mae Sot-Phitsanulok-Khon Kaen-Kalasin-Mukdahan in Thailand;
- Savannakhet-Dansavanh in Lao PDR; and
- Lao Bao-Hue-Dong Ha-Da Nang in Viet Nam.

The objectives of the East-West Economic Corridor flagship initiative are: (i) to further strengthen economic cooperation and facilitate trade, investment, and development between and among Lao PDR, Myanmar, Thailand and Viet Nam; (ii) to reduce transport costs in the project influence area, and make the movement of goods and passengers more efficient; and (iii) to reduce poverty, support development of rural and border areas, increase the earnings of low-income groups, provide employment opportunities for women, and promote tourism. The EWEC is also expected to provide focused support for development opportunities, including in agro-industry and tourism.

As a result of consultations with EWEC Governments and Provincial Authorities held in February-March 2004, a total of 77 projects/subprojects were identified to comprise the updated EWEC development matrix. These projects fall under the following sectors: (i) Transportation; (ii) Energy; (iii) Telecommunications; (iv) Tourism; (v) Trade Facilitation; (vi) Agriculture; and (vii) Private Investment and Industrial Estates.

The flagship initiative for EWEC directly supports three of the five strategic breakthroughs of the GMS Strategic Framework including: (i) strengthening connectivity through a multisectoral approach, (ii) facilitating cross-border trade and investment, and (iii) enhancing private sector participation in development and improving its competitiveness. The goal is to “develop a highly efficient transport system,

which will allow goods and people to move around the Greater Mekong subregion without significant impediment or excessive cost or delay. Improvement in the transportation network plays a key role in promoting economic growth and regional development, thereby reducing poverty”.

The East-West Economic Corridor has diverse topography and climate. It has coastal plains of Myanmar, low areas and mountains in southern Thailand, wet delta, forest and plants in Savannakhet, and mountainous and midland areas in central Vietnam. The corridor's commercial activities focus on six major localities, including Mawlamyine, Phitsanulok, Khon Kaen, Savannakhet, Hue, Danang and some other small-scale towns.

In fact, most member localities located along EWEC are underdeveloped, highly populated and geographically remote. Agriculture plays an important role; other sectors such as production and processing industries, services and trade have not strongly developed.

Therefore, the establishment of EWEC is very necessary, serving as a linkage to promote economic development, social-cultural exchanges among nations and localities. The operation of EWEC also brings practical and long-term benefits to member countries. Better access to natural resources, sea products and energy will be provided for manufacturing and processing sectors. The corridor will also facilitate cities and small towns along it to strengthen trans-border trade and investment attraction, develop new economic activities by effectively using economic space and establishing trans-national economic areas, and create favorable conditions for goods' flows of GMS penetrating into other countries. Goods from Laos, Thailand and China will be able to enter potential markets in Southern and Eastern Asia, Europe and America. The corridor will be a good

environment to test new economic policies, especially for Myanmar, Vietnam and Laos, and open up multi-faceted cooperation among member nations.

EWEC is also one of the three key economic corridors in the Greater Mekong Subregion initiated in 1998 (others including the North-South Economic Corridor and the Southern Economic Corridor) and is meant to attract investment and generate economic activities along a region, usually with the aim toward development. The purpose of the EWEC is to provide two fundamental factors for development: lower distribution costs and improved land supply for economic activities.

This corridor became operational on December 12, 2006. When the road infrastructure is completed, the EWEC may well become not only a dynamic development hub, but also an important link connecting the Greater Mekong Sub-Region to huge markets in Northeastern and Southern Asia.

The Highroad No.9 (a part of EWEC) completed and put into use in 2006 has made land transportation from Myanmar across Thailand, passing over Laos and approaching Vietnam through Lao Bao international border gate easier than ever, attracting more enterprises from these regional countries to invest and do business in Lao Bao as well as from Vietnam to invest and trade to other regional countries.

### **3.3.2. Completion of EWEC**

The completion of EWEC was marked by the inauguration of the Second Thai-Lao Friendship Bridge over the Mekong River connecting Thailand's northeastern province of Mukdahan with the Lao province of Savannakhet in late 2006.



This Second Friendship Bridge, which was opened to traffic in January 2007, has fulfilled the vision of the EWEC to become a linkage of the four countries Vietnam, Laos, Thailand and Myanmar. Thanks to the opening of the Second Friendship Bridge, EWEC officially put into operation, connecting 7 northeastern provinces of Thailand, going through Savannakhet province of Laos, and ending with 3 provinces of the Central region of Vietnam including Quang Tri, Thua Thien Hue and Da Nang.

Since then, a series of governmental policies have been implemented in the three countries (Vietnam, Laos, Thailand) on the export and import activities, entry and exit via the East-West Economic Corridor; transit goods transport policy ; customs inspection procedures of border gates; the border-hand drive traffic, frontier population policy, etc. More border economic zones set up along the Corridor such as Lao Bao SECA (Vietnam), Dansavan (Laos), the northeastern provinces of Thailand also enjoy many open policies and are considered the most open economic model to help the EWEC become the economic model of GMS.

For the EWEC Road Network in Vietnam: the route (also called the National Highway No. 9) is about 271 km long, beginning from the Lao Bao international border gate in Quang Tri province, running across Dong Ha town, over Thua Thien Hue province, going through the new Hai Van tunnel in Da Nang and terminating at Danang's port. A number of important improvements have occurred in the development of the EWEC highway in Vietnam during the last 10 years including: a new border checkpoint was built as part of the ADB loan for the East–West transport corridor in Lao Bao; the 83.5 km long road between Lao Bao and Dong Ha was upgraded to a Class III highway at the end of 2006; and the construction completion of Hai Van tunnel in 2005 in Da Nang.

The completion of EWEC has made the easier route for the four countries, improving linkages to gateway and interchange nodes by saving time, reducing risks and lowering transportation costs; encouraging trading activities along the Corridor, as well as promoting production and employment opportunities, and improving the livelihood of people in the Corridor area.

The putting into use of EWEC by the inauguration of the Second Friendship Bridge in late 2006 marked the linking of EWEC through the Lao Bao international border gate and brought new opportunities for Lao Bao to help the area become one of the top economic centers with an attractive environment along the Corridor. Lao Bao has become the center of friendly exchanges between Vietnam and Laos and also the center of trade and tourism among Vietnam, Laos and Thailand.

### **3.3.3. Relation of EWEC completion and the boom of border trading activities between Vietnam and Laos**

The immediate benefit of the EWEC completion is the improved connectivity and integration with the four neighboring countries, namely Myanmar, Thailand, Lao PDR, and Vietnam, resulting in shortened distance, reduced travel time and transport costs. Therefore, trading and cultural activities among these neighbouring countries are fostered and developed comprehensively. For the Vietnam side, the putting into use of EWEC has shortened the distance of about one hour between the connecting point of Hue city and Da Nang city after its 6.3-km Hai Van tunnel was built through three big mountains as a shortcut connecting Vietnam's EWEC route. The improved transport infrastructure in the EWEC also helps to reduce the travel time by bus from Savanakheth to Dansavan (Laos-Vietnam border in Laos) along the Highway No. 9 dropping from 10 to 12 hours to only 2

and a half hours to 3 hours, from Dong Ha to Lao Bao cutting from 4 hours to 2 hours and increasing the average vehicle speed from 20.8 kilometers per hour (kph) to 41.5 kph (ADB report, 2009).

In addition, from the author's observation, the travel time from Dong Ha to Lao Bao was reduced to 1 hour 40 minutes. The author used a train to travel from Hanoi to Dong Ha (provincial capital of Quang Tri province) and then took public buses for the trip from Dong Ha to Lao Bao SECA. A total road length of about 83 km from the Lao Bao border crossing to Dong Ha has been improved to become a new and modern highway (upgraded to a Class III highway according to ADB report in 2008). Therefore, the real travel time from Dong Ha to Lao Bao and reverse was just about 1 and a half hours to 1 hour 40 minutes. Also, the road was very smooth and convenient. As observed by the author, public buses are the very common and convenient means of transportation to travel between Dong Ha and Lao Bao for both tourists and residents. There is around every 10 to 15 minutes for one trip by public buses from the early morning until midnight, so it is easy to choose the time and trip schedule.

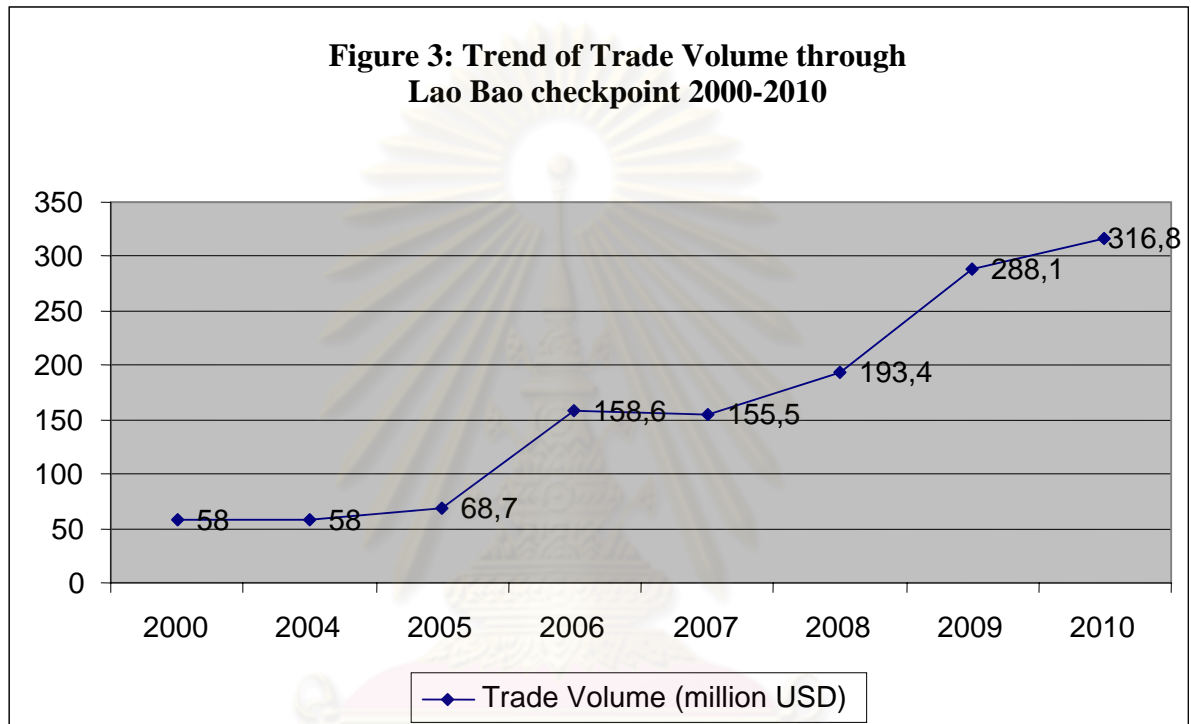
Moreover, according to the ADB Performance Evaluation Report on the East–West Corridor Project (a part of a wider East–West Economic Corridor) in 2009, the EWEC has caused an increase in cross-border movement of freight and passengers between Vietnam and Laos through Lao Bao – Dansavanh international border gates as follow:

- For people movements:
  - o An estimated total time taken to cross the border from Lao Bao to Dansavanh reduced from 487 minutes (before the East–West Corridor

Project completed in 2006) to 151 minutes (after the Project). Of these, the estimated processing time taken to cross the border from Lao Bao to Dansavanh fell from 228 minutes to 60 minutes.

- The average number of persons crossing per day through Lao Bao – Dansavanh international border gates increased from 261.8 persons per day in 2000 to 502.9 persons in 2006 and 750.3 persons per day in 2007
- For freight exits-entries:
  - The estimated total time taken to cross the border from Dansavanh to Lao Bao fell from 71 minutes (before the Project) to 48 minutes (after the Project). The estimated processing time to cross the border from Dansavanh to Lao Bao fell from 45 minutes to 29 minutes
  - The average number of vehicles crossing per day increased from 130.8 vehicles per day (vpd) in 2000 to 142 vpd in 2006 and 152.2 vpd in 2007.
  - For shipments of goods from Vietnam to Lao PDR through Lao Bao – Dansavanh border gates, the current time taken to cross the border at Lao Bao is 70 minutes at Dansavanh (inbound) and 81 minutes at Lao Bao (outbound). This time shows a major improvement from 228 minutes in processing time and 259 minutes in queuing time in 2003. For shipments of goods from Lao PDR to Vietnam, the average time taken to cross the border is 20 minutes at Lao Bao (inbound) and 28 minutes at Dansavanh (outbound), whereas in 2003 it took 39 minutes to exit from the Lao PDR and 32 minutes to enter into Vietnam.

The results of EWEC completion on shortening distance, reducing travel time and lowering transport costs between Vietnam and Laos through Lao Bao international gate has had positive impacts on border trade volumes and cross-border passenger movements of the two countries over the recent years.

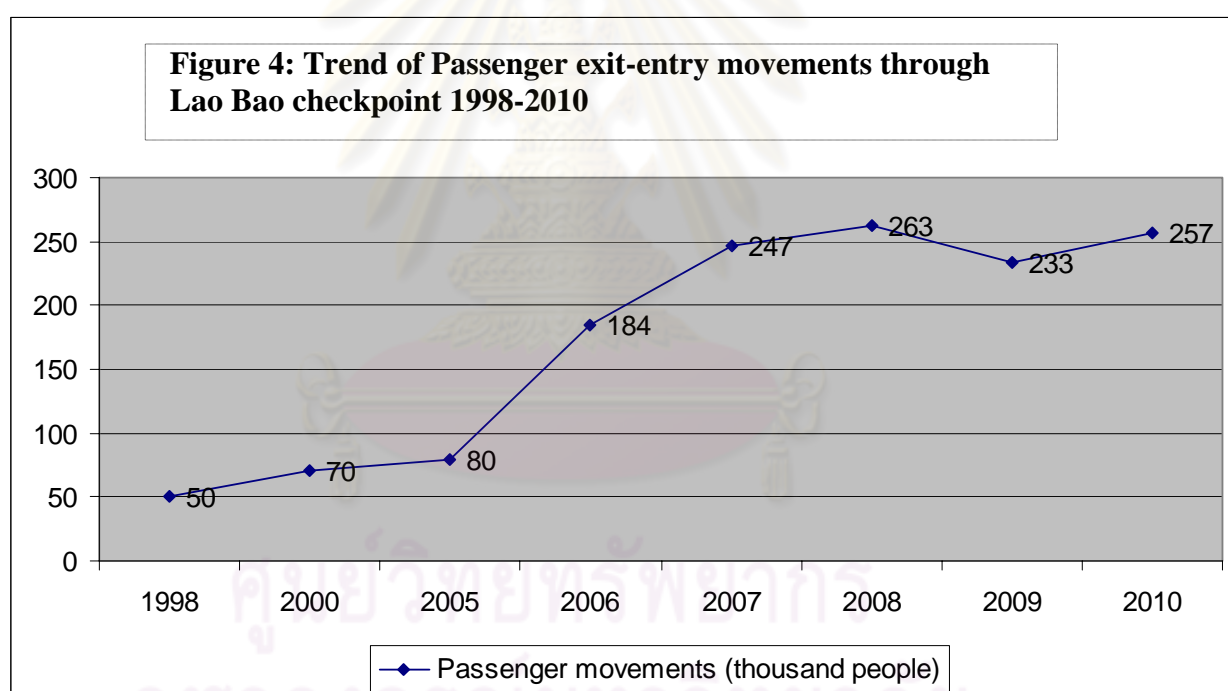


*Source: Based on the data from Table 4 and 5*

As seen in Figure 3, border trade at the Lao Bao-Dansavan international border gates was fairly stable and low in value in 2000-2005 during the construction of the Second Friendship Bridge over the Mekong River. Following the opening of the Bridge at the end of 2006 or the completion of EWEC, border trade between the two countries experienced a large expansion to the value of USD158.6 million in 2006, 2.3 times compared to the trade volume of the previous year (USD68.7 million in 2005). Following a surge in 2006, border trade via Lao Bao international border gate in 2007–2010 increased steadily, from USD155.5 million in 2007 (fell a bit compared with 2006) to a

peak at USD316.8 million in 2010 (4.6 times over 2005). Average trade through Lao Bao crossing increased remarkably over 4 times from about USD50 million during 2001–2005 (before the EWEC completion) to USD222.48 million during 2006–2010 (after the the EWEC completion).

Moreover, the completion of EWEC also created easier access for passengers crossing the Vietnam-Laos border at Lao Bao-Dansavan international border gates, resulting in a sharp increase in numbers of people (both tourists and businesses) crossing over the border.



Source: Based on the data from Table 4 and 5

As shown in Figure 4, during the period 1998-2005, passenger movements crossing the Vietnam-Laos border at Lao Bao-Dansavan checkpoints increased with a moderate growth rate, from 50,000 people in 1998 to 80,000 people in 2005. Following the completion of EWEC in 2006, cross-border passenger movements have increased significantly to 184,000 people in 2006 alone, 2.3 times compared to the number of cross-

border passengers in 2005. Thanks to infrastructural transport improvements of Highway No. 9 (also part of the EWEC) since 2006, the number of tourist arrivals through Lao Bao international border gate has increased further, from 247,000 people in 2007 to 263,000 people in 2008, falling a bit to 233,000 people in 2009 and reaching 257,000 people in 2010. The average number of exit-entry passenger movements at Lao Bao checkpoint in 2006-2010 has increased nearly 3 times compared with the period 2001-2005 (before the EWEC completion), rising to 236,800 people in 2006-2010 comparing with 80,000 people in 2001-2005. In particular, there is now a significant and fast-growing flow of Thai tourists and enterprises to Vietnam for traveling and doing business. For example, within the first 8 months of 2008, the number of Thai tourists travelling by land through the Lao Bao international border checkpoint to Vietnam reached 95,552 people (accounting for nearly 30% of the total cross-border passengers in the whole year 2008). The improvements of Highway No. 9 has created potential for tourism development in the Central region of Vietnam, which possesses many attracting tourist destinations, including historical and cultural sites and eco-tourism zones in Hue (the ancient capital), Da Nang city and Hoi An ancient town.

In short, the completion of EWEC in 2006 has made easier the flow of people and goods at the Lao Bao border, resulting in attracting more investors and tourists to this area and contributing to increase border trade volume and value. In fact, the operation of this Corridor really serves as an important lever for the increase in border trade exchanges between Vietnam and Laos through Lao Bao international border gate, supporting further development and intergration in the Lao Bao border area, as well as a freer flow of goods and people from Vietnam to other GMS countries; and contributing to the living improvements of residents along the border area.

### **3.4. Implementation of GMS Cross Border Transport Agreement (CBTA) and a Single-Stop Customs Inspection in Lao Bao Checkpoint**

Last but not least, one of the important factors to promote border trade between Vietnam and Laos through Lao Bao checkpoint is the initial implementation 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) at the Lao Bao – Dansavanh border crossing point started from 31<sup>st</sup> June, 2005. CBTA is one of the GMS programs, initiated in November 1999 to support trade facilitation in GMS. This Agreement is a compact and comprehensive multilateral instrument covering various aspects of cross-border transport facilitation in one document including:

- 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.

The CBTA applies to selected and mutually agreed upon routes and points of entry and exit in the signatory countries. This Agreement comprises 20 annexes and protocols that set out the operational details governing the various aspects of transport facilitation.



The first pilot implementation of the CBTA, comprising a Bilateral Road Transport Agreement between Lao PDR and Viet Nam, started at Lao Bao–Dansavanh border points in 2005. The implementation of the CBTA at the Lao Bao (Vietnam) – Dansavanh (Lao PDR) international border checkpoint was marked by the pilot establishment of a Single-Stop Customs Inspection mechanism initially in June 2005.



**Figure 5. Lao Bao International Border Gate with a shape of Vietnamese copper-drum**



**And Dansavanh Border Gate at Lao side**

Single-Stop Customs Inspection (SSCI) means that “customs authorities in adjacent borders will carry out inspection jointly and simultaneously through shared facilities. Officials of the countries with common border assist one another in the performance of their duties. These authorities carry out inspection jointly and simultaneously. Where local configuration does not allow the installation of physically adjacent, back-to-back frontier control posts, the control officers from one country shall be allowed to perform their duties in the territory of the other country, or the concerned countries may delegate their inspection and control competence to each other's officials. Single-stop inspection ultimately contributes to reducing transaction costs in the

movement of goods, raising economic efficiency among cooperating countries” (ADB, 2001).

In short, a SSCI will be assessed by two countries' border control authorities together to conduct one-stop inspection at the inbound checkpoint or at the border facilities in Common Control Area. Officials of the two countries help each other perform their duties by carrying out inspections jointly. Therefore, the time for doing customs procedures will be reduced.

In fact, the result from the pilot implementation of the CBTA at the Lao Bao-Dansavanh border-crossing points has been positive with a reduction in border-crossing time. Processing time for cargo trucks (commercial vehicles) crossing the border has been reduced from 4 hours to 70 minutes –80 minutes; the border crossing clearance time for passenger cars (non-commercial vehicles) has decreased from 2 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 (ADB mid-term review, 2007).

Besides, thanks to the implementation of SSCI, the declarations and customs inspection procedures by border agencies at the Lao Bao border gate have been simplified, made more convenient and effective than before. Before the implementation of CBTA in general and SSCI in particular, the process of customs and immigration clearance took hours with many steps. This nonphysical barrier resulted in hindering the flow of people and goods at Lao Bao border point and thus made border trade between Vietnam and Laos low in quality and quantity. Currently, with the pilot operation of SSCI, the customs and immigration clearance time has reduced remarkable. The declarations and inspection time at Lao Bao checkpoint has fallen from 125 minutes to 29

minutes for outbound goods and from 20 minutes to just only 12 minutes for inbound goods.



**Figure 6. The customs declaration zone for entry at Lao Bao border gate**      **And opposite site for exit customs procedures**

*Source: taken by author*

The faster trans-national commutes and cross-border clearance process has resulted in enhancing the flow of passengers and freight movements as well as sparking an increase in cross-border trade between Vietnam and Laos through Lao Bao-Dansavanh border checkpoints in recent years (the increase in border trade and movements was presented clearly in the Figure 3 and 4 of the previous Section III).

According to an analysis of the East–West Corridor between Da Nang in Vietnam and Tak in Western Thailand in 2007, ADB indicates that nearly half of the travel time along the Corridor was spent in customs clearances or at border crossings. From a cost perspective, it was found that 43% of the trade costs were attributed to customs and border crossings. In other words, implementation of the CBTA could reduce the trade costs and corridor travel time, resulting in an increase in cross border trade.

In addition to the implementation of SSCI, the customs authority of Lao Bao border checkpoint is also carrying out the first steps of a “National one-window customs,” which means that enterprises only declare in one place and get the results in the same place. The Lao Bao customs authority also coordinates with the Dansavanh customs in Laos to set the common time for both border gates with the operating hours at the Lao Bao-Dansavanh border crossing points between 7:00 hours and 19:30 hours, open seven days a week. Thanks to financing from ADB, the Lao Bao border gate zone has been upgraded to become a new and modern one equipped with adequate facilities such as electronic passport readers connected to the Internet, helping to deal with declaration procedures easier and more conveniently.

Moreover, passengers crossing the border have not been required to fill in the customs declaration form at the Lao Bao international border gate since November 15th 2010. Based on the Prime Minister’s instructions, the Vietnam Immigration Department under the Ministry of Public Security removed this procedure for 12 international border gates equipped with electronic passport readers connected to the Internet; the Lao Bao international border gate is one of these gates. Prior to this, the Ministry of Public Security issued the customs declaration form for tourists immigrating to Vietnam through border gates under the surveillance of the Ministry of Defence. The removal of this regulation makes customs procedures easier and reduces time spent for declaration procedures; this helps facilitate the flow of goods and people across the Lao Bao border.

As for the local government, the Customs Department of Quang Tri province has promoted the reform of administrative procedures, development and modernization of customs for the implementation of risk management techniques and combining the implementation process of SSCI at the border gates of Lao Bao – Densavanh. The

Customs Department also concentrates human resources on testing, control and reduction of time in customs procedures for import-export transactions and exit-entry passengers. In addition, to further improve cost savings and time procedures, the Lao Bao border customs gate is promoting the application of test techniques such as using goods scanners to minimize manual inspection while actively improving administrative procedures under the ISO standard to standardize border control documents and reduce time for enterprises. In addition, the provincial government regularly maintains the resolution of problems at the unit, wide dissemination of documents relating to the import and export policies and customs procedures, facilitate the maximum the observance of good business law, making an important contribution in creating a legal environment more suitable to the requirements of customs management.

Also, to meet the requirements of comprehensive integration in the process of liberalization, trade facilitation and investment, the Quang Tri Customs Department has put attention on implementing specific measures to remove the difficulties and obstacles in open-policy conditions and increase the competitiveness of enterprises, as well as implementing a number of other customs incentives. In particular, considering that the process of SSCI is a breakthrough in reform and modernization of customs, associated with compatibility and synchronization of capabilities and responsibility sense of customs forces at the Lao Bao border. Customs will extend “distance-declaration” procedures at the Lao Bao border. Accordingly, businesses do not have to go to customs offices to declare by papers; instead, they can report remotely by the connected computer system. This is one of the priority issues to facilitate business expansion, market penetration and to take advantage of investment capital, technology and management skills from abroad; actively participate in the process of new business and production

agreement establishment; better handle trade disputes; and promote businesses to improve their competitiveness and to bring benefits for consumers.

In summary, with the pilot implementation of CBTA at the Lao Bao – Dansavanh border points through the establishment of SSCI in 2005, as well as the dynamic incentives from the Quang Tri Customs Department, the Lao Bao international border checkpoint is becoming an attractive destination for traders and investors thanks to improved physical infrastructure and easier cross-border procedures, resulting in an increase in border trade transactions of Vietnam with Laos through the Lao Bao gate.



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## **CHAPTER IV**

### **IMPACT OF CROSS BORDER TRADE ON THE GROWTH OF LAO BAO BORDER AREA**

The increase in CBT between Vietnam and Laos in recent years has brought positive impacts on the growth of Lao Bao border area including high growth rate and economic restructure, poverty reduction and income improvement, increased trading and service activities, industrial development and easier access to social infrastructure. However, CBT is also facing many challenges such as gaps in preferential policies applied in Lao Bao, informal trade and smuggling and other obstacles.

#### **4.1. Positive Effects**

The socio-economic impact of the increase in cross border trade in recent years between Vietnam and Laos through the Lao Bao border checkpoint has been positive. The increase in border trade has resulted in increased domestic economic activities and variety of goods. Trade transactions in Lao Bao now are bustling with the establishment of many duty-free shopping centers, new industries and processing and production zones; the availability of imported goods from a wide range of countries such as Thailand, China and Europe, which are sold in numerous shops and stalls. The bustling border trading activities also bring out the development of related services such as hotels, restaurants, bars and banks, etc.; creating more jobs opportunities for local people and increasing income as well as reducing poverty. The boom of cross border trade, together with the road infrastructural improvements of the Highway No. 9 has enhanced mobility and enabled local communities including ethnic groups to gain easier access to markets and social services such as education, healthcare, electricity and clean water. As a result, the

Lao Bao border area has gained a new appearance with a high rate of urbanization, a shifting in economic structure, and improvements of living standards of residents in the area.

#### 4.1.1. Growth and Economic Restructure

The surge in cross border trade between Vietnam and Laos through Lao Bao has brought about the development of commerce and services sectors, contributing to the economic structure shifting and high growth rate of Lao Bao border area.

**Table 9: Comparison of some economic indicators between Lao Bao SECA and Quang Tri province**

No.	Indicators	Lao Bao	Quang Tri
1	GDP in 2008 (billion VND)	1,003	2,300
2	GDP growth rate	27.5%	11%
3	GDP per capita in 2008 (current price, million VND)	50	13.7
4	Economic structure in 2008 (GDP shares)		
	- Agriculture	- 12.5%	- 33.01%
	- Industry-construction	- 30.8%	- 31.48%
	- Services	- 56.7%	- 35.51%

*Source: Report of People's Committee of Quang Tri province in 2009*

In the period 2000-2008, the Gross Domestic Product (GDP) growth rate of the Lao Bao SECA reached 27.5% annually (higher than nearly 3 times of the GDP growth rate of the whole Quang Tri province with approximately 11% per year). Every year, the Lao Bao SECA brings considerable revenue to Quang Tri province.



The GDP of Lao Bao SECA in 2008 reached VND1,003 billion (while the GDP of Quang Tri province was about VND2.300 billion in 2008), an increase of seven times compared with 1998. GDP per capita (in current prices of goods) in 2008 reached VND50 million per person, an increase of almost nine times compared with the value in 1998 (VND5.7 million).

The economic structure of Lao Bao has shifted in a positive way. The average growth rate of industry-construction sector has increased about 32.5% per year; services sector increased 28.3% annually; agriculture-forestry-fishery sector increased 14.8% per year. The economic structure has shifted increasingly toward the ratio of services and industry-construction sectors, and decreasingly the ratio of agriculture-forestry-fishery sector in the GDP shares. In 2008, the agricultural sector accounted for 12.5% of the GDP shares (while in 1998, this sector accounted for 72.1%); industrial-construction sector increased to account for 30.8% compared with 10.4% in 1997; the ratio of services sector increased remarkably to 56.7% of GDP shares, around 3.2 times compared to the ratio in 1997 (17.5%).

The Lao Bao border area is gradually restructuring its economy towards industrialization, modernization and efficiency in each sector.

#### **4.1.2. Poverty Reduction and Income Improvement**

The most direct impact of cross border trade is the economic impact. The rise of cross border trade with Laos has resulted in increased economic transactions in the Lao Bao border area, creating more employment opportunities for local residents. The people living in the border area are now actively participating in bustling services and production sectors in Lao Bao, increasing incomes and helping alleviate poverty.

The SECA area has created thousands of jobs for local people, especially people of ethnic minorities (Van Kieu and Pako) who have been involved in the production of goods and agricultural products such as bananas, vegetables, cassava, pigs, and chickens, etc. produced by ethnic people. Some of their agricultural products have become brands, such as Se Pon cassava, while Tan Long bananas are being exported to many countries in the region for hundreds of billions each year, helping to reduce poverty and increase incomes.

Previously, Lao Bao contained a significant number of people living below the poverty line. In 1997, 61.7% of the population living in Lao Bao was classified as poor. The poverty rate has fallen dramatically to 10% in 2006 and less than 10% in the most recent five years.

The average income per capita in the Lao Bao SECA has increased more than 16% per year over the recent years. Local residents, especially urban dwellers in Lao Bao, are beginning to experience some improvement in their living standards by easier access to consumer and production markets, shown by possessing many expensive assets such as electrical appliances (televisions, fridges, air-conditioners, gas and electric cookers, etc.) and vehicles (automobiles and motorbikes). The livelihoods of ethnic minorities (Van Kieu and Pako) in Lao Bao have changed significantly in recent years. According to the statistics of Quang Tri province, the average income per capita of ethnic people in Lao Bao is approximately VND13 million per year (around USD700 per year), nearly equal to the income per capita of people in the provincial capital of Dong Ha. Currently over 60% of the Van Kieu and Pako households in Lao Bao live in spacious houses and possess televisions and motorbikes. In addition, the ethnic minorities (Van Kieu and Pako) are

living in harmony with the Kinh group (majority in Lao Bao) thanks to the encouragement of policies for ethnic minorities of the local authority.

Moreover, people involved in trading and service activities will have better incomes. According to survey results conducted by the DAN network in 2005, the rate of involvement of the households in cross border trade was higher, and there was a higher per capita income. And most recently, according to the results of a survey on livelihoods of people in Lao Bao border town conducted by Mr. Mai Van Xuan in 2008, people working in trade and services sectors (who are mainly Kinh ethnic group and come from urban areas) earned higher incomes than people working in other sectors, while people working in the agricultural production sectors (who are mostly ethnic minorities and come from rural and remote areas) earned the lowest income. The average income per household of people working in the trade-service sector (mostly from Kinh ethnic group) is about VND90 million per year; for households working in agriculture plus services sectors is VND63.5 million annually; and for households working in the agricultural production sector (mostly from Van Kieu ethnic minority) is approximately VND14.3 million per year, about 6.2 times less than the income of households working in the trade-service sector (an average number of people in a household/family is about 5 people).

Further, from the interviews with local people living in Lao Bao border town, their income is rather high compared with other border regions in Vietnam. Two employees working in Bao Son Hotel (2-star hotel where the author stayed during the fieldtrip in Lao Bao) told that they are paid VND3 million per month or their income is around VND36 million per year. Two motorbike taxi drivers when interviewed said that they could earn about VND40,000 to VND100,000 per day depending on their luck and conditions of each day; so their income is around VND14.6 million – VND36.5 million.

The author also interviewed one group of four women working in black exchange currency market. They usually gather in front of Lao Bao – Dansavanh border checkpoints and are willing to exchange money from VND (Vietnamese currency) to Kip (Lao currency) or BAHT (Thai currency) and vice versa for people and freights crossing the border checkpoint if they require. These women said that their daily income is about VND100,000 – VND130,000; hence, their annual income ranges from VND36.5 million to VND47.45 million. A shop-keeper selling groceries at the Lao Bao Trade Center was also interviewed about her income, and she said that her income is not stable and varies from VND2 million to VND4 million monthly, resulting in her annual income from VND24 million to VND48 million.

It is noted that all people interviewed work in the trade and services sectors, and live in the center of Lao Bao. Their annual income ranges from VND14.6 million to VND48 million. This is really a high income compared with average income of people living in other border areas in Vietnam, and particularly compared with average income per capita of the whole Quang Tri province, which reached only VND13.4 million in 2008.

#### **4.1.3. Increased Trading and Service Activities**

The rise in cross border trade at the Lao Bao international checkpoint also leads to an increase in trading and service activities within Lao Bao SECA. Currently, trading and service activities in the area are taking place actively with the appearance of many modern trading centers, supermarkets, restaurants, hotels, telecommunications, banks, insurance agencies, transport agents, etc. The trading-service sector now accounts for 56.7% of total sectors in the area and is now developing in all aspects of quantities,

scales, values and trading types, creating an increasingly bustling business environment to serve as an important point for trading, goods and services transit with the provincial and national markets as well as large regional markets in GMS.

#### **4.1.3.1.Increased Trading Activities**

A number of duty-free shops, trading centers, supermarkets and markets have been established to satisfy the increase in consumption demands of residents and tourists in the Lao Bao border area; some major investments have included, as follows:

- Lao Bao Trading Center with a floor area of 10,000 meter squares, including more than 400 stalls and shops.
- Dong Nam A Trading Center with a floor area of 16,500 meter squares.
- Dong Nam A Supermarket with a total floor area of 12,000 meter squares.
- China Trading Center with the capacity of 500 stalls and a floor area of more than 25,000 meter squares.
- A large duty free shopping center and a supermarket invested and constructed by Thien Nien Ky Ltd. Company with a floor area of 30,000 meter squares.
- Khe Sanh Market with the ongoing upgrade to meet the demand of 700 households, with a total area of 12,000 meter squares,
- Tan Long Market with a scale of 1,000 meter squares which was built and put into operation started from June 2008.

A lively duty-free shopping centre, Thien Nien Ky, was established at the Lao Bao- Dansavanh international border checkpoint on the Vietnam side with a total capital

of more than VND120 billions, where imported goods from a wide variety of countries such as Thailand, Europe, America and China, are available cheaply to Vietnamese and foreign shoppers. This duty-free shopping centre also provides a wide range of goods (including liquor, jewelry, electrical appliances and clothing) sold from numerous small shops and stalls. Thanks to the policy of tax-exemption for domestic and foreign tourists on entry into Lao Bao SECA that are allowed to purchase duty-free imported goods within limited money, Lao Bao SECA has become a “shopping paradise” that attracts an increasing number of tourists from other provinces in Vietnam as well as regional countries. Shopping in Lao Bao’s duty-free shopping centers is popular.

#### **4.1.3.2. Variety and Diversity of Goods**

The increase in value of imports at Lao Bao border checkpoint has brought in a large variety and diversity of goods with cheaper prices. The easier access to Vietnam’s market by roads through Lao Bao border checkpoint has attracted many Thai investors seeking business opportunities in Lao Bao SECA as well as increased the availability of Thai products in Vietnamese markets. Moreover, the liberalization of border trade with many preferential import-export tax policies and the increased integration of local traders in Lao Bao allow local people to have better access to markets and enable consumer choices through cheaper prices and product availability and diversity from many countries such as Thailand, Europe and China. Not only do Vietnamese traders bring in more and more commodities from Laos (through Dansavanh border checkpoint) but local people in Lao Bao also get the opportunity to cross to Laos and choose all kinds of products at their own pleasure. The easier access through Lao Bao-Dansavanh border gates thanks to road infrastructural improvements allows Lao Bao’s local people and traders to easily purchase goods on sale immediately across the border.

Goods sold in Lao Bao, according to observations by the author in Lao Bao Trade Center and along the main road to Lao Bao checkpoint, are mainly imported from Thailand and China. Some high quality products imported from America and Europe are sold in Thien Nien Ky duty-free shopping center (the biggest one in Lao Bao). There is also a series of Mukdahan-Thailand shopping malls that are located in Lao Bao Trade Center and in the area near Lao Bao border gate, selling products mainly from Thailand and invested by Thai enterprises. Thai products, as observed by the author, account for about 60% of total products in Lao Bao, then local products and Chinese ones, with a wide range of all types, from dairy products to electric appliances and consumption products. Lao Bao is famous for imported wine with cheap prices and diversity. Wine is sold everywhere from big duty free shops and supermarkets to small stalls alongside the roads. Lao Bao is also called by the name “the city of wine” due to the large amount of wine imported through Lao Bao checkpoint every year to sell in the border area as well as to transfer to other provinces in Vietnam. Other goods that are popular in Lao Bao SECA are imported automobiles. Because of the tax exemption policy for enterprises to be able to buy 1 to 2 automobiles without tax, the price for imported automobiles is lower, nearly by half, compared to prices in other places. This has resulted in an increasing number of automobiles in Lao Bao. The main other kinds of goods sold at Lao Bao SECA include: confectionaries, tobacco, clothing, air-conditioners, fridges, etc.

#### **4.1.3.3.Services Activities**

The increase in border trade with Laos and passenger movements across the Lao Bao border have brought about the development of related services such as the establishment of hotels and guesthouses (serving for over night sleeping and relaxing

demands of traders and tourists), financing and banking services, and telecommunications.

Previously there were only some old, rundown guesthouses and inns in Lao Bao; however, now many hotels meet international quality standards for serving international and domestic travelers. Traders are now established and operate in Lao Bao SECA. One 3-star hotel is operating in Khe Sanh area (Khe Sanh Hotel), two 2-star-hotels (Sepon Hotel and Hoa Binh Hotel) and one 1-star hotel are in Lao Bao center, with many other hotels and guesthouses being constructed. The current total of 250 rooms have been meeting the increasing demand of tourists and enterprises working in Lao Bao SECA.

For the banking and financial services: there have 3 branches of Vietnamese big banks operating in Lao Bao including Agricultural and Rural Development Bank, Industrial-Commercial Bank and Sai Gon Commercial Bank (Sacombank) in order to ensure demands of all kinds of services such as transactions, opening bank accounts, foreign currency exchanges, express money transfers and other services for customers. Insurance services have been developed with many providers. Some domestic and international insurance companies have agencies in Lao Bao such as Bao Viet Insurance Ltd. Corporation, Bao Minh Insurance Company, AIA Life Insurance Company, and Prudential Insurance Company.

For telecommunication service: the telecommunication networks from major service suppliers of Vietnam such as Mobilephone network, Vinaphone, Viettel, Sfone and EVN telecom for mobile phone cover all parts of the Lao Bao border area to serve the communication demands of local people, traders and tourists. Moreover, Asymmetric



Digital Subscriber Link (ADSL) with high-speed access Internet has been installed and put into operation since early 2005.

#### **4.1.4. Industrial Development**

The industrial sector in Lao Bao SECA has been developed significantly. The growth rate of the industry-construction sector in 2000-2008 was 32.5% per year, of which the growth rate of the industrial sector increased more than 2 times compared to the rate of the construction sector (47.7% per year compared to 23.8% per year). The ratio of industry-construction structure has also changed towards exchange to each other, with the increase in the industrial sector from 17.1% of industry-construction shares to 32.7% in 2005 and reaching 56% in 2008.

In addition, industrial estates have been developed at Lao Bao and Dong Ha. 23 industrial units are operating in industrial estates at Lao Bao (border area) and Dong Ha. More estates are planned.

At present, industrial units in Lao Bao SECA have received investments and are being constructed as functional concentrated planning zones in areas such as Industrial zone located in Lao Bao Industrial - Trade and Service Sector, which will feature main activities such as light industries, processing, reprocessing, classifying and packaging, assembling, garment, leather shoes, etc.; and the Northwestern Industrial Sector with an area of 27 hectares designed for investment projects in industrial production, processing, forest products, etc.

Previously, there were almost no industrial units in the area. Currently, there are many factories and enterprises investing in the industrial sector to produce many kinds of

products such as energy drinks, drinking water, vehicle tires and tubes, electric motorbike assemblies, mobiles, processing of exported agricultural products, tiles and construction materials, etc.

The total industrial production value of enterprises operating in the Lao Bao SECA has increased in recent years, reaching VND200 billion in 2005, rising to VND250 billion in 2006, approximately VND310 billion in 2007 and up to VND400 billion in 2008; accounting for 35%-40% of the total industrial production value of Quang Tri province.

Although enterprises doing business in the Lao Bao SECA are enjoying tax exemption and reduction according to the preferential policies of the area, they still contribute to the state's revenue tens of billion VND every year. The scale of these enterprises in industrial sector is still limited; however, the occurrence of these businesses has helped to provide jobs for more than 3,000 local people in the Lao Bao SECA, which previously was a remote mountainous area with special socio-economic difficulties. It now contributes to the economy structure shift in Lao Bao. The improvement of the business environment and living conditions has attracted a larger population. The population of Lao Bao SECA reached 37,746 people in 2010, an increase of about 30% compared to 1998.

#### **4.1.5. Social Infrastructure Improvement**

The increase in cross border trade between Vietnam and Laos through Lao Bao, along with improvements in roads, has improved access to basic social services for Lao Bao residents such as clean water, electricity, education and healthcare.

#### **4.1.5.1. Transportation**

Highway No. 9 passing through Lao Bao international border gate was upgraded for the Phase II with a total investment capital of VND450 billion and was put into use in late 2006. Also, Ho Chi Minh trail, which passes across Lao Bao SECA, has been completed. Moreover, inbound and inter-commune transport systems within urban areas and between villages have been invested and constructed and are now used effectively to serve the regional people's livelihood. These transport systems have a total length within the Lao Bao border area of about 138.2 km in 2010; of which 60 km is for asphalted roads, 35 km for concrete roads and the rest for macadam roads.

The better urban and rural roads have enhanced mobility and enabled communities including rural and ethnic communities to gain access to markets, employment opportunities and social services such as clean water, electricity, education and healthcare.

#### **4.1.5.2. Electricity and Water Supply**

Currently, 100% of households (both Kinh and ethnic minorities) have access to electricity. The National Electricity Corporate of Vietnam invested VND130 billion to construct two transformer stations in Lao Bao and Khe Sanh with a 110KV line from national electricity grids. These stations were put into operation in 2003 and 2004, meeting sufficient demand for trading-production activities in the Lao Bao border area for the short term as well as the long term. The electricity supply systems at some concentrated sectors are provided to the barriers of each factory with voltage of 0.4 KV. A Quang Tri Hydroelectric – Irrigational work with the capacity of 64 MW has been invested and put into operation since 2006. Besides, there have been some enterprises

investing in the hydroelectric sector with a capacity of about 9 MW such as Ha Rao Quan Hydroelectric plant, La La Hydroelectric plant, etc.

For water supply, people living in the Lao Bao border area now have access to piped water (safe and clean water). Two water plants at Khe Sanh and Lao Bao are now operating with capacity of 9,000 cubic meters per day and night, satisfying the demands of production and trading activities as well as people living in the two townships and some neighboring communes. The capacity is planned to increase by 15,000 cubic meters per day and night in the future.

#### **4.1.5.3. Education**

Thanks to the increase in cross border trade, the income of residents in Lao Bao has also increased. Greater income has opened up more opportunities for education to local people. The level of participation in education by local people in the Lao Bao border area, especially by the urban dwellers, is very high. In principle, education is compulsory for all Vietnamese children through the primary grades and into secondary education. According to the statistics of People's Committee of Quang Tri, currently in Lao Bao SECA, the mobilization rate of children in primary ages (including children from Van Kieu and Pako ethnic minorities) has reached more than 98%. The rate of communes, wards and towns in Lao Bao SECA reaching the standard of compulsory secondary education is about 95%. Children now have easier access to education thanks to improvements in income and road infrastructure as well as incentives from the local and center governments that strongly promote greater participation in education in Lao Bao.

The education system in Lao Bao has also developed in recent years. Previously, there was only one school made by thatched cottage and earthen wall, established by

people from earlier times on the set of building the new economic zone in Lao Bao border area. Currently, Lao Bao has a sufficient schooling system with all grades, from kindergartens, primary, secondary to high school grades with a total number of more than 3,000 students.

For school infrastructure: in Lao Bao SECA, currently there have two high schools, one continuation school for secondary and high school grades, five secondary schools, ten primary schools and many kindergartens which have built up multistoried and spacious schools. The trained teaching staff satisfies the general education demands within the area.

The Lao Bao Secondary School could be considered a good example for the development of Lao Bao education. The school was established officially in 1992 with only 4 classes and 98 students. Now the Lao Bao Secondary School has 24 classes with more than 900 students taught by a young and enthusiastic teaching staff; it is located in a spacious and clean place with full teaching and playing ground facilities in the center of Lao Bao. The school has been recognized as the secondary school reaching the National Standard for the period 2001-2010 by the People's Committee of Quang Tri province. This is also one of the first two secondary schools in Quang Tri province attaining the national standard title. It is really a great honor for the school in particular and for the Lao Bao border town in general.

#### **4.1.5.4. Healthcare**

There are doctors and a healthcare center constructed in all communes and townships of Lao Bao SECA. The Huong Hoa General Hospital with 100 sick beds was newly constructed in Khe Sanh Township, serving all residents of Lao Bao SECA.

Besides, the Lao Bao Healthcare Center has also been constructed to better meet the healthcare demand of local people as well as investors, traders and workers.

#### **4.1.5.5.Cultural and Social Activities**

Cultural and social activities now take place with the establishment of many stadiums, cultural houses and media stations. Some of the main establishments are, as follows:

- The Huong Hoa Cultural House has been used since 2002 with 1,000 seats.
- The Khe Sanh Stadium with 10,000 seats was put into use in 2002.
- The Huong Hoa Broadcasting and Television Station opened in 1998.
- The Lao Bao Broadcasting and Television Station was constructed and put into operation in 2005 to cover all the areas of Lao Bao.
- In addition, investment and construction of concentrated entertainment areas such as Lao Bao Cultural Park and Khe Sanh Park, etc. are under progress.

The number of recreational and audiovisual facilities (such as television, radio, etc.) possessed by households in Lao Bao has been increasing, with a ratio of possessing households reaching 90% of total households, compared to the ratio of 20% of total households before 1999 in the Lao Bao border area.

In summary, the boom in cross border trade between Vietnam and Laos through Lao Bao international checkpoint has many positive impacts, both directly and indirectly on the growth of the Lao Bao SECA; it has created better living standards in the area; it has provided easier access to basic services; and has contributed to the socio-economic

development of Lao Bao. The Lao Bao border area now has the appearance of a new city with a high rate of urbanization.

## **4.2. Challenges and Obstacles for Further Expanding Cross Border Trade**

The expansion of cross border trade between Vietnam and Laos through Lao Bao border gate has also caused some challenges and obstacles such as increased smuggling across the border, shortcomings in preferential policies currently applied in Lao Bao SECA, obstacles of implementing CBTA, environment impact and other social negative impacts, etc.

### **4.2.1. Gaps in Preferential Policies**

According to the Regulation on “Lao Bao Special Economic - Commercial Area, Quang Tri province”, goods and services of Vietnamese origin and imported from abroad into Lao Bao SECA will enjoy preferential tax policies such as exemption from export tax and import tax, are not subject to value added tax and special consumption tax. Taking advantage of this policy, which has been promulgated specially for the Lao Bao SECA only, many businesses, organizations and individuals have sought profit for self-interest by doing customs clearance procedures for importing goods to the Lao Bao SECA, and then finding a way to evade taxation by slipping these goods out of the area for outside consumption; this has caused a huge loss for state revenue from collecting taxes.

#### **4.2.1.1. Duty-free imported goods for tourists**

According to the Regulation, domestic and foreign tourists in Lao Bao SECA are allowed to purchase duty-free imported goods with values not exceeding VND500,000 for one person with one turn in one day to bring into domestic market. This policy has

been taken advantage of by local border people because the criteria for determining how to define tourists is not specified; this has led some local residents to become “professional tourists”, daily queuing at duty-free shopping centers and supermarkets in the Lao Bao SECA to purchase goods and then give to traders with small fee; creating conditions for traders to collect duty-free imported goods to sell in domestic markets in Vietnam.

Some tourists, when buying duty-free imported goods with a value exceeding VND500,000 per person per day but try to hide, do not declare the purchase exceeds with the Customs Office at Gate B (the gate separating Lao Bao Special Economic - Commercial Area and the rest of Vietnam) to avoid paying import tax on such exceedings.

It is also likely that the increase in the value of imports at Lao Bao is partly due to purchases in many large duty-free shopping centers close to the Lao Bao border gate by the increased number of tourists. The benefits from this trade are obvious for shoppers with prices being significantly less than through other channels, but less obvious from a national perspective. It is likely that most duty-free purchases simply displace tax-paid purchases, resulting in a loss of revenue to the Government of Vietnam (ADB report, 2009).

#### **4.2.1.2. Tax exemption for goods consumed in Lao Bao SECA**

According to the Regulation, goods imported from domestic Vietnam and imported from abroad into Lao Bao Special Economic - Commercial Area will be exempted from import tax; and goods produced in Lao Bao Special Economic - Commercial Area will be exempted from export tax when being exported to abroad.



Therefore, local people and businesses are allowed to buy duty-free goods for their own consumption within Lao Bao SECA. The local people just have to show their ID (Identity Card) to buy goods without tax with unlimited volume and then give to traders for outside consumption. Or businesses or individuals pay local people to “borrow” their ID so these businesses or individuals can buy duty-free goods legally to sell outside of the Lao Bao SECA.

According to Mr. Son, an official of Lao Bao Border Gate Customs Department, goods from Lao Bao SECA are exported out with the value of many million dollars annually (in 2008, a total of almost USD9 million exported), mainly commodities such as beers, wines, and air conditioners. However, commercial fraud in the border gate area and Lao Bao SECA are more complicated; especially for some goods imported from abroad and domestic goods entering the Lao Bao economic zone that are exempted from tax and value added tax refunds have been taken advantage of by some traders to avoid taxes. The goods are then sold in domestic market.

The fraudulent trading acts mainly occur by taking advantage of the “risk management” testing method to declare wrongly volume and the value of goods when opening the customs declaration forms for goods from the Lao Bao SECA exporting to domestic market and vice versa for import tax exemption and value added tax refund. In addition, the subjects also hide goods in reinforced vehicles or hide goods in other bulky commodities such as coal, wood, plaster or agricultural products to avoid inspection and controls of the Lao Bao Border Gate Customs Department when bringing goods in.

Some of the main goods flowing illegally into Vietnam are, as follows:

**Air-conditioners:**

According to statistics of Lao Bao Border Gate Customs Department, in 2007 there were 26,534 air-conditioner sets with a total value of USD8 millions imported tax-free into the Lao Bao SECA. As a rule, these duty-free air-conditioners are only consumed within the Lao Bao zone or for export. However, a large amount of these sets have slipped into Vietnam by ways such as hiring local people to carry them or borrowing the ID of local people to buy.

Air-conditioners are sold in the Lao Bao SECA with the exemption of all kinds of taxes and are purchased unlimitedly within the area. But this commodity is subject to tax when exported out of the Lao Bao SECA; which means having to do customs declaration procedures and pay 60% import tax (including 40% for imported tax plus 15% for special consumption tax plus 5% value added tax). Therefore, if this kind of commodity is slipped illegally into Vietnam, the government will lose a huge amount of revenue from taxes.

**Automobiles**

According to local authorities, some automobiles with LB number plates (the number for imported vehicles used in Lao Bao only) are based on the preferential policies of Lao Bao SECA and are transported into inland Vietnam.

As reported by the licensing authority and management of imported tax-free cars used within the Lao Bao SECA, by mid February 2009 there were 60 automobiles registered by Quang Tri Police and granted LB number plate.

According to government regulations, all organizations and individuals engaged in investment and trade have official registered bases at the Lao Bao SECA and are allowed to purchase and register their own plates and use imported automobiles with tax exemption. The police office manages this process. In fact, many cars bearing LB number plate incentives have been under the ownership of the objects that are not eligible for preferential treatments, circulating outside the zone of Lao Bao SECA, and contrary to the provisions of law. Consequently, preferential policies have been taken advantage of, resulting in the loss of large amounts of tax revenue, contributing to further confusion in traffic and transport management, which are already very complicated.

### **Reasons**

There are many causes for taking advantage of preferential policies to avoid tax and trade fraud; the main reason is that these policies are not consistent with local practice. It is also unclear who should enjoy preferential policies in Lao Bao SECA.

For Lao Bao SECA, the cause stems from the socio-economic planning of Lao Bao area, which does not guarantee of an eligible non-tariff area; hence it does not ensure the management of import and export activities. In principle, non-tariff barriers must have hard barriers, no residents and have control and supervision of Customs. However, Lao Bao SECA is a large area, densely population, with no natural or artificial barriers separating the area and the inland; on the other hand, apart from Highway No. 9 to Quang Tri province, this area also has the Ho Chi Minh Trail running through it. Thus, goods of local residents are difficult to control, the flow of illegal goods between the area and inland is also very difficult to control. In addition, the control of goods in and out of the non-tariff area at the Lao Bao border and domestic areas has faced difficulties due to the

coordination between the forces of inspection and control areas such as customs, markets, personnel guards, and police has been not tight yet.

#### **4.2.2. Informal Trade and Smuggling**

Informal trade, in the context of Vietnam, includes goods that do not go through custom procedures, thus avoiding customs duties altogether or paying only a part of them, and the smuggling of prohibited goods (ADB reports, 2008). In Lao Bao SECA, informal or unregistered trade takes place mostly by importing goods into Lao Bao SECA and then finding ways to export them illegally to Vietnam's domestic markets because of non-VAT policy on goods and services made, consumed or imported at the Lao Bao border gate. Prices of goods and services in the Lao Bao SECA are cheaper than other places in Vietnam, increasing informal trade and smuggling activities.

In recent years, smuggling contraband goods and trade fraud between the Vietnam and Laos borders through Lao Bao international checkpoint have not occurred massively and obviously as before, but it still happens with more sophisticated tricks. Highway No. 9 is also a "hot spot" for smuggling and informal trade. The local authorities in Lao Bao usually have to deal with smuggling and trade fraud with a large amount relating to "sensitive" goods such as tobacco, foreign wines, sugars, electric appliances, woods, etc. According to the statistics of Lao Bao Border Gate Customs Office, in 2008 there were 3,093 smuggling cases detected and arrested with a total value of goods reaching VND33.9 billion, an increase of 22.22% for cases and 20.47% for value compared to 2007. For the first six months of 2009, the number of smuggling cases decreased, but the value of goods arrested increased more VND17.7 billion compared with the same period in 2008. Tobacco smuggling in Quang Tri area accounts for approximately 10% of total

tobacco smuggling arrests nationwide. But all of these arrested smuggling cases are just the tip of the iceberg. In fact, the number of trade fraud and smuggling cases is much higher than the arrested cases.

According to ADB, informal border trade takes one of three forms: (i) transportation of goods by hired laborers to smuggle merchandise across the border for traders on the other side; (ii) cross-border transportation of merchandise by small-scale traders, tourists, and the general population, and (iii) large-scale smuggling of goods across borders by professional operators. For the case in the Lao Bao border area, the major channel for unregistered or smuggling goods from Laos to Vietnam is water-borne transport in Se Pon River. Smuggled goods have been transported from Laos to Vietnam along Se Pon River in Huong Hoa District, Quang Tri Province.

#### **4.2.2.1. Contraband goods**

It is easy to see that the Se Pon River, which separates the Vietnam-Laos border at Quang Tri province, has piers that previously served for transporting local people between the two countries, now is being taken advantage of by smugglers. It has become a gathering place for smugglers. The Pier in Tan Thanh commune, which is about 1 kilometre from Lao Bao border town, has been considered an “ideal goods gathering spot” for smugglers due to its dense forest covering; hence it is easy for smugglers to hide goods and escape when being uncovered, or they can bring goods back to Laos’ river side, making it impossible for Vietnamese police to capture them.

Everyday, smugglers gather goods and anchor boats readily in the other border riverside of Laos, waiting for neglect from the customs forces to run to the middle of the river. On the riverside of Vietnam, many small boats are waiting in advance to unload

goods and then transport to the river bank for porters to carry ashore. After being collected at piers, contraband goods are transported to Lao Bao SECA. Then, these goods are transported to warehouses near markets or bus stations. Contraband goods are packed in small bags and carried in buses traveling along National Highway No. 9 to be transported to the plains.

In the Lao Bao SECA, due to immense forests and mountains, smugglers have found ways to transport unregistered goods sneakily crossing over checkpoints of control forces or hired local people to carry goods across forests to avoid checkpoints. At Gate B of Lao Bao SECA, contraband goods are hidden in secret places on buses and covered by other bulky commodities such as woods, plasters, agricultural products to deceive customs inspection forces. Or goods are gathered in front of Gate B, and then carried by hired porters and motorbikes through the checking stations or crossing deeply through forests at night to avoid regular patrols of investigation forces. And then, unregistered goods are transported inland for consumption.

For the observations of the author about smuggling activities on the Lao Bao-Dong Ha bus: it is not difficult to notice smuggling activities on a 12 seat bus from Lao Bao to Dong Ha provincial city. The author witnessed many small boxes being loaded onto the bus. On the bus, passengers are mainly local residents. Some of them also carried small bags of unregistered goods hidden within clothes. The author could not know what kinds of goods they carried, but they were not large ones so it was easier for them to bring along. The bus had to stop only one time mid way between Lao Bao and Dong Ha for investigating. At that checkpoint, all passengers were required to get out of the bus so the inspection forces could check the bus. There was no inspection of passengers. After 5 minutes, the bus was allowed to travel forwards to Dong Ha. At the destination of Dong

Ha Bus Station, unregistered goods were unloaded to awaiting motorbikes and porters to transport them for inland consumption.

Because of improvements in Highway No. 9 connecting Lao Bao to Dong Ha, the travel time has been shortened to one and a half hours to two hours for Lao Bao – Dong Ha. This not only increases formal trade between Vietnam and Lao but also causes an increase in informal trade from Laos to Vietnam. Moreover, Lao Bao – Dong Ha buses operate frequently with about 15 minutes per trip from early morning until midnight. So how many unregistered goods along these buses are transported from Lao Bao to Dong Ha and then to other domestic provinces per day? The answer is unclear, but one sure thing is that this amount probably isn't small.

As about the origin of contraband goods, most of these contraband goods are made in Thailand and transported to Laos before being imported into Vietnam. There are also Vietnamese goods traded in the Lao Bao area and transported to other local provinces. This is because, at Lao Bao Trading Centre, these kinds of goods are exempted 10% of value added tax and other taxes. The goods can be of any kind. Goods smuggled from Vietnam into the Lao PDR consist largely of consumer goods, while those smuggled from Lao PDR into Vietnam are made up of tobacco, wines, electric appliances, mobiles, cattle, and agricultural products.

According to Mr. Son, an official of the Lao Bao Border Gate Customs Department, goods most frequently smuggled are wines and foreign tobacco (primarily Jet and Herro tobacco packets). In 2006, there was a large amount of duty-free foreign wines imported into Lao Bao SECA worth USD1 million. From 2006 to date, the amount of foreign wines imported into the Lao Bao SECA has reached several million dollars.

With a current population of less than 40,000 people in Lao Bao, the consumption of all this foreign wine is impossible; hence, smuggling wines inland seems obvious.

Recently, mobile phones are also goods that smugglers like to transport due to their small size and lightweight. Smugglers can easily hide hundreds of mobile phones inside their bodies or other goods to pass through the checkpoints. According to statistics of the Lao Bao Border Gate Customs Department, from early 2009 to January 2010 there were over 53,000 mobile phones imported into the Lao Bao SECA with a total value of over VND70 billion. As a rule, the enterprises will be reimbursed 10% VAT, which means that over VND7 billion already was refunded to these enterprises. In fact, with the small population in the area, the consumption of mobile phones cannot be so large; a large amount of this kind of goods has flowed illegally inland immediately after being tax refunded. It is an unavoidable thing. The management of this commodity is very difficult because this item is too small and is usually removed the box when transporting; it is even separated by type of accessory and then dispersed to avoid customs inspection.

In addition, cattle (oxen and buffaloes) from Thailand and Laos have been smuggled increasingly with a large amount passing over the Se Pon river area of Lao Bao by hired local residents in the Lao Bao border area and then sold for domestic consumption in Vietnam for a cheaper price (according to local authorities, about 500 oxen and buffaloes from Laos and Thailand were smuggled to Vietnam every day); this cattle smuggling has raised concerns about possible diseases spreading to Vietnamese animals because there are no quarantine checks for these illegally imported cattle; this smuggling has also added to complicated situation in security and order in Lao Bao border area as well as affected domestic cattle-breeding activities.



#### 4.2.2.2. Counterfeit goods

Apart from contraband goods, the Lao Bao Border Gate Customs Department also has to deal with an increase in counterfeit goods occurring in the Lao Bao SECA. Imported goods in the Lao Bao SECA are very attractive because they are exempted from the import tax and VAT and do not have to attach quality-verified-stamps. Imported goods without stamps are very difficult to distinguish from those of domestic origin. It's hard to tell which ones are imported legally or are counterfeit goods. The information about origin and quality of goods is very unclear and depends totally on sellers; and of course they will say that these goods are genuine from Thailand, Singapore or Europe, etc., but the real quality of these goods is unclear.

Based on interviews of the author on counterfeit goods issue in Lao Bao, Mr. Moi, a 10-year-veteran motorbike taxi driver told that he would take the author to Thien Nien Ky Duty-Free Shopping Center near Lao Bao border gate, where imported goods with guaranty quality from Thailand, America and Europe are sold. He added that this is only place you could buy without thinking about quality. At other supermarkets and duty-free shops, the quality and origin of goods are unclear.

In fact, goods with uncertain quality and origin are presented and sold openly in many small shops and stalls along roads and in some big supermakerts and shopping centers. The authors also could not differentiate which goods are real and which goods are counterfeit because they look the same.

Lao Bao has become famous for fake goods passing across the Laos-Viet borders and then being transported back to Lao Bao through the Se Pon River. Goods origins are difficult to control, so counterfeit goods have increased in Lao Bao SECA.

Goods imported legally are also being counterfeited. One major commodity often counterfeited is foreign wine. Lao Bao SECA is allowed to import wines. Therefore, this commodity has been imported from Singapore and ASEAN countries. Imported wine sold in the Lao Bao is not stamped, so fake wine makers freely do their business in Lao Bao. Everyday, there are many counterfeited foreign wines from inland Vietnam sent to Lao Bao to mingle with genuine ones. Then they attempt to transport them back to domestic market after gaining the “Lao Bao brand name” of imported foreign wines. In fact, the “Lao Bao brand name” has been abused in many places. If you go to any restaurant located near Lao Bao area and see wines without labels, when asked there all have the same answer: “Lao Bao wine”.

Cheap wine was the strength of Lao Bao before, but now even foreign wines of many brandnames are sold with prices lower than inland supermarkets by about 10% to 25%. Tourists hesitate knowing about the increase in counterfeit wines in Lao Bao.

Beside wines being counterfeited, many other products are also being faked including tobacco, cosmetics and electronic appliances (television, fridges, air-conditioners, electric cookers, microwaves, etc.) of big brands such as Sony, Hitachi, Panasonic, Sharp, etc. These commodities are counterfeited by two ways: using fake certificates of ASEAN origin (C/O form D) to enjoy tax preferential policies according to CEPT/AFTA and from incentives policy of Lao Bao SECA; or using labels of brands to attach to goods produced elsewhere – the most popular is to attach Thai labels “Made in

Thailand”. Especially in festival and holiday occasions, fake “made in Thailand” goods are sold widely in Lao Bao with tourists being the major victims.

#### **4.2.2.3.Reasons**

The main reason why the illicit trade is flourishing is the absence of policies and sanctions. Sanctions against those who illegally transport and trade goods are not strong enough, so the sanctions do not effect smugglers. Another reason is due to the geographic location of Lao Bao SECA which has no “solid fences or barriers” and a complicated topography, it is very difficult for inspection forces to manage and prevent “sensitive items” (foreign wines, tobacco, etc.) to flow illegally into inlands. Moreover, the cooperation among authority forces within Lao Bao border area as well as Lao Bao with adjacent localities is not tight enough to effectively inspect and control illegal trading transactions.

#### **4.2.3. Obstacles in CBTA Implementation**

The CBTA has been implemented with the aim to facilitate the cross-border transport of goods and people between and among the participating countries of GMS. It also aims to simplify and harmonize legislation, regulations, procedures, and requirements relating to the cross-border transport of goods and people. However, the implementation of the CBTA in the three participating countries (Thailand, Laos and Vietnam) has not achieved targets rapidly as expected because many obstacles have been solved slowly and many agreements signed by the three countries have not implemented synchronously, especially the intial implementation of GMS-CBTA in the Lao Bao-Dansavanh border checkpoints.

**For examples:** Under the initial implementation of GMS-CBTA, some activities relating to transportation have been deployed, such as:

- An arrangement between and among the governments of Lao PDR, Thailand and Vietnam on the Operation of the Tourism Road Transport which was signed on 2 November 2007 (a tripartite agreement). Under the agreement, passenger vehicles and personal vehicles from Thailand to Vietnam for travel purposes may go through three border gates including Cau Treo border gate 3 (Highway No. 8), Lao Bao border gate (Highway No. 9) and Bo Y border gate (Highway No. 40) and are allowed to travel to destinations along Highway 1 from Vinh City to Nha Trang City.
- The implementation of GMS-CBTA has also been launched by the inauguration of truck movements without transshipment along the East West Corridor organized by member countries in GMS including the Socialist Republic of Vietnam, Lao People's Democratic Republic and the Kingdom of Thailand on 11th June 2009. Accordingly, Vietnam, Lao PDR and Thailand reached an agreement that each country issues licenses to 500 vehicles respectively for operating cross border transport of goods along the East West Corridor in order to foster transportation activities. As a result, licensed vehicles from Thailand are allowed to cross through Lao PDR and run into Vietnam through Lao Bao international border gate and operate on the route of Lao Bao and Dong Ha (along Highway No. 9); Dong Ha - Da Nang (along Highway No. 1) without transshipment and vice versa, vehicles of Vietnam can go through Laos and Thailand by crossing Mukdahan border checkpoint and operate on the routes of Mukdahan - Khalasin - Khonken - Phitsanulok along the corridor. Thus, cost

savings and a reduction of transshipment time and transport costs are expected to realize attributed to regional economic development.

Yet in reality, according to Mr. Le Huu Thang – vice chairman of People’ Committee of Quang Tri province, traffic volume along the corridor has been light. There were a few freight trucks from Thailand that went to Vietnam (not yet passenger cars) and Vietnam has not yet had any vehicle operating in Thailand. If the implementation of GMS-CBTA Agreement as well as was tripartite agreements were deployed seriously, it would be sure that the number of goods and people movements between three countries through their border gates in general and through Lao Bao international border checkpoint in particular would further increase, having strong impacts on developments of trade, tourism and investment among border localities of the three countries.

The main cause leading to this obstacle is the inconsistency in implementing the GMS-CBTA among the three countries; so there is still a lack of necessary detailed guidelines and instructions. This causes the authorities of each side to implement the Agreement unilaterally.

#### **4.2.4. Shortcomings in Customs Procedures**

Although there have been many improvements in the last 5 years operating the Single-Stop Customs Inspection mechanism (initially in June 2005) to simplify cross-border procedures for vehicles and people movements through Lao Bao border checkpoint, there still exist a number of difficulties in customs procedures.

- According to Mr. Le Huu Thang – vice chairman of People’ Committee of Quang Tri province, customs procedures in immigration between the three countries of

the EWEC has many differences. The customs declaration forms for freight movements through Lao Bao (Vietnam) – Dansavanh (Laos) border checkpoint are wordy with around 45 necessary points and takes from 2 to 4 hours to finish, while the customs declaration forms in Savannakhet (Laos) – Mukdahan (Thailand) border gates are much simpler with only 6 essential checks. Moreover, transit goods of Vietnam in Laos have to get permission from the Commerce Ministry of Laos so it will take time; the transit goods from Vietnam through Laos to Thailand do not yet have specific regulations.

- Also according to Mr. Thang, the pilot implementation of the Single-Stop Customs Inspection in Lao Bao – Dansavanh border gates has dramatically reduced the travel time for goods movements, but actually there is only applied a single stop customs inspection for goods alone. Other procedures for immigration, quarantines and health, animals and plants are checked by both sides. Fees and charges at the Lao Bao – Dansavanh gates are also not united with differences in fee collection rates.
- Further, working hours at the border gates are inconsistent. The closing time at the Savannakhet (Laos) – Mukdahan (Thailand) border gates is 22:00 o'clock while the closing time at Lao Bao (Vietnam) – Dansavanh (Laos) border checkpoints is only 19:00 o'clock. Hence, although the customs clearance is finished at Thailand – Lao border gates, when reaching Vietnam drivers have to wait until morning for the Vietnam – Lao border side's customs procedures, resulting in wasted time and a delay in goods for export-import enterprises.
- In addition, restrictions on the entry of foreign vehicles into Lao Bao (Vietnam) and differing standards on vehicle size, weight and safety requirements have

hindered tourism, trade and investment between the three countries. For instance, the issue of driving on the left or right has been discussed for years but remains unsolved. Left-hand-driving caravan vehicles from Thailand, Singapore or Malaysia are allowed to travel into Vietnam but they have to get the license document from the Ministry of Culture-Sports-Tourism of Vietnam or permission from the Vietnamese Government. Hence, this has taken time and caused inconveniences for tourists and drivers.

- Also, Vietnamese enterprises when participating in trade fairs and tourism exhibitions in Thailand or Laos can bring objects easily through the border gates, but the Thai businesses bringing goods for participation in trade fairs and exhibitions in Vietnam are often inspected for several days at border gates if they do not have prior intervention of the concerned units.

#### **4.2.5. Other Challenges**

##### **4.2.5.1. Inequality**

There are disparities between urban and rural communities and a growing gap between rich and poor in Lao Bao SECA. Although increased cross border trade between Vietnam and Laos through Lao Bao has had a positive impact on living standards in the Lao Bao SECA, this has also caused a big gap between the urban and rural dwellers, leading to inequality in the Lao Bao border area.

As an analysis of residents' incomes in the previous section, people involved in trading and service activities and living in the central area of Lao Bao (mostly King ethnic group) have incomes higher than many times compared to people participating in pure agricultural production sector and living in remote mountainous areas of Lao Bao

(mostly ethnic minorities). The average income per household working in agricultural production sector is approximately VND14.3 million per year; and for household working in trade-service sector it is about VND90 million per year, about 6.2 times the income of households working in the agricultural sector.

#### **4.2.5.2.Environmental Impacts**

Since Lao Bao has become the Lao Bao SECA and had Lao Bao international border gate, a series of factories with both domestic and foreign capitalization have been increasingly invested in the area. There has been inconsistent and unreasonable construction planning of Lao Bao. This has caused the plants to be built quite close to residential areas and leads to pollution in the Lao Bao SECA. The local authorities have concerns about environmental impacts from factories and farms on the lifestyles and health of residents.

Although Lao Bao is a highland town, clean water sources here are also being threatened. Wastewater from factories (such as the energy drink Superhot factory) are discharged into the drainage system of the town and affect residential areas and their surroundings. In addition, sewage and farm chemicals from 30 farms located behind the hills in northwest of the Lao Bao town have put more pollution into the town. Besides, the amount of garbage from the Lao Bao Trade Center rose significantly and has also caused pollution in Lao Bao.

While residents are “calling for help” and the local government has mentioned the issue several times, the actual pollution in the area has not improved yet.



#### **4.2.5.3.Lack of Trained and Skilled Labors**

The increase in trading and service activities with a number of factories and plants constructed in Lao Bao has brought more employment opportunities for local people.

However, there is still a lack of labor sources in Lao Bao, especially trained labors. By now, more than 3,000 people have been employed in the Lao Bao SECA; but the ratio of unskilled labors is very high, accounting for 70% of total labors while semi-skilled and skilled labors account for only 30%. Many of them received in-training services or short-term training to meet the work requirements. Enterprises in Lao Bao are now facing a shortage of skilled labors, partly due to skilled and proficient workers holding their ground in big cities and plains.

Moreover, because Lao Bao is located a far distance from large centers of economy, science and technology, such as Hanoi and Ho Chi Minh City, the cooperation of usage and training skilled labors is very limited, causing a lack of trained workers in Lao Bao.

#### **4.2.5.4.Disproportioned Infrastructural Development across Border**

Infrastructure in the border area of Dansavanh (Laos) has not developed in correspondence with the Lao Bao side. The Dansavanh border economic zone on the Lao side has not had a significant development of infrastructure and investment due to facing capital difficulties. There has been an improvement in Highway No. 9 thanks to EWEC completion. Construction planning for housing and markets are undeveloped. There are some small markets in the Dansavanh border area but they do not have any big shopping

centers in that area. The closest market near Dansavanh border gate is called Karon market. It is the gathering place for transit goods. The market is not well planned, and it is crowded on Lao Bao sides.



**Figure 7. Karon market in Dansavanh border area of Laos**

The undeveloped infrastructure across the Lao Bao border gate is also one factor hindering the further development of cross border trade between the two countries

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## **CHAPTER V**

### **CONCLUSION AND RECOMMENDATIONS**

The last chapter provides the overall development orientation of Lao Bao SECA by 2020. The conclusions and recommendations to further strengthen cross border trade between Vietnam and Laos through Lao Bao border gate are also presented.

#### **5.1. Development Orientation of Lao Bao SECA**

##### **5.1.1. Overall Orientation Planning For Construction of Lao Bao by 2020**

To further foster the development of Lao Bao border area, the Prime Minister Phan Van Khai issued the Decision No.189/1999/QD-TTg in 1999 to ratify the overall orientation planning for the construction of Lao Bao area till the year 2020. Accordingly, Lao Bao area will become an economic and trade promotion area and an important international border-gate, with a role of promoting the economic and trade ties of cooperation between Vietnam and Laos, as well as with other countries. Moreover, the area will be an important domestic and international land-road traffic hub and one of the economic centers of Quang Tri province; it will have an extremely important position for national security and defense. Besides, by the year 2010, the total population of Lao Bao will reach around 40,000 people; and by the year 2020, the population will increase to around 55,000 people, of which: population living in Lao Bao township will be around 20,000; and living in Khe Sanh township with around 15,000 people.

### **5.1.2. Strategy to Develop Border Economic Zones by 2020 set by Vietnamese government in 2008**

Cross-border trade between Vietnam and Laos has been growing steadily in recent years and has proved the effect of the Vietnamese government's policy on developing border economic zones with neighboring countries. Hence, to further promote the development of border economic zones, Vietnam's government has set forth a plan to develop the border economic zones by 2020 with a general target to build border economic zones to become dynamic economic zones of the provinces bordering Laos, Cambodia and China.

According to this strategy, by 2015 four more border economic zones will be established, including Long An (in Long An Province), A Dot (in Thua Thien-Hue Province), Nam Can-Thanh Thuy (in Nghe An Province) and Na Meo (in Thanh Hoa Province), raising the number of border economic zones in the country to 27. In the 2016-2020 period, Vietnam will continue investment in the infrastructure of the border economic zones, work out a project to establish three more new border economic zones, including La Lay (in Quang Tri Province), Dak Per (in Dac Nong province) and Dak Rue (in Dak Lak province), bringing the number of the border gate economic zones to 30 by 2020. Moreover, the government has also set a target that by 2020, the total import-export turnover of goods and services through the borders with neighboring countries will reach 42-43 billion USD.

Also under the plan, the Lao Bao SECA is one of the nine border economic zones that has synchronous construction in infrastructure, management organization,

regulations, policies and measures. Other border economic zones are provinces of Mong Cai, Lao Cai, Lang Son, Cau Treo, BoY, Moc Bai, An Giang and Dong Thap.

The border economic zones on the Vietnam – Laos border are built and developed with aims to strengthen socio-economic development in the west of central provinces of Vietnam; to become an attractive destination for domestic and foreign enterprises to invest and develop production as well as goods processing; and to serve as a hub for the import-export of goods and services to the markets of the provinces in the central and northern areas of Laos and north-eastern areas of Thailand and Myanmar.

### **5.1.3. Specific Targets by 2020 set by People’s Committee of Quang Tri province in 2008**

The local authorities of Lao Bao and Quang Tri province have set specific targets for Lao Bao SECA’s development in the coming years. Accordingly, Lao Bao will gather all efforts to strive for a target of building Lao Bao SECA into a city being in the driving force urban system level 1 in border areas by 2020 based on the Decision No. 864/2008/QĐ-TTg for the Vietnam - Laos Border Region Scheme towards 2020 issued by the Prime Minister. By 2015, the Lao Bao SECA will contribute about 28% to total production value of Quang Tri province and 35% to its total foreign trade turnover. By 2020, the economic structures of Lao Bao SECA will shift towards increasing the proportion of trade-services sectors up to 60-70%, industry-construction sectors increased by 25-30% and agro-forestry-aquatic sectors up 5-7%. In addition, it is expected that from 10 to 15 new investment projects will be attracted to the area every year. From the year 2008-2020, import-export turnover will increase 19-23%, the number of people passing through Lao Bao will rise 19-20%, the volume of freight movements will increase 5-8%,

the rate of urbanization will reach 63% by 2015 and 70% by 2020; and the rate of skilled labors by 2015 will be 43%.

#### **5.1.4. Lao Bao SECA Expansion**

Thanks to achievements in trade and economy gained by Lao Bao SECA, in 2010 the People's Committee of Quang Tri province proposed to the government a plan for expanding the Lao Bao SECA with aims to promote full potential advantages of the area and attract more domestic and foreign investors into the area, contributing to the economic development of the province. Also, the expansion of this area will help strengthen ties to promote cooperation between Vietnam and Laos and other countries in the region. Accordingly, the Lao Bao SECA is expected to expand from 15,800 hectares to 18,200 hectares over the next 15 years under the proposal of the overall development plan.

Deputy Prime Minister Nguyen Sinh Hung has agreed in principle with the proposal of the People's Committee of Quang Tri province on expanding the Lao Bao SECA.

## **5.2. Conclusions**

Cross border trade has proved to be very important in developing the economy in poor and isolated border areas, helping to stabilize national security and defense. Cross border trade between Vietnam and Laos through Lao Bao international border checkpoint has increased remarkably over the past years (2000-2010) with the growth rate about 20-30% annually. The study found that the cross border trade activities of the two countries have grown in all aspects of quantity, quality and scale.

The globalization theory has been well applied to the case of Lao Bao border area by the reduction and removal of barriers between Vietnam and Lao's borders including the implementation of CBTA and SSCI at the Lao Bao-Dansavanh checkpoints, the completion of EWEC which facilitate the flow of goods, capital, services and people easier than before. Globalization also presents the growing economic interdependence of neighboring countries (Vietnam and Laos) through increasing volume and variety of cross border transactions and freer-flow of international capital between the two countries through Lao Bao border gate. In addition, according to cross-border co-operation theory, there exist some barriers that do not allow the full potential of cross-border relations in the European region. However, for the case of Lao Bao border area of Vietnam, the study found that barriers of language and lack of assistance from local and central governments are not factors which hinder the full potential of cross-border relations between Vietnam and Laos. The local and central governments put special concern on the development of Lao Bao area by issuing many preferential policies to the area; moreover, people living and doing business along the borders of the two countries can communicate with each other easily in both Vietnamese and Laotian. Therefore, the barrier of language is not a matter for local people in Lao Bao border area.

There are many factors contributing to the increase of cross border trade; of these, the most essential factor is the obtaining of special concerns and interests from central and local governments to set the target of changing Lao Bao border area to become a driving economic force of Quang Tri province with a role of promoting the economic and trade ties of cooperation between Vietnam and Laos, as well as with other regional countries. The government has issued many encouraging policies and regulations for strengthening the economic development of Lao Bao. The most important policy is to

establish the Lao Bao Special Economic and Commercial Area initially in 1998. The establishment of Lao Bao SECA, along with the set up of Dansavanh Border Economic Zone over the border of Lao side, is really a motivation for the significant rise in cross border trade between the two countries. Moreover, the completion and putting into use of the East West Economic Corridor in late 2006 has served as another important factor to increase cross border trade of Vietnam with Laos. The operation of EWEC has improved connectivity and integration of Vietnam with other GMS countries; shortening distances, reducing travel time, and lowering transportation costs for people and goods crossing the Lao Bao - Dansavanh border checkpoints; and resulting in increased cross border trade of the two sides. In addition, the pilot implementation of GMS Cross Border Transport Agreement in Lao Bao – Dansavanh border gates started from 2005 with the first adoption of a single stop customs inspection mechanism in these border gates have proved to be effective in reducing time spent for declaration and clearance customs procedures, leading to increased movements of goods and people across the border and resulting in raised cross border trade between Vietnam and Laos.

The increased cross border trade through Lao Bao international border checkpoint has had many positive impacts on the growth of Lao Bao SECA with a high economic growth rate of the area annually and positive economic restructure. The increase in cross border trade has directly impacted the incomes of local people living in the area, and helped to reduce poverty in Lao Bao. The increased trading and services activities with the variety and diversity of goods in the area are also positive impacts gained by increased cross border trade. Also, the boost in cross border trade impacts both directly and indirectly the development of the industrial sector and the easier access to basic social infrastructural services of local people (such as electricity, water, transportation,



education, healthcare and cultural activities). Although there are many positive effects from increased cross border trade between the two countries, there still exist a number of challenges and obstacles for the development of cross border trade in the future. These include gaps in preferential policies which the government specially issued for Lao Bao SECA, increased smuggling activities in the area, shortcomings in CBTA implementation and customs procedures, inequality, environmental impacts, lack of skilled labors and undeveloped infrastructure over the border.

In general, the efficiency of Lao Bao SECA's operation has proved a sound guideline and decision of the Vietnamese government to change the isolated mountainous border area into a centre of trade and investment with development potentials of Quang Tri province; contributing to the social and economic cooperation promotion of Vietnam and Lao; and significantly improving the livelihoods of border residents. The previous poorest area of Quang Tri province has changed dramatically to a new face with a high rate of urbanization and become an important trade hub, a "spot light" on the East-West Economic Corridor that links Vietnam, Laos, Thailand and Myanmar. Lao Bao is now considered a driving economic force in Quang Tri province, a busy town with a system of inbound and outbound roads; a series of factories, plants and farms; and a number of hotels, guesthouses, supermarkets, trading centers, duty-free shops, offices and banks that have been developing rapidly and harmoniously. The Lao Bao SECA is served as a pioneer and demonstration model for a new direction of social economic development in the context of trade liberalization and international integration in Vietnam.

The Lao Bao SECA has become a new urban zone with a high growth rate and strong development, with the expectation to become a key economic area of Quang Tri province as well as the entire Central region.

### 5.3. Recommendations

Cross border trade between Vietnam and Laos through Lao Bao has grown at an impressive rate in recent years; however, the achievements gained from cross border trade have not corresponded with the full development potentials of the two countries and have not satisfied the special friendship cooperative relations as expected by the Vietnam and Laos governments. Moreover, the two countries have untapped trading potentials of each side in the border areas of Lao Bao - Dansavanh, especially the abundant potentials of Laos in agriculture, forestry and minerals. In order to take full advantage of special friendship cooperative relations between the two countries, exploiting potentials of each country and strengths of the important trans-Asia axis of Lao Bao as well as accomplish economic targets and orientation development set by central and local governments of Vietnam, especially in the field of expanding cross border trade, some recommendations are represented as follows:

The government should maintain stable and consistent policies for the Lao Bao SECA, especially preferential treatments for businesses and investors; avoiding frequent changes impacting the operation of enterprises as well as the investment environment. At the same time, the competent authorities should build and issue a legal framework system which is strong enough to regulate all activities arising at the Lao Bao SECA, avoiding overlap, duplication and contradiction among promulgated regulations and laws. Moreover, the governments of the two countries should research together building a Mechanism of intergovernmental Vietnam – Laos, creating a clear legal framework and effective interaction to promote the development of the two economic zones: Lao Bao SECA and Dansavanh Economic Zone; providing more financial support for infrastructure upgrades and better facilitate the co-operation between enterprises in Lao

Bao and the neighbouring Dansavanh zones. Also, there is an urgent need for the government to summarize and evaluate all activities of the Lao Bao special economic and commercial area over the past ten years in order to have better development policies for this economic model and then to serve for applying the economic model in Lao Bao to other remote border areas in Vietnam.

It is suggested that the tight trading relation between Lao Bao and Dansavanh should be further fostered by holding more official visits and meetings on trading cooperation of leaderships of all levels and organizing more meetings, occasions, trade fairs for enterprises of the two sides to have opportunities to exchange their experiences and management skills in the import-export trading field. In addition, the Lao Bao authority should pay attention on training of human resources at Lao Bao border gate, improving professional capacity and foreign language skills for the border staff; facilitating more modern testing equipments at the Lao Bao border gate; stepping up the broadcasting and investment promotion activities in order to mobilize investment capitals for production – trading and infrastructural development of the Lao Bao SECA; and encouraging all types of economic sectors to participate in develop production and investment to create more new jobs and attract workers to work in Lao Bao.

It is necessary to strengthen inspection and tightly control duty-free commodities and smuggling goods at the checkpoints of Lao Bao, especially for the gate B which exports from the Lao Bao SECA to the domestic market and vice versa. Also, there is a need for local government to direct to have “hard hits” on dens and groups of smugglers and limit the local people abused to transport smuggling goods for smugglers. At the same time, the competent authorities should focus on advocacy, educating the sense of obeying laws and enhancing the awareness of local border residents as well as settle more

jobs for people to help them reduce poverty and not abet dishonest traders. Also, the duty-free shopping for tourists at the Lao Bao border gate should be checked and controlled tightly due to some people taking advantages of the state's special preferential incentives for smuggling and tax evasion in the area. Further, there is a need to review carefully some commodities which are enjoying tax-exemption and tax-refund-policies and have been easily exported illegally to inlands such as mobile phones, air-conditioners, tobacco, foreign wines and so on. Accordingly, only applying tax exemption for goods such as building materials and materials serving for factories operated in the Lao Bao area; and not applying tax preferential policies for consumer goods (especially for goods with small size) which are easily smuggled, causing large losses from tax collecting.

It is an urgent need to continue to implement effectively the GMS-CBTA Agreement, especially the contents relating to the EWEC for harmonization, simplification of customs procedures, quarantine and immigration. At the same time, it is necessary to perform early uniform immigration inspection, health quarantine and inspection, charge rates and fees as well as the more simple procedures for collecting fees and charges to reduce the travel time in the border gates of Lao Bao – Dansavanh. Moreover, the working time between checkpoints of Thailand – Laos and Laos – Vietnam should be adjusted to be similar opening and closing times among these border gates.

Last but not least, the government of Vietnam should support and help to improve the infrastructure over the border in Dansavanh on the Lao side. This will help to strengthen the ties of the two countries as well as foster further the cross border trade between Vietnam and Laos.

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จุฬาลงกรณ์มหาวิทยาลัย



## **APPENDICES**

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## APPENDIX A

### LIST OF INFORMANTS

No.	Name	Interview date	Remark
1	Mr. Le Huu Thang	11 December 2010	Vice Chairman of People's Committee of Quang Tri province, Vietnam
2	Mr. Son	13 December 2010	An official working at the Lao Bao Border Gate Customs Department
3	One group (four women)	15 December 2010	Working at a black exchange currency market in front of the Lao Bao border checkpoint
4	Mr. Minh and Ms. Thinh	10 December 2010	Working at the Bao Son Hotel in central Lao Bao
5	Two motorbike taxi drivers	10 December 2010	Working near the Bao Son Hotel
6	One shop-keeper	15 December 2010	Selling groceries at the Lao Bao Trade Center in Lao Bao border town

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## APPENDIX B

### SOME PREFERENTIAL REGULATIONS APPLIED IN LAO BAO SECA

**Box 1: Land rent preferences of goods in Lao Bao SECA**

(Decision No. 11/2005/QD-TTg)

**1. Time of land rental:**

Projects invested into Lao Bao Special Economic - Commercial Area shall be considered by the Management Board of Lao Bao Special Economic - Commercial Area for lease of land with the maximum time of 70 years. For projects that take longer than 70 years of running time, have to be submit to Prime Minister for approval.

**2. Cost of land rental:**

+ Projects invested into Lao Bao Special Economic - Commercial Area shall be exempted from land rent in the first 11 years and shall enjoy 30% land rental price applied in mountainous districts in Quang Tri Province from the 12th year forward.  
 + Vietnamese including those residing overseas, foreigners permanently residing in Vietnam and foreign investors shall be allowed to invest in constructing houses for sale or for lease; invest in constructing infrastructure for lease or transfer right to use land which have already constructed infrastructure and shall be allowed to purchase houses.

**3. Price of land rental:**

+ In concentrated planning areas: USD 0.01/sqm/year  
 + Outside concentrated planning areas: USD 0.003/sqm/year

**4. Procedures of land rental:**

Management Board of Lao Bao Special Economic - Commercial Area is a key-body, who is responsible for guiding the investors to make land - lease dossiers, ensuring quickness and convenience. Within the duration of 07 days from the day receiving full legal application documents, Lao Bao Special Economic - Commercial Area shall issue Decision on land - lease and sign land - lease contracts with investors.

**Box 2: Tax preferences of goods in Lao Bao SECA**

**(Decision No. 11/2005/QĐ-TTg)**

**1. Preferences in export - import tax:**

- + Goods imported from domestic Vietnam and imported from abroad into Lao Bao Special Economic - Commercial Area shall be exempted from import tax. Goods produced in Lao Bao Special Economic - Commercial Area shall be exempted from export tax when being exported to abroad.
- + Goods falling under the List of goods of Lao Bao Special Economic - Commercial Area's origin promulgated by Quang Tri provincial People's Committee for each period shall not pay import tax when being imported into domestic markets of Vietnam (goods without foreign elements constituted) .
- + Goods produced, processed, reprocessed and assembled in Lao Bao Special Economic - Commercial Area which use import materials and accessories from abroad shall pay only import tax on the imported materials and accessories which constitutes such goods. Enterprises shall be exempted from import tax on materials serving production demand for first 05 years from they start production.
- + Domestic and foreign tourists on entry into Lao Bao Special Economic - Commercial Area shall be allowed to purchase duty-free imported goods (goods not subject to the List of Goods prohibited from import) with value of not exceeding five hundred thousand Vietnamese dong (VND500,000) for one person with one turn in one day to bring into domestic market. In case where such value of goods exceeds five hundred thousand Vietnamese dong (VND500,000), people with such goods shall have to pay import tax on such exceedings as per current provisions of Vietnamese law.
- + Goods of Lao origin which being imported from Lao Bao Special Economic - Commercial Area into domestic markets of Vietnam shall be reduced import tax in accordance with current provisions of Vietnamese law on the basis of documents and agreements signed between the Governments of the two nations and guiding documents.

**2. Preferences in Value Added Tax (VAT):**

- + Goods and services produced and consumed within Lao Bao Special Economic - Commercial Area as well as those imported from abroad therein shall not be subject to VAT.
- + Goods and services imported from domestic Vietnam into Lao Bao Special Economic - Commercial Area shall enjoy 0% of VAT rate.
- + Goods, services from Lao Bao Special Economic - Commercial Area exporting to abroad shall not be subject to value added tax.

**3. Preferences in special consumption tax:**

- + Goods, services produced, consumed within Lao Bao Special Economic - Commercial Area and such goods, services which are imported from abroad into Lao Bao Special Economic - Commercial Area shall not be subject to special consumption tax. With respect to automobiles with fewer than 24 seats which importing into Lao Bao Special Economic - Commercial Area, the special consumption tax shall be paid as per current provisions.
- + Goods, services subject to special consumption tax from Lao Bao Special Economic - Commercial Area which exporting to abroad shall not be subject to special consumption tax.

**Box 1: Preferences on the use of infrastructure in Lao Bao SECA****(Decision No. 11/2005/QD-TTg)**

+ Investors, who have investment projects located in the concentration sectors (where there are infrastructural works had been completely and synchronously built to the factories' barriers) such as the Lao Bao industrial commercial and service sector, the Lao Bao North - West industrial sector, the Lao Bao international border gate's sector...) shall not pay any fee for the use of infrastructure.

+ Investors, who have investment projects located in the other areas shall be supported by the State cost of building concerning infrastructural works such as site clearance and compensation, leveling land for area where investment project planed to be under construction, roads for inner transportation, electricity and water system serving to the barriers of factories..., ensuring to meet the business and production demand of the investors.

+ Vietnamese including those residing overseas, foreigners permanently residing in Vietnam and foreign investors shall be allowed to invest in constructing houses for sale or for lease; invest in constructing infrastructure for lease or transfer right to use land which have already constructed infrastructure and shall be allowed to purchase house in Lao Bao ECA according to provisions of law

+ The essential infrastructure works of Lao Bao Special Economic - Special Economic - Commercial Area shall be supported for investment by the State budget by aimed program; and shall be incorporated in the List of projects calling for Official Development Assistance (ODA) capital.

## BIOGRAPHY

Doan Thi Thanh Mai was born in Bac Giang province, Vietnam. She got her Bachelor Degree in Economics in 2003 at National Economics University of Vietnam and another Bachelor Degree in English in 2004 at Hanoi Foreign Language University. She has worked for Department of Investment Appraisal and Monitoring - Ministry of Planning and Investment since 2003. Obtaining a scholarship from the Weaving the Mekong into the Southeast Asian Fellowship (WMSEA) with the financial support of the Rockefeller Foundation in 2009, she has studied the Master degree program of Southeast Asian Studies at Chulalongkorn University in Thailand.



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