



THE CROSS BORDER ECONOMIES

of Cambodia, Laos, Thailand and Vietnam



Development Analysis Network with Funding from the Rockefeller Foundation





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DAN is a network of seven research institutions from Cambodia, Laos, Thailand and Vietnam, which is coordinated by CDRI with the valuable support of the Rockefeller Foundation. DAN addresses a major research initiative of regional interest during each round. The theme of DAN IV, initiated at the end of 2003, is the cross border economies of the participating countries, with the aim of examining border trade policies and arrangements, facilitation measures and transaction costs, structure and conduct of trade, as well as welfare impacts at the local level. DAN is now in its sixth year of operation, with previous studies addressing issues related to the Asian Financial Crisis (DAN 1, 1998); labour markets (DAN 2, 2000-01); and off-farm and non-farm employment (DAN 3, 2002-03).

As in the past, future studies under DAN will also be determined through a process of exchange of concept notes and a thorough discussion among all members to reach a consensus. Some preliminary discussions have already taken place of possible future topics including the Impact of China on the Socio-economy of the Greater Mekong Sub-region, Labour Migration in the Region, and Tourism and Development. Some discussion has also been held about the possibility of extending the current network to include participation from Yunnan province of China.

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FOREWORD

This publication is the fourth in a series produced by the Development Analysis Network (DAN) with contributions from leading development research institutes in Cambodia, Laos, Thailand and Vietnam. The theme for DAN IV is the Cross Border Economy of the four member countries of DAN, focusing on regional and cross border trade and trade-facilitation policy, structure and conduct of both formal and informal trade and the impact on household welfare, especially of those living along the border zones.

The countries of the Mekong region are among the most dynamic in the world although they differ greatly in terms of their levels of development. While Thailand is far ahead in both economic and human/social development indicators, Vietnam seems to be poised to move rapidly in its quest for high growth and low poverty rates. Cambodia and Laos are still struggling with a legacy of underdeveloped human resources, weak institutions and governance, and “structural” weaknesses (due to a narrow economic base and poor agricultural productivity). All these countries are “open” with a high trade/GDP ratio, and are keen to expand both bilateralism and regionalism, within the overall context of ASEAN and AFTA as well as the WTO.

All four countries view cross border opportunities as being very important from their own perspective. Thailand looks at it from its larger vision of transforming itself as a regional economic hub through ‘open regionalism’, while Vietnam views cross border economic development as an important strategy of reaching out to remote, backward communities on the one hand, and good preparation for eventual WTO accession. It has undertaken an aggressive policy of creating border economic zones all along its borders. Cambodia and Laos are well aware of their strategic location between two powerhouses, Vietnam and Thailand, and keen to expand market access in the region—all the more urgent in the light of the withdrawal of garments quotas from January 2005.

The four country case studies therefore represent how each country has responded to the new set of opportunities presented by more open borders. They also provide an insight into what kind of benefits are likely to be generated. These studies are necessarily exploratory in nature given the relative paucity of analytical or descriptive work that is available in the subject. Nevertheless, they provide important insights into the nature of the cross border economy and the “structure, conduct, performance” of cross border trade across a diversity of economic and developmental landscapes.

CDRI and the other DAN member research institutes hope that this publication will stimulate further research and encourage greater focus on issues relating to trade and economic cooperation and integration in the region. We would also like to express our thanks to the Rockefeller Foundation for the financial support that has made this work possible.

LARRY STRANGE
Executive Director, CDRI

LIST OF ACRONYMS

ACLEDA	Association of Cambodian Local Economic Development Agencies
ADB	Asian Development Bank
AFTA	ASEAN Free Trade Area
AHTN	ASEAN Harmonised Tariff Nomenclature
AISP	ASEAN Integrated System of Preferences
AMBDC	ASEAN-Mekong Development Cooperation
ASEAN	Association of South East Asian Nations
BEZ	Border economic zone
BTZ	Border trade zone
CAS	Centre for Advanced Studies
CBE	Cross border economy
CBT	Cross border trade
CDRI	Cambodia Development Resource Institute
CED	Customs and Excise Department
CEPT	Common Effective Preferential Tariff
CIEM	Central Institute for Economic Management
CLMT	Cambodia, Laos, Myanmar and Thailand
CO	Cumulative Rules of Origin
CSD	Council for Social Development
CSES	Cambodia Socio-Economic Survey
DAN	Development Analysis Network
ECS	Economic Cooperation Strategy
ECSPA	Economic Cooperation Strategy Plan of Action

GDP	Gross domestic product
GMS	Greater Mekong Sub-region
GNP	Gross national product
GPP	Gross provincial product
HCM	Ho Chi Minh City
ILO	International Labour Organisation
MEF	Ministry of Finance
MFA	Multi-Fibre Agreement
MIME	Ministry of Industry, Mines and Energy
MOC	Ministry of Commerce
NEM	New Economic Mechanism
NERI	National Economic Research Institute
NESDB	National Economic and Social Development Board
NGO	Non-government organisation
NIS	National Institute of Statistics
NSC	National Statistics Centre
NTFP	Non-Timber Forest Products
PP	Phnom Penh
PRASAC	Support Programme for the Agriculture Sector in Cambodia
PRSP	Poverty Reduction Strategy paper
RK	Rong Kluea Market
RO	Rules of Origin
SEDP	Socio-Economic Development Plan
SME	Small and medium enterprises
TDRI	Thailand Development Resource Institute
UNDP	United Nations Development Programme
VAT	Value added tTax
WTO	World Trade Organisation

FROM CROSS BORDER TRADE TO
REGIONAL INTEGRATION?

THE CROSS BORDER ECONOMIES

of Cambodia, Laos, Thailand and Vietnam

An Overview

by K.A.S. Murshid

1.1. INTRODUCTION AND BACKGROUND

The Importance of the Cross Border Economy

The CLTV neighbourhood is one of the fastest growing sub-regions in the world. Growth rates experienced by the countries of the region have been consistently above 4 percent for the past decade (with the exception of Thailand, which suffered heavily from the Asian financial crisis). GDP growth of all four economies was strong in 2002, ranging from 5.5 percent in Cambodia to 7 percent in Vietnam. In general, the growth momentum has been maintained in 2003 despite the impact of severe acute respiratory syndrome (SARS) and the war in Iraq—with three of the four countries registering a growth rate of 6 percent or above. A number of factors are thought to be responsible for this success: strong consumer spending, good agricultural performance, higher export levels and appropriate fiscal stimuli provided in some economies.¹

In this region of rapid change, two major economies are aggressively pursuing regional and global integration. Thus, Thailand is already well advanced in that endeavour, and Vietnam has made major inroads in that direction but still has a long way to go. The region is close to China—a fact that is viewed with considerable interest and some trepidation. The sub-region is also close to major economies like Malaysia and Indonesia that point to very large gains from economic cooperation through broadening and deepening of markets, transfer of skills, ideas and technology, and FDI flows. Thus, closer cross border economic cooperation could be an important vehicle for the CLTV countries to forge strong economic linkages amongst themselves and with other neighbours based on their respective comparative advantages.

The CLTV countries are each at a different stage of development. Thailand can be considered to be in a category of its own with a sophisticated physical, social and financial infrastructure and a well-diversified economy that is already well integrated with global markets, with low poverty levels and a high per capita income. The other three countries are much less developed, with high poverty rates and low levels of human development (Table 1.1). They are also “transitional” in nature, trying to transform their economies from centrally planned ones into market-driven systems, with varying degrees of success. All however, appear to be committed to regionalism and globalisation, and are keenly aware of the need to construct efficient, competitive market economies on the basis of their dynamic comparative advantage. Cross border trade is being increasingly viewed as a vehicle to promote increased regional integration and as a way to prepare for a much more liberal and open trading regime, e.g. as members of ASEAN-AFTA, APEC and WTO. The experience to date is considerably mixed, with some countries (e.g. Vietnam) aggressively pursuing cross border economic development policies while others, like Laos and Cambodia, lag far behind.

¹ See Asian Development Bank (2004): The Mekong Region, An Economic Overview.

Table 1.1: Selected Development Indicators for the CLTV Countries

Indicators	Cambodia	Laos	Thailand	Vietnam
GDP growth (1999-2003, % per year)	6.30	6.10	4.50	6.00
Human Development Index, 2001	0.556	0.525	0.768	0.688
Poverty (head count, %)*				
Rural	40.00	41.00	17.20	36.00
Urban	25.20	26.90	1.50	6.60
Openness Ratio				
1998	64.30	62.50	80.00	72.40
2002	101.80	40.90	98.10	103.90
Share of Intra-regional to total trade, 2002	24.50	67.80	8.90	13.90

Source: Reproduced from ADB (2004)

Note: * Data for Cambodia refer to 1999; for Thailand 2000; for Vietnam 2002 and Laos 1996-97.

Intra-regional trade (last row) refers to trade with the Greater Mekong Sub-region (GMS), which includes Cambodia, Thailand, Laos, Vietnam, Yunan and Myanmar.

1.2. TRADE POLICY AND TRADE REFORMS

THAILAND

Thailand can be viewed as the gateway to this sub-region, with the largest and most developed market and an important source of technology, knowledge and capital. Thailand has an open economy with its trade (as a percentage of GDP) exceeding 100 percent in 2004 (compared to 66 percent in 1992).² It is also an active member of WTO, ASEAN-AFTA and APEC. In addition, it has entered into bilateral free trade agreements with many countries, including China, India, Bahrain, Japan, Australia, USA and Peru. It is no longer interested in a narrow pursuit of exports per se but in establishing what it calls “global marketing networks” in a borderless world economy. The Thai strategy has been characterised as “open regionalism,” in which a free and open trade and investment regime is sought to be developed by 2020, through a network of bilateral preferential trading arrangements.³

Border Trade Policy Initiatives

Thailand’s economic interest in its neighbours stems from a number of policy directions that it has set up for itself. These include the following:

Creation of new market clusters

Thailand is certainly interested in greater market access for its exports, especially of processed goods. It is keenly interested in developing market clusters where neighbouring markets are closely linked to Thai raw materials, technology and investments. It is also aware of the increasing need to be able to shift sunset industries to cheaper or lower (labour) cost centres.

Thailand is also positioning itself to emerge as a regional economic hub, at the center of a dynamic region consisting of Indonesia, Malaysia and Vietnam. It has thus entered into several regional trade and cooperation agreements such as the Greater Mekong Sub-region, the “growth triangle” involving Indonesia, Malaysia and Thailand and BIMSTEC-EC, involving Bangladesh, Indonesia, Malaysia, Singapore and Thailand.

Closer to home, Thailand changed its border policy towards Cambodia and Laos in the 1980s, when it introduced a policy of converting the Indo-Chinese “battlegrounds into markets.” This marked a sharp change in Thai policy towards its immediate neighbours, who were hitherto viewed primarily from the point of view of security risks and security threats, in the context of the aftermath of the Indo-Chinese war and widespread civil disorder, notably in Cambodia. While border trade of a sort did exist even then, this was mainly related to highly exploitative relationships based on timber and gem extraction and trade, as well as guns and drugs—activities that benefited a relatively few influential people on either side of the border (French 2000).

Following the formal reopening of the Thai border in the late 1980s, Thailand signed separate agreements with Cambodia and Laos to set up Joint Committees on Cooperation (with Cambodia in 1994 and Laos in 2000), along with an agreement on investment promotion and protection.

² It is interesting if curious to note that Cambodia and Vietnam are more open than Thailand (Table 1.1).

³ The concept of open regionalism espoused by Thailand implies that trade concessions provided to members participating in bilateral agreements would also be available to non-members (in the region, e.g. in ASEAN).

Thailand has an AISP agreement (ASEAN Integrated System of Preferences) with Cambodia and Laos. Under this agreement 48 items are eligible to be imported from Cambodia (as of 2001) and 152 items from Laos (as of 2004). The AISP facility has been an initiative to provide benefits to new members of ASEAN (e.g. Cambodia, Laos, Vietnam) to speed up their integration with the original members. This involves the ASEAN-6 granting tariff-free imports for selected products from beneficiary countries.

Thailand is also signatory to the Bagan Declaration signed in Bagan, Myanmar (along with Cambodia, Laos and Myanmar) on 12 November 2003, which provides for economic cooperation in a number of areas, including trade/investment facilitation, agriculture and industry, transportation, tourism and human resource development.

Generally, Thailand is well advanced in putting in place the necessary architecture of free and open cross border trade, although the reality on the ground is changing only slowly, with implementation lagging behind. Thus while a series of incentives have been given e.g. to Laos, implementation is often held at bay due to real or imagined fears that the system may be abused or that there remain inadequate safeguards to prevent such abuse (see pp. 150–51 of the Thailand case study).

Thailand's relative share of intra-regional trade is small (Table 1.1) at less than 9 percent compared to, say, Cambodia, where this is over 60 percent of total trade. Thailand, however, is acutely aware of the substantial potential of emerging economic giants in the region as well as the substantial contribution that sub-regional economic cooperation can generate. Its hot pursuit of "regional hub status" points strongly in that direction. The challenge for Thailand seems to be to diversify from global markets into regional markets.

VIETNAM

Vietnam is a relatively new entrant to the world of open markets and pursuit of export-led growth policies. Two major events helped shape Vietnam's thrust in this direction: **(a)** doi moi in the eighties, followed by membership of ASEAN-AFTA and APEC; **(b)** stabilisation of foreign political relations, e.g. with China as well as with the West, after years of conflict and isolation. An unprecedented era of trade/economic liberalisation was introduced that served to generate rapid growth, huge FDI inflows and a sharp reduction in poverty.

Vietnam is keen to develop border trade as a vehicle towards greater regional integration and as a way towards preparation for WTO membership. Unlike Thailand, it has not initiated many free trade or bilateral trade agreements. It did sign a bilateral trade agreement with the USA in 2001, helping it to expand rapidly exports to the USA.

Perhaps its boldest move towards a border trade policy was to pilot the development of a border trade zone or Special Economic Zone along the border with China, at Mong Cai. The pilot experiment design was carefully constructed to provide the right mix of incentives and opportunities. These included the following:

1. Autonomy for local authorities to manage cross border trade activities;
2. Preferential treatment, allowing re-exports, transit trade, infrastructure and facilities (warehouses, duty-free shops, show-rooms, markets);
3. Encouragement of tourism and suitable facilitation measures, including simplification of visa procedures for nationals of the respective countries, as well as for those from regional countries;
4. Fiscal decentralisation measures to allow local authorities to manage locally generated finances, including investments in infrastructure;
5. Generous tax and duty incentives.

The Vietnamese have been very pleased with the success of the Mong Cai experiment and explicitly formulated a policy of replicating Mong Cai “all over the country.” A total of 27 border economic zones (BEZ) in 17 provinces have so far been given permission to operate. Preferential policies for the BEZ have been prescribed, relating to investment, infrastructure and fiscal autonomy. In addition there is an emphasis on trade and tourism facilitation through duty incentives and visa simplification procedures.

Overall, Vietnam is keen to pursue cross border trade opportunities to exploit comparative advantage, identify new channels for trade expansion and improve living standards of the border inhabitants, who are often disadvantaged in a number of ways (remote location, ethnic minorities, backward areas). It has developed a clear policy for the purpose, although implementation is uneven, e.g. between developments on the Lao border compared to those along the Cambodian border, as the country case studies clearly reveal.

CAMBODIA

Economic liberalisation in Cambodia began gradually from the late 1980s and early 1990s, with the ending of the state monopoly of foreign trade, enactment of a foreign investment law, lifting of quantitative restrictions on imports and abolishing licensing requirements for trade. In the late 1990s, Cambodia joined ASEAN and became a signatory to the ASEAN Free Trade Area (AFTA). In 2001, the tariff structure was reorganised with the introduction of a four-tier tariff band, ranging from 7 to 70 percent. In addition, a generous package of incentives was put together, including the following:

1. Tax and duty exemptions (e.g. 100 percent duty free for raw materials and capital goods imports provided that at least 80 percent of production is exported);
2. No export taxes;
3. Ninety-nine-year land leases to investors.

Generally, incentives appear highly competitive when compared with other regional countries.

Further, wide-ranging reforms are envisaged under the 2003–08 program to reform and modernise the Customs and Excise Department. Arrangements already planned or in progress include the following:

GMS roads—economic corridors

The Asian Development Bank has initiated the concept of developing economic corridors connecting neighbouring countries in the GMS through infrastructure development and trade and tourism facilitation measures. A single-stop customs inspection procedure is expected to be put in place at border checkpoints, with common operating hours for opening and closing of the border gates; because customs procedures remain complex and opaque, there are measures expected to be taken to introduce greater transparency; the financial and banking systems are ill-suited to promote trade and payments/insurance for cross border trade and are in need of overhaul. Cross border payments appear to be mainly in cash or through informal mechanisms. Where formal institutions exist, transfer charges are often high, raising transactions costs (e.g. in Laos and Cambodia).

Overall

Cambodia is beginning to wake up to the realities implied by WTO accession. It does not have as clear and vigorous a policy to promote CBT as Thailand or Vietnam. Nor has much investment gone into the establishment of border economic zones. CBT for Cambodia remains low key, informal or semi-formal. However, confronted with the imminent end of the MFA, which will abolish garment quotas, Cambodia is keenly aware of the need

to diversify into new markets. It is thus looking eagerly to its neighbours. In many ways, it has forged ahead at a faster pace in trying to put the legislative and policy frameworks in place (e.g. compared to Laos and Vietnam), and in articulating policy and reform needs. The next step is to begin implementation of the reform agenda to create a competitive, pro-trade environment.

LAOS

Laos is in a unique category amongst the four countries. Because it is a landlocked country, cross border trade for Laos is synonymous with foreign or international trade. CBT for Laos is thus vital to its economy. Like Vietnam and Cambodia, Laos is a transitional economy, grappling with the problem of moving towards a market-driven (as opposed to a centrally planned) economy. In this context, a number of important steps have been taken to date.

In 1986 the Lao government adopted a relatively comprehensive reform programme called the New Economic Mechanism (NEM) aimed at achieving a successful transition from a command economy to a market-driven one, and from a subsistence mode of production to a more advanced, private-sector-led agriculture, under the guidance of the government. The NEM was the first formal step to pave the way towards economic liberalisation of Laos.

Laos joined ASEAN/AFTA in 1997 and constituted a Joint Trade Committee in 2000 with Thailand. It also entered into an account trade arrangement with Thailand (AISP) that, at least in principle, allows it free access to the Thai market for an agreed list of 152 items of domestic production.

Laos operates a total of 75 border checkpoints and, in addition, has established two border economic zones. The BEZ are supported by a package of incentives to encourage investment and trade, including change in the land laws to allow foreign investors to take land on long lease, duty incentives for imports and exports and facilitation of re-exports. In addition, licensing arrangements, while retained, have been greatly simplified and are completed within a maximum of 10 days. Cross border travel arrangements have also been made easy and inexpensive.

However, some key problems have been identified in the country case studies. The Thai study reveals problems with arbitrary exercise of powers by the local authorities, e.g. in setting duties and taxes, making it difficult to predict these costs. The study also points to the problem of a poor banking infrastructure, high bank charges and severe currency instability involved in cross border trading, making it expensive and risky.

From the Vietnam study, we are able to assess the sharp contrast in terms of investment flows, economic activity and impact on the BEZ on each side of the border. Thus, Lao Bao on the Vietnamese side is a beehive of intense activity. This BEZ has managed to attract very substantial FDI, drawn by an excellent infrastructure as well as good regulatory mechanisms and the availability of a skilled, literate work force. Many of the activities relate to imports of raw material and intermediate inputs from Thailand, to be re-exported back to Thailand after value addition. This is likely to provide a boost to the Lao transit trade along with the associated benefits to sectors like transport, handling, shipping, banking and insurance. The case study did not take a hard look at the BEZ model for developing border trade, in particular to identify the specific mechanisms in place, the governance and policy regime needed and the structure of incentives most useful. Further exploration of the model would seem to be in order as the BEZ approach is under active discussion in the region with a number of countries keen to adopt it more widely (Laos, Cambodia, Vietnam). It would also be interesting to look at cost-benefit assessments of this model as well as an institutional assessment, to try to identify critical aspects of the model.

In sharp contrast to the Vietnamese experience with Lao Bao, there is little economic activity witnessed at Dansavanh, i.e. on the Lao side of the same border point where the Lao government is struggling with its BEZ. The key question is: can both sides develop at similar levels or benefit equally?

There are many problems faced on the Lao side, including inadequate infrastructure and a weak governance and regulatory regime. An appropriate incentive structure has not evolved to balance carefully the needs of central control with local autonomy, including fiscal autonomy. A possible solution would be jointly to develop infrastructure and services under a joint/harmonised management structure, encompassing a BEZ that sits astride both countries. Such an approach would prevent the bulk of the gains of CBT being appropriated by the more developed partner—a situation that is inevitable if left entirely to “market forces.”

Overall

Laos is well aware of its strategic location with borders with Myanmar, Cambodia, Vietnam, Thailand and China and the role it can play to integrate these economies through transit trade and investments. It has sought and has been assured of a number of facilities or measures by Thailand (e.g. Thai-Lao road transportation facility to allow transit facilities to Lao goods through Thailand), provisions for agricultural exports and investments in cross border infrastructure (e.g. warehouses and silos) and a bilateral payment agreement. However, many of these agreements remain unimplemented (by Thailand). The main limitation on the Lao side is not so much policy but lack of investments, poor bargaining power and poor governance.

1.3. STRUCTURE, CONDUCT, PERFORMANCE OF CBT

A central focus of this research 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 CBT. Each participating country conducted specific case studies of products traded across the frontier, examining trade circuits, actors, transport, handling, prices and financing.

Thus Cambodia and Thailand chose the following common activities:

- (a) Garments sub-contracting/processing: Thai traders supply the fabric and other accessories to Cambodian traders/entrepreneurs who arrange to cut the fabrics to design standards and have them stitched inside Cambodian territory, by people resident in the border areas as well as further afield.
- (b) Imports of processed foods into Cambodia from Thailand.

On the Cambodia-Vietnam side, the following trading activities were explored:

- (a) Imports of ready-made shoes from Vietnam into Cambodia;
- (b) Imports of fruits and vegetables from Vietnam into Cambodia.

The Vietnamese study decided not to focus on specific items (as above) but instead took a broader approach. It reviewed the overall trade structure and highlighted generic problems and constraints faced by traders.

The Laos and Thai research teams chose (a) the trade in non-timber forest products (exports from Thailand to Laos) and (b) imports of construction materials from Thailand. In addition, the Lao team also studied garlic imports from Vietnam.

The case studies point to two broad trade circuits or flows operating for CBT in all four countries: Informal flows, and what can be best described as more formal flows.

Informal flows

These involve many small or petty traders using small amounts of capital and dealing in low volume and, usually, low value products for sale in the local market within the border zone. Frequently these traders combine different roles as independent actors or as subordinate traders working for (larger) traders. In the former role they invest their own or borrowed capital to buy, transport and sell to larger traders. As dependent traders, they generally operate on behalf of bigger traders, typically with borrowed capital and with the stipulation that they must sell their entire consignment to the trader to whom they are indebted. In all of the border zones, the number of such small/petty traders is large, although the total volume of goods that they account for is a relatively small fraction of total trade (20–30 percent).

Very few formal mechanisms or rules affect this flow—which is either approved by law or tolerated. Usually small payments have to be made at the border. Key elements frequently associated with these informal flows include dependence on personalised relationships that have evolved over time and

are sustained by repeat transactions between traders or between traders and customers. The rapid growth of the Thai-Cambodian garments processing and trading system is an excellent example of how informal arrangements based on simple incentive mechanisms (for example repeat transactions that enable credit relations to develop and promote trust) can generate large, complex exchange systems cutting across international frontiers.

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

Formal flows

In terms of volume, formal trading channels account for the bulk of CBT, constituting some 70–80 percent of the total volume of trade. These flows are formal in the sense of being recorded, requiring paper work, appropriate documentation and processing, i.e. in terms of export-import procedures. Frequently, even these formal flows include an informal component, in terms of under-invoicing, tax evasion and partial payments and partial recording. Thus a comparison of the border trade data e.g. from the Thai and the Cambodian side are often difficult to reconcile. Table 1.2 dramatically describes the sharp discrepancy in the official trade data between the two countries. Similarly, a comparison with the Vietnamese and Cambodia data also throws up significant discrepancies, although these are not as dramatic.

Table 1.2: An Estimate of Underreporting of Trade Data (Thailand and Cambodia)

(US\$ million)

Year	Trade Volume (Thai data)	Trade Volume (Cambodian data)	Underreporting By Cambodia %
1999	369.2	NA	-
2000	359.0	245	46.5
2001	481.3	236	104.0
2002	527.4	246	114.4
2003	697.6	235	196.9
Total	2434.5	962	153.1

The formal flows tend to be dominated by big traders, who are able to mobilise large amounts of capital. These traders provide multiple services, including transport, payments, clearing and forwarding, handling and storage. In addition, they have excellent networking with border trade officials, including customs and immigration. In fact, there is the distinct impression that in some cases at least, the border trade is closely controlled by a small number of powerful intermediaries acting in collusion with border authorities, and able to restrict entry. Thus CBT involves not only economic intermediation, i.e. buying and selling in response to market demand and supply, but crucially also the ability of powerful trade lobbies to bypass or even subvert local rules/authorities to maximise their gains. The other side of the coin is the ability of these intermediaries to assume multiple tasks— a kind of one-stop service for importers/exporters frequently based in urban locations. In other words, the formal sector would appear to have strong “non-formal” characteristics as well, making bipolar categories like formal-informal not always meaningful. The clearest example of “oligopolistic control” emerged from the Cambodian study but this is certainly not an isolated Cambodian phenomenon. However, in border areas with well-developed BEZs, these types of market distortion are likely to be low.

1.4. WELFARE IMPACT

An important question that this study has tried to address relates to welfare consequences of CBT. Household data were generated in locations along different points on the border to elicit information on occupation, livelihoods, activities, earnings, incomes, assets, expenditures, human development indicators and access to services. An attempt was made to explore to what extent border households had close links with the cross border economy through the market for labour, commodity or services. The “gains from trade” arising from access to cheaper consumption goods were also underlined.

The general experience across all countries seems very positive, although some countries or border communities have clearly benefited much more than others. A quick review of impact by country follows.

CAMBODIA

The economically active populations living along the border with Thailand are heavily dependent on cross border related activities—garments, trade, transport, construction and services. There is also a significant seasonal movement of agricultural labour to Thailand. Poverty-reduction impacts of these activities are likely to be considerable. The impact along the Vietnam border (e.g. in Bavet) is much more muted, but positive nevertheless.

Much of the direct impact of CBE occurs through the labour market. In seven villages (out of 20 surveyed) next to Thailand, cross-border-related labour-market activity was found to be very high, with another four reporting quite significant links with CBE (see Cambodia case study). In Chantrea district next to Vietnam, important labour-market links were identified in half of the villages surveyed, while the rest reported rather little impact. Other benefits particularly reported from Chantrea relate to the availability and consumption of cheap imports from Vietnam (farm inputs, agricultural machinery and food products).

LAOS

The Lao report also suggests that the CBE impact along the borders with Thailand and Vietnam is positive. It attributes generally higher agricultural yields along the Thai border to easier access to Thai technology and inputs. It also notes the availability of cheap consumer goods from Vietnam. In general, the increased market access to neighbouring countries does not appear to have resulted in a significant increase in supply, exports of goods and services or employment and earnings—largely due to human resources, infrastructure and investment constraints.

VIETNAM

In Vietnam, participation in the cross border economy “has proved to be a way for people to escape from poverty” (see concluding section, Vietnam cCase study). This is clearly brought out by the significant difference in living standards between participants and non-participants in CBE that the study reports. Indeed, the Vietnamese government is so encouraged with its success with BEZ that it has decided to replicate the model across 19 provinces and 24 border points all over the country—particularly targeting remote, backward areas and ethnic minorities, in a deliberate effort to target pockets of poverty and disadvantage.

THAILAND

At the village and household level, living standards have reportedly risen over the past five years. Clearly, there has been some impact of the cross border economy as households residing within 5 km of the checkpoint, e.g. at Poipet-Talat Rong Kluea, are generally found to have higher income and consumption levels. The direct benefits, however, appear to be mainly along the major communication arteries, operating through the labour market and the services sector (hotels, restaurants, guest houses).

In summary, this study finds greater levels of economic activity along some borders (e.g. Poipet) and some countries (e.g. Vietnam). The Vietnamese experience with the BEZ in Mong Cai (on the Chinese border) has been excellent. The experience on the Vietnamese side of the Lao-Vietnamese border has also been very good. Similarly, the Poipet area in Cambodia reports a very positive impact while the impact on the Bavet area (on the Vietnamese border) seems rather small.

Generally, direct benefits are limited, often confined to the areas along the major communication arteries. On the other hand, the impact of the BEZ/BTZ tends to be much greater. Indirect effects, however, appear to be large, mainly through higher consumption levels and increased real incomes (due to the availability of cheaper imports).

1.5. CONCLUSION

The more advanced countries are clearly better poised to gain from cross border trade, i.e. Thailand and Vietnam. They seem to have a clear, well-focused policy direction aimed at maximising these benefits.

CBT is vital for Laos and increasingly important for Cambodia—especially in adjusting to the post MFA world of quota-free trade for garments. However, Laos and Cambodia lag far behind in terms of a clear, implementable policy, i.e. in moving quickly towards establishing the basic legal, physical and institutional infrastructure necessary—despite many policy pronouncements to that end. What is needed? The list is quite long. Nor is it clear which among these conditions are necessary, sufficient or both—further research would be needed to make more concrete policy pronouncements. The following therefore is an attempt to establish what the major interventions are likely to consist of:

- *Infrastructure*: roads, water, electricity, well-appointed checkpoints with weighing yards, loading-unloading facilities etc.
- *Financial systems*: low cost, safe, fast, formal mechanisms to send and receive payments.
- *Institutions*: especially relating to “market order”—contract enforcement, information access, trader associations, clear border procedures, break-up of cartels.
- *Promotion of border tourism*: an important source of growth at the local level.
- *BEZ*: Needs further investigation as a promising model of development of the border economies.
- *Human resources*: these remain a major constraint to the BEZ approach, especially for Laos and Cambodia, where skill levels are weak.
- *Informal sector protection and promotion*: because of the large poverty-reduction potential.
- *Greater incentives from the bigger countries need to provide to the smaller ones*: one way would be to implement agreements held at bay that would allow better access to their markets.

Two final points:

- Protective instincts remain sharp among participating countries, with a clear desire to export but a fear of cheap imports. This is also reflected in the stance adopted against transit trade and third-country imports.
- Countries like Laos and Cambodia are strategically situated between two large, rapidly growing economies. The gains from facilitating trade and investment between these two economic powerhouses can be very large and need active promotion. This obviously requires much more discussion among the countries concerned.

Cambodia's

CROSS BORDER ECONOMY

An Exploratory Study

K.A.S. Murshid
and **Tuot Sokphally**

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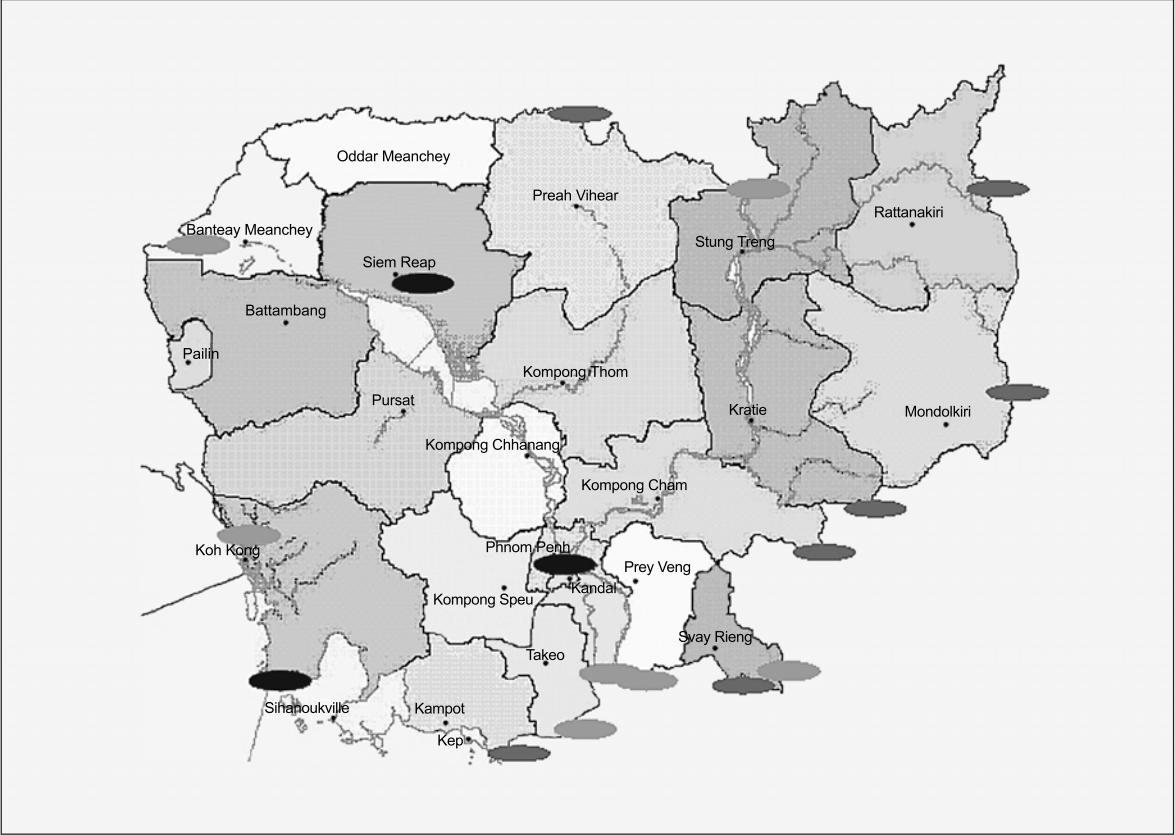
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K.A.S. Murshid
and **Tuot Sokphally**
January 2005

CAMBODIAN BORDER MAP



Note:

- International Gate
- International Border Gate
- Bilateral Border Checkpoint

Some Milestones of Cambodia's Economy and Foreign Trade

1960s: Cambodia is an important exporter of rice, rubber, corn and other agricultural products to other Asian nations. Imports are mainly from Japan, the United States and western Europe. An industrial base starts to grow in the 1960s.

1970s: Collapse of foreign trade owing to conflict.

1975–1979: Democratic Kampuchea regime; no foreign trade or international relations except for trade with China in the form of exchange of Cambodian rice for Chinese weapons and other necessary items.

1978–1989: Vietnamese assistance. Official trade in rubber crepe, unprocessed timber, red maize, soybeans, sesame and tobacco carried out mainly with COMECON or CMEA (Council for Mutual Economic Assistance) countries such as Hungary, Bulgaria, East Germany, USSR and Vietnam.

Unofficial trade includes: the sale of timber, precious stones and gold along the Thai-Cambodian border; the sale of old/used items such as motorbikes, bikes, watches and recyclable waste to Vietnam; and the trafficking of goods and services from Thailand, Singapore and Vietnam.

1985: Government of KPRP (Kampuchea People's Republic Party) embarks on a market-oriented reform (key measures include the restoration of private ownership of property), following the Vietnamese lead.

1989: Substantial quasi-official cross border trade with Thailand and Singapore via Koh Kong and Kompong Som ports.

Promulgation of a foreign investment law (44 brief articles only, similar to the regulations initially adopted in Laos).

Early 1990s: Reined in by new customs duties in 1990, Thai traders move to locations on the frontier with Battambang (the area which is currently in Banteay Meanchey). An official market is opened at the Poipet-Khlong Luk crossing, but estimates of the value of trade there are unavailable.

1993: After the first national election under the auspices of UNTAC (United Nations Transitional Authority in Cambodia), Cambodia declares itself as an "economy government." Trade policies are greatly liberalised. After the election, formal trade agreements with Thailand are signed.

1994: Adoption of a new investment law.

Since the late 1990s: Acceleration of economic integration into the regional and global economy, marked by Cambodia's entry into ASEAN and, later, the WTO.

2.1. INTRODUCTION

Cambodia has taken significant steps towards integrating its economy with that of its neighbours and with the rest of the world. It has joined the ASEAN Free Trade Area, is a signatory to CEPT (Common Effective Preferential Tariff) and has joined the WTO. It is regarded as a highly open economy, formally in the sense of a simplified and greatly reduced duty structure for imports, and informally, in the sense of weak border controls and a huge (but difficult to quantify) informal border economy. These trends are not isolated but reflect wider changes experienced throughout the region in recent years. In the Mekong sub-region, this has taken the shape of special (export processing) zones set up (or planned) along the border areas, and promotion of the ADB-led Greater Mekong Sub-region concept to integrate regional economies through transport-infrastructure linkages and trade facilitation reforms. The potential benefits of integration are thought to be considerable; there is less agreement, however, with regard to the distribution of benefits—both across countries and within each country.

For a given country, the type, magnitude and quality of the impact of integration will depend on a number of factors, acting on both the demand and the supply sides.

2.1.1. DEMAND SIDE FACTORS

A basic question relates to the structure of import demands of trade partners and the extent to which this is compatible with domestic comparative advantage and competitive strengths. Despite this, the potential for both static and dynamic gain cannot be disputed. Of particular concern is the question of incremental comparative advantage, which allows a country like Cambodia to identify and reap the benefits of a new, superior, division of labour. The main point on the demand side is whether integration will raise export demands and encourage new lines of exports to develop.

Static and Dynamic Gains

Todaro (1989) quotes Hicks to note that the gains from trade are the difference between the value of things received and the value of things that are given up. Static gains are based on the law of comparative advantage and accrue from trade creation, e.g. after the formation of a customs union, resulting in high-cost suppliers being replaced by low-cost suppliers, enabling the import of foreign products more cheaply in terms of real resources foregone, compared to domestic production.

Dynamic gains accrue from market widening and expansion for a country's producers. Dynamic gains are larger than static gains if production is subject to increasing returns, which is more likely if markets become vastly bigger than before. Dynamic gains can also emerge from lower cost capital goods and superior technical knowledge that alters and shifts the production possibility curve outwards, at the same time promoting efficiency through greater competition.

Comparative advantage and the free trade argument are essentially static, based on restrictive and unrealistic assumptions. It has been noted that if the demands for different commodities grow at different rates owing to differences in their price and income elasticity, free trade will work to the benefit of some and to the relative detriment of others. There is also the danger of excessive specialisation, e.g. garments in Cambodia and Bangladesh, leaving these economies highly vulnerable to external shocks.

The free trade argument does not adequately focus on dynamics with the implied assumption of an unchanging or slowly changing shift in static comparative advantage. Developing countries, it would seem, are thus condemned to the production/export of the same commodities forever. There is almost no discussion of the fact that a country may deliberately have to change its comparative advantage. As Prebisch points out, a lasting solution would be the promotion of manufactured goods, especially those with high price and income elasticity of demand (quoted in Todaro, 1989; also see Prebisch, 1964, and Sarkar and Singer, 1991).

2.1.2. SUPPLY SIDE FACTORS

While greater regional integration will help overcome demand side constraints, the critical bottleneck may well be factors operating on the supply side: infrastructure, communications, services (banking and insurance), human resources, governance, energy costs—elements that prevent or constrain realisation of the full potential opportunities provided by more open trade. Clearly these constraints are more rigid and require time, effort and resources to overcome. Once the demand side constraints are relaxed, the supply side needs to be addressed.

The focus of this paper is on the Cambodian experience of cross border trade, and in particular, the role and impact of supply side factors. Cambodian case studies examine cross border trade arrangements and trade facilitation, trade infrastructure and institutions, structure of costs and market performance, with reference to specific commodities traded. The demand side receives attention in DAN 4 through the country studies conducted from the other side of the border. For example, Cambodia's garment exports to Thailand have also been studied from the Thai side, to help identify demand bottlenecks and to examine the nature of Thai demand for Cambodian products more generally.

The third purpose of the paper is to go beyond supply-demand issues and facilitation arrangements and institutions to look at the implications for household level welfare, especially on the poor.

The rest of the report is organised as follows:

Section 2: Approach and Methodology

Section 3: Trade Environment and Policy

Section 4: Organisation and Conducts of CBT - Case Studies

Section 5: Cross Border Trade - Selected Case Studies

Section 6: Welfare Impact of CBT

Section 7: Household Level Evidence from Chantrea

Section 8: Concluding Observations

2.2. APPROACH AND METHODOLOGY

The overall approach taken in all four country case studies is **(a)** to review overall trade regimes and the emerging regulatory regime, **(b)** to describe the cross border trade facilitation regime currently in place, **(c)** to examine the structure, conduct, and performance of CBT and the role of the different institutions involved and **(d)** to assess the welfare impact on households residing in border zones.

While **(a)** and **(b)** above are based on policy documents and interviews with key informants (officials, traders, customs and clearing agents), **(c)** is based on in-depth case studies of selected commodities traded (garment exports to and processed food imports from Thailand, and footwear and vegetable imports from Vietnam).

Assessment of welfare effects **(d)** is based on village surveys (along the Thai and Vietnamese borders) and household surveys (restricted to a sample of households derived from a district bordering Vietnam). The villages and the households sampled are expected to be representative of the districts from which they were taken. Thus, the district of Ou Chrov adjoining the international checkpoint at Poipet along the Thai border was selected for study, along with the district of Chantrea, situated near the international border gate in Bavet, on the Vietnamese border. Both Bavet and Poipet are major international crossings for goods and passengers.

2.3. TRADE ENVIRONMENT AND POLICY

2.3.1. RECENT CHANGES IN TRADE POLICY

Cambodia resumed trade with the rest of the world after a period of disengagement during the 1970s, in line with the process of liberalising from a centrally planned economy to a market-oriented one. The private sector was free to carry out business in the country; most non-tariff barriers were eliminated; and the requirement of licensing for trading in most goods was abolished (Economist Intelligence Unit & MEF 2004). All quantitative restrictions on trade were removed in 1994 (CSD 2002).

Further, the country took a significant step forward in trade liberalisation after becoming a member of ASEAN in 1999. Under the framework of CEPT/AFTA (see section 2.3.2 below), tariff lines were simplified and streamlined. A new harmonised tariff nomenclature (AHTN) was promulgated in 2003 and implemented from 1 January 2004, (MEF 2004 & CED 2003).

The customs code is also being revised, and further modernisation and liberalisation of the trade regime are envisaged, including improved trade facilitation, as stipulated in the *Strategy and Work Programs of Reform and Modernisation of the CED of Cambodia for the period 2003–2008*.

A number of specific task forces and measures have been formalised, including: **(a)** the establishment of a steering committee for private sector development in July 2004; **(b)** joint inspection by the Cambodia Import Export Inspection and Fraud Repression Department (Camcontrol) and the CED, and issuance of a single inspection report, effective from 1 September 2004; **(c)** Ministry of Industry, Mines and Energy (MIME) and Ministry of Commerce (MOC) to issue a Certificate of Processing (CP) and Certificate of Origin (CO) respectively, and jointly carry out post-shipment inspection. Action plans are being mooted to streamline trade facilitation, to promote market infrastructure and deregulation, to enhance market access and information, and to promote small-medium enterprises (SME) by the end of 2005 (CSD 2004).

2.3.2. OTHER REGIONAL ECONOMIC COOPERATION INITIATIVES

2.3.2.1. COMMON EFFECTIVE PREFERENTIAL TARIFF (CEPT)

After an agreement signed in 1992 on the establishment of AFTA, ASEAN members are required to implement CEPT, under which tariff rates levied on a wide range of products traded among the association's members have to be reduced to below 5 percent, and all quantitative restrictions and other non-tariff barriers removed. In practice, the original ASEAN members have already achieved the tariff reduction goal. The new ASEAN members are in the process - Vietnam is expected to complete the process by 2006, Laos and Myanmar by 2008 and Cambodia by 2010.

Products eligible for special treatment under CEPT are required to conform to the Rules of Origin (RO) or Cumulative Rules of Origin (CO). The CO is issued after a thorough pre-shipment inspection. It can be waived, however, for products valued at less than \$200 f.o.b. When the products pass through one or more non-ASEAN country, some additional documents are required such as a through bill of lading, a CO, a copy of the original commercial invoice, and some other documents to prove that the requirements of the RO have been met. At the entrance/exit gates the products under CEPT pass through the green lane.

2.3.2.2. GREATER MEKONG SUB-REGION ECONOMIC COOPERATION PROGRAMME (GMS PROGRAMME)

After peace was achieved in the Greater Mekong region, the GMS Programme (the Greater Mekong Sub-region Economic Cooperation Programme) was initiated in 1992 by the ADB in order to “transform the rich human and natural resources of the region into a new frontier of Asian economic growth.” Under this strategic framework, the ADB plays a role in facilitating GMS activities by supporting confidence building among the member countries, helping in the development of a framework for cooperation, assisting in project development for identified priorities and mobilising financial resources.

Under the GMS umbrella, Laos, Thailand and Vietnam signed a trilateral accord on the movement of goods and people across their borders in November 1999. As agreed in the ninth GMS Ministerial Conference in 2000, the implementation of the agreement and its annexes and protocols on a subregion-wide basis would be completed by 2005. In November 2001, Cambodia became the fourth party of the agreement, followed by China. Myanmar is expected to enter in the near future.

At the beginning the GMS programme focused much on building the basic infrastructure to link remote areas. After the 1990s, the programme shifted its focus to the environment, human resource development, trade, investment, telecommunications and tourism. To facilitate the implementation of the strategic thrusts of the programme, the concept of the “economic corridor” was launched and three such corridors identified. In its 2003–2012 strategic framework, CBT is one of five strategic thrusts. The main measures to facilitate CBT and stimulate the cross border economy include:

- (a) A single-stop customs inspection process, initially to be piloted at selected points (e.g. Poipet and Bavet in Cambodia, Mukdahan and Aranyaprathet in Thailand, Savannakhet and Dansavanh in Laos and Lao Bao and Moc Bai in Vietnam);
- (b) Common hours of operation at checkpoints;
- (c) Transparency of customs procedures;
- (d) Trade financing;
- (e) Harmonisation of banking regulations;
- (f) Investment promotion;
- (g) Establishment of economic corridors.

2.3.2.3. TRIANGULAR COOPERATION AMONG CAMBODIA, VIETNAM AND LAOS

In December 2002, the three prime ministers agreed that Vietnam would develop the master plan in a number of specific areas, including infrastructure, human resource development, power, agriculture, trade, tourism, environmental preservation and biology in support of the development of the “triangular zone” cutting across the border regions of the three countries. In a recent meeting (in 2004), the prime ministers agreed to work closely to accelerate economic growth across their common borders, and in particular to address poverty concerns.

The first priority would be given to upgrading transport networks, promoting trade and tourism under the principle of “three nations—one destination,” developing human resources and health care and connecting electricity grids between the three countries.

2.3.2.4. ECONOMIC COOPERATION STRATEGY

Under the Economic Cooperation Strategy (ECS), established in line with the Bagan Declaration in April 2003, Cambodia, Laos, Myanmar and Thailand (CLMT) will cooperate with one another to: **(a)** increase competitiveness and generate greater growth along the borders; **(b)** facilitate relocation of agricultural and manufacturing industries to areas with comparative advantage; **(c)** create employment opportunities and reduce income disparity among the four countries; and **(d)** enhance peace, stability and shared prosperity for all in a sustainable manner. Under this scheme, the Economic Cooperation Strategy Plan of Action (ECSPA) is the first series of action plans chalked out for the period 2003–2012.

In line with the ECSPA, the CLMT countries will implement initiatives to reduce trade barriers, improve transport linkages and upgrade major border checkpoints and promote cooperation in five strategic areas: **i)** trade and investment facilitation; **ii)** agricultural and industrial cooperation; **iii)** trade linkages; **iv)** tourism cooperation; and **v)** human resource development.

Specific measures to implement the ECSPA objectives include a number of common projects that are carried out by at least three countries, as well as other short-, medium- and long-term bilateral projects. Among the bilateral projects, there are 65 Cambodia-Thailand, 21 Cambodia-Laos and 25 Cambodia-Myanmar projects that have been identified. Some of the main Cambodia-Thailand projects include feasibility studies on the establishment of wholesale and export markets, development of industrial estates in Poipet and Pailin, reservoir construction at Poipet; and a sister cities programme. Some of the main Cambodia-Laos projects are a feasibility study on trade facilitation in the border area between Champasak and Stung Treng; improvement of border checkpoints at Champasak-Stung Treng; and strengthening and promoting border trade between Laos and Cambodia.

2.3.2.5. OTHERS

Other attempts to promote regional economic integration include the ASEAN-Mekong Development Cooperation (AMBDC) and the Cambodia-Laos-Thailand growth triangle.

2.3.3. CURRENT REGULATORY ENVIRONMENT FOR CBT

There are no quantitative restrictions on imports into Cambodia but there are prohibited items, e.g. narcotic drugs and poisonous chemicals. Most imported goods may enter Cambodia without an import licence, except for the following:

- Weapons, explosives and ammunition;
- Vehicles and machinery for military purposes;
- Gold, silver and precious stones;
- Pharmaceuticals and medical material.

Tariff duties on goods are levied widely but consist of ad valorem duties. Imported goods are assessed at their customs value including insurance, freight, duties and taxes, and are subject to a 10 percent VAT. There are four import tariff bands as follows:

- Raw materials such as cement, iron, tiles and bricks and “essential” items like meat and fruits—7 percent;
- Equipment and machinery—15 percent;
- Consumer durables and house furnishings (TV, radio, furniture etc.)—35 percent;
- Luxury goods, automobiles, wine, cigarettes, cosmetics—70 percent.

Duty free imports include those of diplomatic missions, those for humanitarian or religious purposes, those provided with incentives under the Law on Investment (1994), commercial samples and various ad hoc exemptions decided by the prime minister. Cambodia has been a member of ASEAN since 1999 and has commenced reducing tariffs on ASEAN products according to its obligations under the AFTA.

All goods on which the customs duty is more than \$300 must have their customs value approved by the Valuation Office at the Department of Customs and Excise headquarters in Phnom Penh. Seven major border points are empowered to approve customs values for goods with a customs duty of \$300 or less, including the Poipet and Bavet border points. There is a \$4 charge for this service.

Cambodia operates a pre-shipment inspection system requiring the inspection company (Société Générale de Surveillance, SGS) to determine whether the invoice price corresponds to the open market price of the goods. Exemptions from this inspection are allowed for goods valued at less than \$4,000 f.o.b.

Cambodia restricts exports of rice, round logs, unprocessed timber, forestry products, antiques more than 100 years old, narcotic drugs and poisons, weapons, explosives, ammunition and vehicles and machinery for military purposes. An export tax of 10 percent is levied on raw material exports, while processed exports attract a tax of 5 percent.

Cambodia is expected to comply with the subsidies agreement for WTO accession. It will either eliminate the existing system of remission of import fees and waiver of duty for certain goods used by certain investors, or establish a functioning duty drawback system consistent with WTO provisions, through amendment of the Law on Investment as necessary, by the end of 2013.

2.3.3.1. PACKING, MARKING AND LABELLING

CamcControl, under the Ministry of Commerce, is responsible for setting standards. It requires foodstuffs (exports and imports) to have a label and provide the following information:

- Name of goods;
- Producer's name and address;
- Source;
- Quantity;
- Batch number and production date;
- Expiration date;
- Ingredients;
- Directions for use (if needed);
- Licence of authorising institution.

For animals vaccination certificates are needed, while for plants it is necessary to show that certain phytosanitary measures have been taken. Phytosanitary certification is issued at the border by the Phytosanitary and Plant Protection Inspection team. Cambodia recognises phytosanitary certification from other countries.

2.3.3.2. DOCUMENTATION

Particulars required on cargo documents (manifesto) are **(a)** bill of lading number, **(b)** port of loading and unloading, **(c)** consignee and consignor, **(d)** description and gross weight and **(e)** quantity, marks, numbers and type of packages. Imported goods require an import declaration form. Goods shipped through Vietnam via the Mekong River must also have a transit licence.

2.3.4. CBT WITH THAILAND AND VIETNAM—BACKGROUND

2.3.4.1. CAMBODIA-THAI CBT

CBT between Cambodia and Thailand in the 1960s was mainly carried out informally between people living side by side as neighbours and friends, rather than as residents of separate nations with an acute sense of national identity. In the late 1960s, border trade declined in the wake of increased controls introduced by the Thai government in response to political events across its frontier. CBT declined but resumed with the first wave of Cambodian refugees to Thailand in the late 1970s. This was mainly restricted to trade in food, clothing, medicines, housing materials, seed rice and agricultural tools. The products purchased from Thai traders were sold partly inside Cambodia and partly in Vietnam. After 1985, when the Cambodian refugees were transferred to UN holding camps, Thai traders (and powerful trading interests) established direct business links with the resistance leaders, trading in timber, wooden furniture, guns, antiquities, and gems—in an organised and systematic manner (French, 2002).

Formal trade relations between the two countries resumed after the adoption of the “battlefields into marketplace” policy of the new Thai government in the late 1980s. Many border checkpoints, including Poipet, were opened along the Thai-Cambodian border in early 1990s. Formal trade agreements were initialled between the two countries, and both formal and informal border trade expanded rapidly.

During 1999–2003, the trade volume between Thailand and Cambodia was on average \$234 million per annum, making Thailand the second biggest importer of Cambodian goods. Cambodia also became an important export destination for Thai goods, ranking from seventh to thirteenth place among all its trading partners. The import of Thai products grew by 3.7 percent per annum (compounded), and exports to Thailand declined by 20 percent (Table 2.1).

Table 2.1: Cambodian Trade with Thailand, 1999-2003

Year	US\$ million			Growth in %	
	Export	Import	Total	Export	Import
1999	15	193	208	n/a	n/a
2000	23	222	245	53.3	15.0
2001	8	228	236	-65.2	2.7
2002	8	238	246	0	4.4
2003	12	223	235	50.0	-6.3
Total	66	1104	1170	-20.0	15.5
Average	13.2	220.8	234.0	-5.4	3.7

Source: Ministry of Commerce, Foreign Trade Department, Cambodia

In terms of value, the major commodities imported from Thailand include mineral fuels, oils and related products; vehicles and spare parts; chemical substances; sugar and sugar confectionery; plastics and articles; processed foods; and construction materials. Cambodia exports clothes, plywood, and fish products to Thailand.

2.3.4.2. CAMBODIA-VIETNAMESE CBT

The literature on CBT between Vietnam and Cambodia is limited. However, according to Beresford and Phong (2000), border trade between Cambodia and Vietnam started in 1979 with the overthrow of the Pol Pot regime and the subsequent presence of a hundred thousand Vietnamese troops inside Cambodia. Exports from Cambodia to Vietnam were much bigger than imports. The items exported to Vietnam included mainly second-hand

motorcycles and automobiles, along with unprocessed agricultural products such as dried and salted fish, palm sugar, timber and aromatics. Cambodian pearls and gemstones were also exported (often for re-export to Singapore and Hong Kong) along with smuggled Thai goods—e.g. popular brands of cigarettes, beer, clothing and cheap cosmetics. Vietnamese traders mainly dominated this trade.

Imports from Vietnam to Cambodia were mainly through official channels as part of Vietnamese assistance. These included cement, iron and steel, machinery and equipment, fuel, fertiliser, seeds, schoolbooks, medicines and medical equipment. However, some goods were also imported through unofficial channels, including beer and soft drinks, footwear, simple electrical goods, aluminium goods, clothing and textiles, some basic agricultural implements, sweets and other processed foods.

Today the situation is greatly changed. The balance of trade is by far in favour of Vietnam. The major imported items are cereals, steel and iron, soap and organic active agents, plastics and plastic articles and mineral fuels, oils and derivatives. Cambodian exports include rubber and agricultural produce, fish products and live animals.

Vietnam-Cambodia trade is about half as important as Thailand-Cambodia trade, in terms of value. Over the past five years, total trade was on average \$128 million per annum (Table 2.2). Vietnam ranked as Cambodia's seventh to ninth largest export partner and as its fourth to sixth largest import partner. Cambodian exports to Vietnam grew by 32.5 percent per annum (compounded), whereas imports grew at a compounded rate of only 11.2 percent.

Table 2.2: Cambodian Trade with Vietnam, 1999-2003

Year	US\$ million			Growth in %	
	Export	Import	Total	Export	Import
1999	12.75	84.68	97.4	n/a	n/a
2000	19.45	91.54	111.0	52.5	8.1
2001	21.13	109.49	130.6	9.5	19.6
2002	32.39	98.35	130.7	53.3	-10.2
2003	39.28	129.35	168.6	21.3	31.5
Total	125.0	513.4	638.4	208.1	52.8
Average	25	102.7	127.7	32.5	11.2

Source: Ministry of Commerce, Foreign Trade Department, Cambodia

2.4. ORGANISATION AND CONDUCT OF CBT—CASE STUDIES

2.4.1. BAVET

Svay Rieng in the south-east of the country borders on Vietnam and has a population of around half a million. There are seven districts, of which five border Vietnam. The international border gate at Bavet is located in Chantrea district, which comprises 10 communes, 49 villages and around 9,000 households.

Bavet border gate is located some 48 km from the provincial capital of Svay Rieng and opens every day from 7:00 am to 6:00 pm to enable movement of people and goods. In addition to the international checkpoint, there are seven local crossings within Chantrea district for local villagers (and increasingly used for smuggling). Banned or restricted items that are transported from these local points include cigarettes, air-conditioners, electronics and third-country products (mostly Thai and Malaysian). It is reported, however, that exports of third-country products to Vietnam have declined over the years as the Vietnamese are able to produce better quality products themselves at competitive prices.

Much of the commerce through Bavet border gate seems to be from the Vietnamese side. Cambodian exports are few and far between, and generally carried out on a small scale. In fact, exports are not officially permitted through this border point, but this restriction is sometimes relaxed. It was reported by Camcontrol that two consignments of crocodiles were exported in 2003. Some agricultural exports (tobacco, rice etc.) have also been reported.

The main items traded through Bavet are plastics, steel, fabric, chemicals for water purification, animal feed, fresh vegetables, candles, footwear and books. In 2003 the total value of goods imported through Bavet was more than \$4 million (3.2 percent of total imports from Vietnam). Imports are usually categorised in terms of volume (big, small), with small imports being tax free, although some informal payments still need to be made.

Overall exports from Cambodia have recently decreased rapidly, especially since the apparent restriction on exports of third-country products (which attract very high duties). In the border agreement of 2000–02, such exports were allowed (although with a different duty structure). New restrictions have driven this trade underground, leading to the emergence of a complex distribution system, e.g. for cigarettes (assembled in Bavet and then distributed through numerous individual carriers).

The border agreement between the two countries (periodically reviewed) allows border residents (e.g. in the border districts of Svay Rieng) to move freely across the border using a special identification card. Border inhabitants are frequent visitors to Vietnam as tourists or for medical reasons, or for purchase of agricultural or consumption goods. Vietnamese people also cross over to Cambodia to engage in small trade and farm work.

2.4.2. POIPET

The international crossing point at Poipet is located in the province of Banteay Meanchey in north-west Cambodia on the Thai border. The population of the province is close to 600,000, spread over nine districts, four of which border Thailand. Poipet is situated in the district of Ou Chrov and has a population of more than 100,000.

The Poipet international border gate is located in Kbal Spean village, Poipet commune, Ou Chrov district, about 50 km from the provincial capital of Banteay Meanchey. The border point has been in operation since 1991 but became more formal only in 1993, with the opening of a customs office there. On 30 June 1994, the Poipet crossing was officially declared as Poipet International Border Checkpoint. Since 1998, cross border activities have expanded rapidly, in the wake of the cessation of hostilities with the remaining Khmer Rouge forces. The checkpoint is open everyday from 7 am to 8 pm for movement of people and goods. Local people are able to travel by purchasing a border pass for 10 baht, which allows them to travel to Rong Kluea market inside Thai territory. Most of the workers and businessmen working out of the market belong to this group.

Besides the international checkpoint, there are several other crossings in the same province. These are of two types: **(a)** official, bilaterally agreed border checkpoints and **(b)** unofficial village paths. There are two other official checkpoints, namely Malai and Boeng Trakuon border points in Malai district and Thma Puok district, open four days a week. There are numerous unofficial paths, e.g. at Nang Chan, Ou Bei Choan and Tumnub Dach. These crossings are much less active than the Poipet gate.

The Poipet gate is of national significance. In 2003 some 38 percent of all imports from Thailand entered Cambodia through Poipet, while it also accounted for 3.8 percent of official exports to Thailand. The most important commodities imported in 2003–04 included cement, construction materials and equipment, fresh and processed foods, cosmetics, consumer goods, cars and spares and fertilisers. The most rapid increase has been in construction materials and cement, while other imports have risen much more modestly. The most important commodities exported to Thailand include scrap metals, second-hand clothes, handicrafts, and fresh and processed fish.

Imports from Thailand are reported to have increased two- or three-fold over the past three to four years. At the same time, however, a number of additional checkpoints have been opened (e.g. in Pailin and Kamrieng) so that the overall rate of increase is not fully reflected by imports through Poipet itself.

Due to the absence of loading/unloading facilities in no man's land (between the border checkpoints), Thai trucks enter Cambodia (up to 8 km) to discharge their goods. Reciprocal facilities are not given to Cambodian trucks, which according to Thai authorities do not maintain minimum regulatory standards (many ply without even a licence plate).

The Rong Kluea (RK) Market

Rong Kluea Market is situated near the Poipet gate in Thai territory. Almost 90 percent of the traders in this market are Cambodians who live in Poipet but make the daily trip there and back. This market was originally located in Cambodian territory but moved to the Thai side in 1998 due to security concerns and high border charges. Before 1998, Thai traders came to Akeak market on the Cambodian side, about 1 km from the gate. This market has virtually ceased to function. Rong Kluea itself is expanding rapidly with the addition of new stalls supplying a wide range of products.

2.5. CROSS BORDER TRADE - SELECTED CASE STUDIES

To better understand the structure, trade facilitation, and constraints of CBT, four traded items were selected based on their importance in terms of volume and likely impacts on employment and economic activities. These items include exports of ready-made garments to Thailand, imports of shoes from Vietnam, imports of vegetables from Vietnam and imports of processed foods from Thailand.

These case studies are based on interviews with key informants, including traders, transport agents and clearing and forwarding agents in Poipet, along with key officials in Camcontrol, in the Customs and Excise Department, and in the office of the international border checkpoint. Interviews were conducted at both borders: Poipet International Border Gate and Bavet International Border Gate, at markets in Phnom Penh and at Rong Kluea market (Thailand).

2.5.1. EXPORTS OF READY-MADE GARMENTS TO THAILAND

2.5.1.1. DEVELOPMENT OF READY-MADE GARMENT EXPORTS

People living in the Poipet area in Cambodia were producing garments for the Thai market even during the time of the civil war, as far back as 20 years ago. In the beginning, hats dominated the business, which was lucrative, helped by good market conditions, low levels of competition and very few regulations or restrictions.

Gradually, the situation changed in four ways:

- i) Hats are no longer an important item of trade. Over the past two or three years, hat exports declined substantially—by more than 50 percent—because of the decline in Thai demand. Hat workers, manufacturers and traders therefore quickly moved to other products, mainly shorts and trousers, growing on average at around 10 percent per annum over the past five years.
- ii) The volume of ready-made garments exported to Thailand has grown: at present 50–100 tonnes⁵ of “second hand garments”—both second hand and new garments categorised collectively as “second hand garments”—are exported per day. The business is booming, with many new entrants joining every month. Inevitably, competition on the supply side is rising, reportedly serving to reduce profit margins. In addition, some administrative measures on exports/imports have been introduced. As a result, the transport and clearance of garment exports cost significantly more than before. The cost used to 150 baht per 20 kg (before 2002), but in 2004 this rose to 270 baht per 20 kg—an increase of 80 percent.
- iii) Garment production/processing has spread to other districts of Banteay Meanchey, and even to other provinces like Battambang and Siem Reap. In some cases, the whole manufacturing process is subcontracted out to areas deep inside Cambodia.

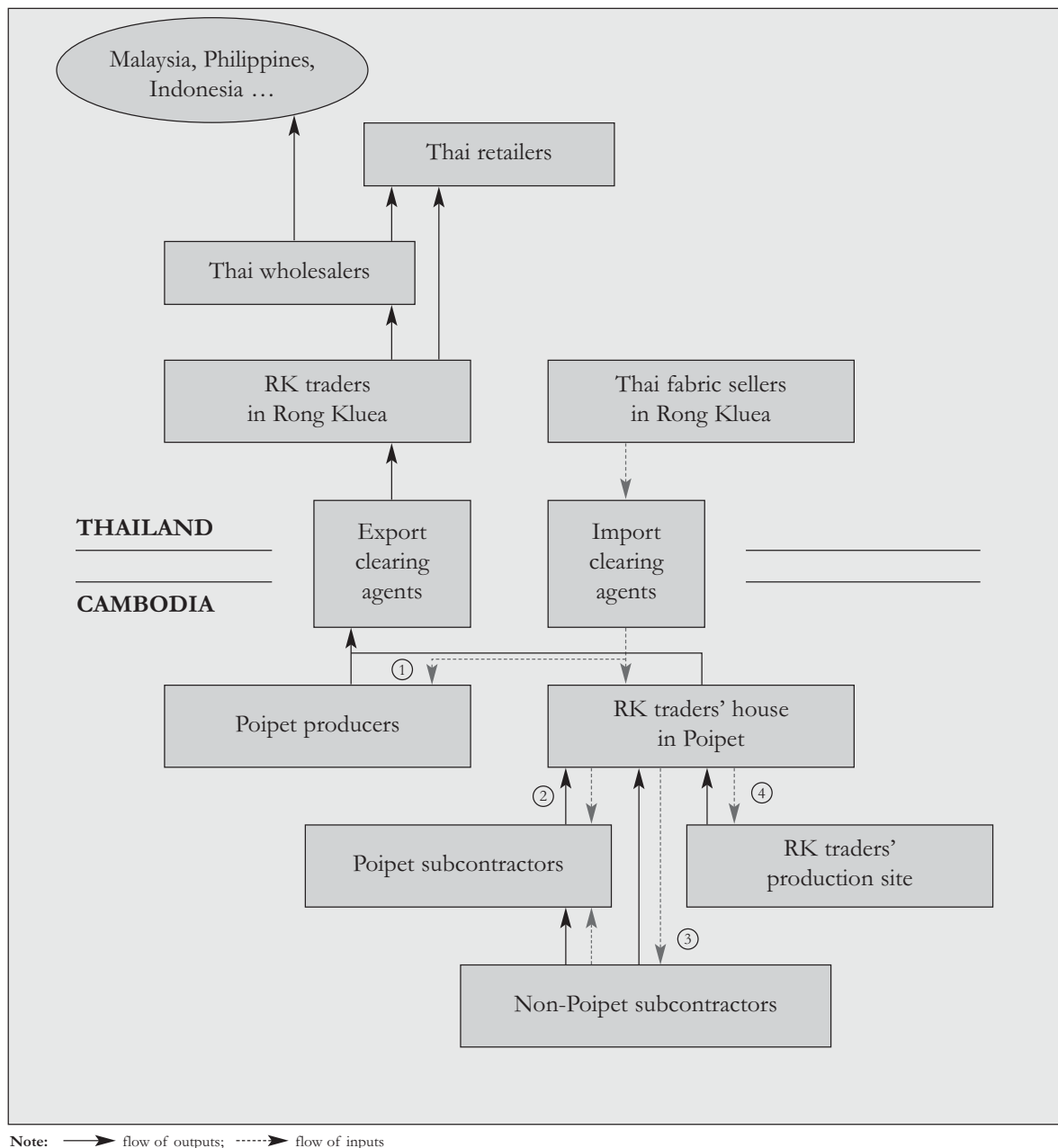
⁵ This figure is a rough estimation based on an interview with a clearing house's owner in Poipet, and is different from the official figure of Camcontrol Office in Poipet: 890,610 tonnes in 2003.

- iv) The garment processing-trading business has become more structured and modernised. There are different layers of traders involved, who work with one another through a well-organised subcontracting system. In addition, almost all garment workers are now equipped with at least one semi-automatic sewing machine, simplifying some tasks like making buttonholes.

2.5.1.2. TRADING AND PROCESSING CIRCUITS

The cross border garment business involves both manufacturing and trading of garments. The production process takes place in the border zones (although beginning to make deep inroads into other provinces) and the final output is sold in Rong Kluea (RK) market to Thai customers. All the fabric is imported from Thailand while other accessories (zips, buttons, labels etc) are brought from Phnom Penh and available in Akeak market in Poipet. These tend to be of Chinese, Taiwanese or Vietnamese origin. Figure 2.1 illustrates the flow of inputs and outputs among trading-processing units.

Figure 2.1: Flow of Outputs and Materials in Ready-Made Garment Business



There are eight groups of actors:

- i) *Thai wholesalers* and Thai retailers go to the RK market once or twice a week to buy shorts and trousers. Some large Thai wholesalers also order goods by phone and are given small amounts of credit by their regular suppliers. They then sell within Thailand, and it is also believed that some of the garments are re-exported, for example to Malaysia, Indonesia and the Philippines.
- ii) *Thai fabric sellers* are traders who procure the fabric from factories in Thailand to sell in the RK market. Normally, they do not provide credit to their customers, although small amounts of credit are sometimes extended to special customers (up to 20–30 percent of the value of the purchase), to be repaid at the time of the next purchase.
- iii) *RK traders* are the most important actors in this business. They sell the final products in the RK market. In addition, they generally purchase the fabric and/or additional accessories, and through the subcontracting system each trader provides work to several subcontractors, and through them to almost a hundred garment workers. Generally, they are Cambodians living in and operating from Poipet. Usually two members of each family are engaged in the family business, making daily trips to and from the RK market.
- iv) *Export clearing agents* are Cambodians who have been in this business for years and built up a relationship with RK traders and with the Cambodian and Thai border authorities. Currently, there are four such operators in the area providing a range of services, including transport, clearing and forwarding and delivery to the RK market.
- v) *Import clearing agents* provide similar services as the export clearing agents, helping to bring fabric from the RK market across the checkpoint to Poipet.
- vi) *Poipet producers* are independent Cambodian entrepreneurs, generally residing in the Poipet area, owning tailoring equipment to stitch garments with the help of 10–20 workers operating from home. They sell the finished products to the RK traders.
- vii) *Poipet subcontractors* are people living in Poipet, equipped with tailoring machines and 20–30 garment workers at home. They obtain cut fabric and additional accessories from the RK traders to produce garments. They complete the production process and are responsible for quality control and timely delivery to the RK traders.
- viii) *Non-Poipet subcontractors* are people living in Banteay Meanchey, Battambang or Siem Reap who provide similar services to the Poipet subcontractors. They obtain ready-cut fabric and additional accessories from an RK trader or Poipet subcontractor and complete the production process with the help of 5–10 garment workers at or near their house. They send back the garments to their clients in Poipet once every 3–10 days.

While trade is carried out primarily by RK traders, the production process has to go through four main channels (Figure 2.1). In channel 1, the Poipet producers purchase fabric from the RK market and complete the production process, selling their output later to RK traders. In channels 2, 3 and 4, it is the RK traders who purchase the fabric (several times a week), and have it delivered to their houses in Poipet. There, the fabric is cut into pieces ready to be stitched into shorts/trousers.

In channel 2, we find an additional layer of subcontracting traders (the Poipet subcontractor) taking charge of the production process. Sometimes, additional layers develop as the production process is moved out to more distant areas. In channel 3, we find some RK traders working directly with several non-Poipet subcontractors, by giving them ready-cut fabric and additional accessories, and demanding that the subcontractors bring the

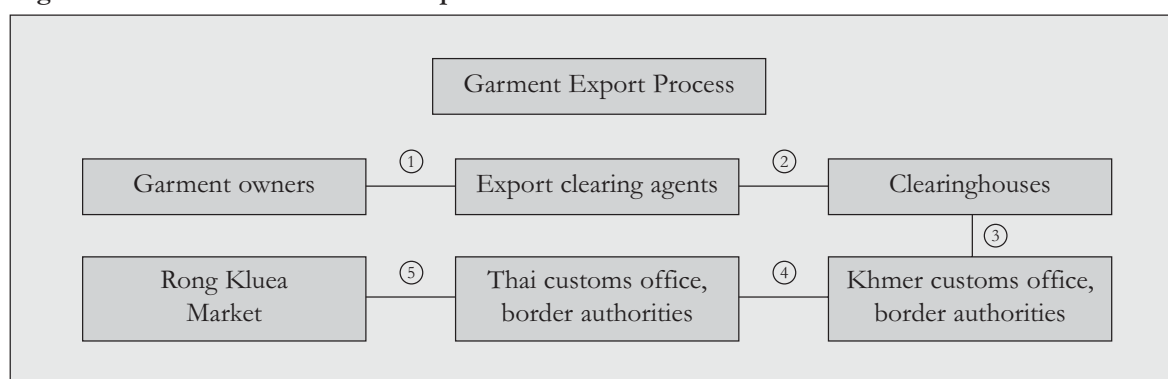
final products back to their house at some agreed date. In channel 4, some RK traders themselves engage in processing-stitching activities in Poipet.⁶

2.5.1.3. TRANSPORT AND CLEARANCE

The clearance of garment exports to Thailand entails four main steps (Figure 2.2). First, the garment owners (i.e. largely RK garment traders) contact an export clearing agent in Poipet to bring the garments from Poipet to the RK market. Second, the clearing agent contacts one of the three clearing houses⁷ in Poipet for processing the shipment. Third, the clearing house contacts the Cambodian customs office and other border authorities and issues a bill to the clearing agent. Fourth, the clearing agent presents the bill, along with the shipment, to the Cambodian border authorities.

At the Thai customs office, the goods are balanced and recorded in the bill. Due money is paid to the Thai customs office immediately after the balancing or later, depending on the agreement between the clearing agent and the Thai officials. Finally, the goods are delivered to the RK traders at their premises.

Figure 2.2: Cambodian Garment Export Process



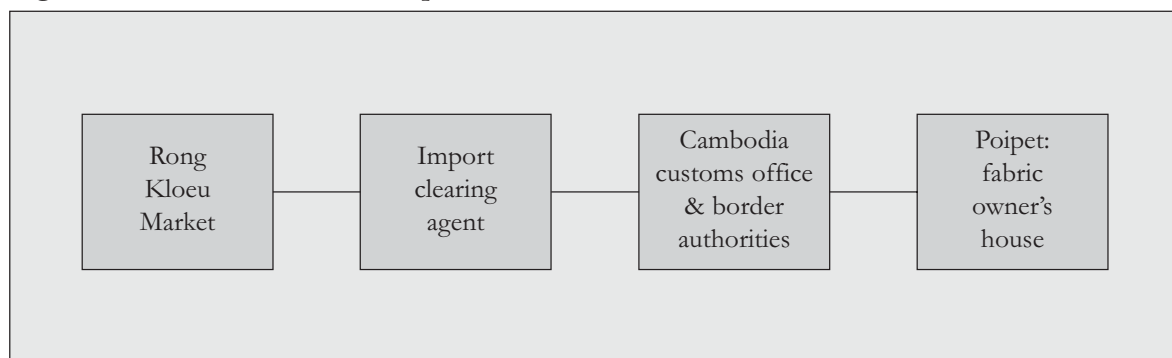
Officially, 25 baht should be paid to the Thai customs office for the clearance of each kg of clothes. In practice, it is reported that 2 baht are paid to Cambodian customs and 10 baht to Thai customs in order to export 1 kg of garments. Further, while crossing the border, the clearing agent manages to earn a little extra by avoiding clearance payments on some clothes—approximately 3–5 percent of the total consignment.

It is much simpler to bring Thai fabric needed to produce garments from the RK market to Poipet. First an import clearing agent contacts the owner of the fabric in the market. The clearing agent brings goods to the border and contacts the Cambodian customs office. It is reported that no payment is made to the Thai customs office or to Thai border authorities. However, 1–1.5 baht per *lar* (0.9 metre) is paid on the Cambodian side (Figure 2.3).

⁶ It should be noted that the complex subcontracting arrangements that have evolved are suggestive of a “principal-agent” relationship in which the principal (e.g. RK trader) subcontracts work to an agent (e.g. Poipet subcontractor or producer). The question is how the principal ensures that the agent will behave (i.e. adhere to the contract). Obviously this problem has been admirably solved here to allow such a rapid expansion of the garment subcontracting system in Cambodia.

⁷ The clearing houses are private companies authorised by the Ministry of Economics and Finance to process exports with the concerned border authorities.

Figure 2.3: Process of Material Imports from Thailand



2.5.1.4. CAPITAL AND FINANCE

Trade in the ready-made garment business requires a fairly big capital outlay but also provides good returns. The initial capital needed to start the business four years ago (in 2000) ranged from 50,000 to 150,000 baht, depending on scale. Most of the capital came from own family sources, as grants or interest-free loans. After four years, and after repayment of family debts, current capital is estimated at 150,000 to 250,000 baht for a small player, and 250,000–500,000 baht for a bigger player, increasing on average, by more than 30 percent per annum.

The aid and support from the family is seen not only in financial terms but also in terms of know-how. For instance, two RK traders reported that they had helped their parents with the family business before getting married, and later started their own trade. The experience helped them to acquire skills and capital to start on their own.

Table 2.3 provides information about monthly incomes and expenses of the garment business. Major expenses include the cost of fabric (35–55 baht per metre), the cost of bringing the fabric from the RK market to Poipet (1 baht per metre), the cost of cutting (1 baht per pair), the cost of subcontracting with additional accessories (25–35 baht per pair), the cost of bringing shorts/trousers from Poipet to the RK market (16 baht per kg), and other expenses in the RK market. With the selling price of 75–85 baht per pair, the RK traders can make a profit of 10–20 baht per pair, on average.

Table 2.3: Monthly Incomes and Expenses of Ready-Made Garment CB Business

Incomes/ Expenses	Unit Price/Cost	A big RK trader		A small RK trader	
		Quantity	Amount (000 baht)	Quantity	Amount (000 baht)
Sales	75–85 baht/pair	3,600–10,800 pairs	288–864	1,800–5,400 pairs	144–432
Fabric	35–55 baht/m	1,800–5,400 m	81–243	900–2,700 m	40.50–121.50
Border-crossing cost of fabric	1 baht/m	1,800–5,400 m	2–6	900–2,700 m	1–3
Cutting cost	1 baht/pair	3,600–10,800 pairs	3.60–10.80	1,800–5,400 pairs	1.80–5.40
Production cost (labour, accessories, subcontract)	25–35 baht/pair	3,600–10,800 pairs	108–324	1,800–5,400 pairs	54–162
Border-crossing of outputs	14–16 baht/kg	1,440–4,320 kg	21.60–64.80	720–2,160 kg	10.80–32.40
Expenses in RK (rents, electricity, <i>phleasy</i> ...)	-	1 stall	7.50	1 stall	5.50
Daily border-pass	10 baht/ person/day	2 persons, 30 days each	0.60	2 persons, 30 days each	0.60
Total expenses	-	-	224.3–656.70	-	114.2–330.40
Net income	-	-	63.7–207.30	-	29.8– 101.60

Source: Interviews with five RK traders in Poipet

It seems that the value added from the business is shared equitably among all the actors throughout the subcontracting system. As indicated in Table 2.4, RK traders make on average a profit of 10–20 baht per pair, and the Poipet and non-Poipet subcontractors earn 4–5 baht per pair. The garment workers in Poipet get 10–16 baht per pair but also have to pay for the high cost of electricity (15–20 baht per kw). The garment workers outside Poipet obtain 6–10 baht per pair but spend less on electricity (5–8 baht per kw).

Table 2.4: Gross and Net Income Per Unit of Some Actors (in baht)

Actors	Per Unit Gross Income	Per Unit Net Income
1. RK trader	75-95	10-20
2. Poipet subcontractor	20-30	4-5
4. Non-Poipet subcontractor	10-16	4-6
5. Garment worker in Poipet	10-16	-
6. Garment worker outside Poipet	6-10	-

Source: Interviews with five RK traders in Poipet

2.5.1.5. CREDIT AND PAYMENT SYSTEM

RK traders have now changed their sales strategy. In the past two or three years, they gave out large amounts of (sales) credit to their Thai customers. Because of the rapidly rising credit default risk, credit sales are now restricted to only the most trusted customers.

On the supply side, the RK traders are able to obtain credit from all their partners engaged in production and transportation: Thai fabric suppliers, export clearing agents, subcontractors and/or garment workers.

2.5.1.6. RISKS AND CONSTRAINTS

External factors such as changes in Thai demand and imposition of rules and regulations on the production and export of garments present threats to the business. First, the business depends heavily on Thai demand, in terms of quantity demanded, quality of inputs and style. Second, the production of garments (inside Cambodia) is seen as a small-scale, family-based activity, and is considered informal in character. There are no registration or regulatory requirements to be met, and no fees or levies have to be paid, whether official or unofficial. These exports are officially recorded as “second-hand garments” at the customs office, providing duty advantages. Any attempt to regulate this business might result in chaos and could put the livelihoods of some 300 RK traders and about 5,000 to 6,000 subcontractors and garment workers⁸ at risk.

On the supply side, it seems that risks are low and the production process is carried out smoothly. Supply of shorts and trousers is ensured because RK traders have several alternative sources of supply.

Increasing competition amongst the garment firms poses a rising challenge for RK traders. There has been a significant increase in the number of traders entering into this business over the last several years. As a result, sales have been declining, and profits have been reduced. Further, credit default risk has increased because debtors have more choices and can easily switch among different traders.

2.5.2. SHOE IMPORTS FROM VIETNAM

2.5.2.1. DEVELOPMENT OF CBT IN SHOE IMPORTS FROM VIETNAM

In the early 1980s, some importers from Bavet brought in shoes from Vietnam on a small scale for sale at local markets (mainly Chiphou market, about 25 km from the border) in Svay Rieng Province. Gradually, more traders entered the business as the domestic market responded well, slowly expanding all the way to Phnom Penh by the mid-1990s.

The importers supplying direct to Phnom Penh use transport agents who provide both transport and (border) clearance services for goods imported from Ho Chi Minh City. The transport agents initially used the HCM-Bavet-PP trade route, but switched to the HCM-Trapeang Phlong-PP trade route after the construction of a bridge in Kompong Cham Province.⁹ It is estimated that today only 20 percent of shoe imports from Ho Chi Minh are brought in through the Bavet gate, destined mainly for provincial markets rather than for Phnom Penh.

⁸ This figure is a rough estimation based on the quantity of garments exported to Thailand through the Poipet checkpoint.

⁹ Following the construction of the Kizuna Bridge, the trade route through Trapeang Phlong checkpoint in Kompong Cham is more direct, while the alternative through the Bavet gate involves a ferry at Neak Loeang, in Prey Veng.

Vietnamese shoes are popular among Cambodian low-income people because of their low price and stylish appearance. They are also well known, however, for poor quality. The peak demand is from September to April, while the lean season is from May to August. The peak demand period covers the two harvesting periods¹⁰ and several special occasions such as the Phchum Ben ceremony, the Water Festival, international New Year, Chinese New Year and Khmer New Year.

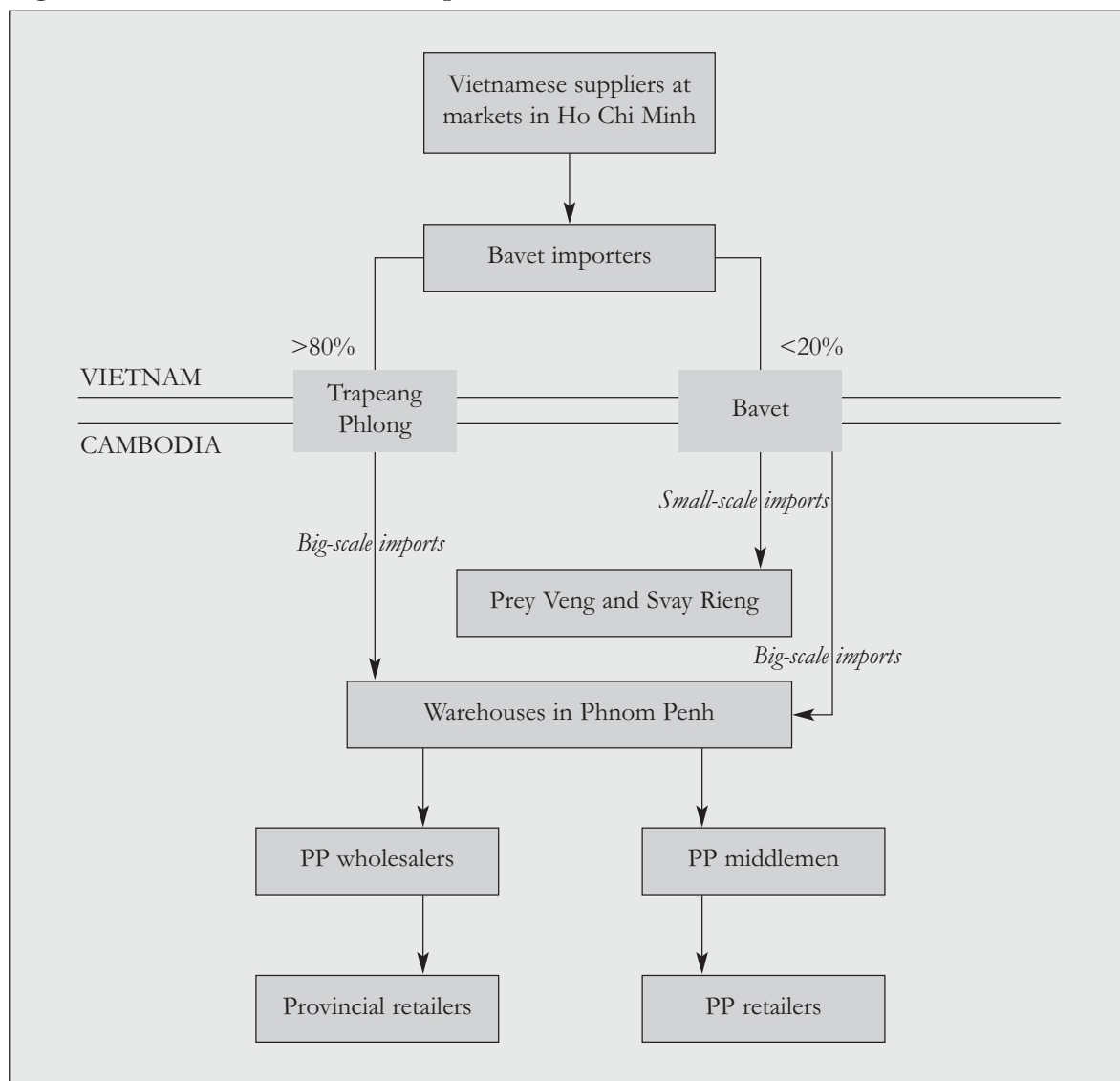
2.5.2.2. ACTORS AND TRADE CIRCUITS

There are six main groups of actors:

- i) *Wholesalers at Ho Chi Minh City* deal in various shoes of different types and styles.
- ii) *Bavet importers* are Cambodians residing in Svay Rieng, particularly in Bavet commune in Chantrea district, mostly women. After obtaining orders from their customers, they usually go to HCM once or twice a week to select fashions, release orders and pay back debts. In addition to direct purchase, telephonic orders are common, especially during the peak season. It is reported that there are some 10 importers supplying local markets in Svay Rieng and Prey Veng provinces, and around 20 supplying directly to Phnom Penh. The order-delivery cycle is fast, typically one day for an order to be placed and one or two days for transportation and delivery in Phnom Penh.
- iii) *Transport agents* provide a number of services in addition to transport—clearance, storage, guarantees and money transfers—specifically for big clients in PP dealing in plastics and steel, for example. Most agents are Vietnamese, except for the biggest, who is Cambodian. Each transport agent has several 20-tonne trucks, one or two warehouses in Phnom Penh and a number of workers. These agents work closely with Vietnamese transport agents on the other side, who provide the same services from HCM to the border.
- iv) *Shoe wholesalers* in Phnom Penh are Cambodians who sell shoes in the Olympic Market. Each of them usually places orders with a Bavet importer, who will normally take three or four days to deliver. At the Olympic Market, the PP wholesalers transact with many provincial retailers.
- v) *Phnom Penh shoe middlemen* obtain shoes from Bavet importers, deliver to some retailers in Phnom Penh and collect money on time on behalf of the importers. Currently, there are around 20 operating from the Olympic Market.
- vi) *Provincial shoe retailers* travel to the Olympic Market to purchase shoes once or twice a month. Retailers who have built up a strong relationship can order over the phone, while transport is carried out by an assigned taxi driver.

¹⁰ Farmers are among the main buyers of Vietnamese shoes. After harvesting, farmers usually want to buy new shoes, especially to prepare themselves for the celebration of special occasions like Khmer New Year.

Figure 2.4: Trade Circuits for Shoe Imports



There are essentially two types of flows (Figure 2.4): a) small-scale, informal operations not involving official clearance at the border to supply local markets in Svay Rieng and Prey Veng. In this case carriers are hired to take the shoes (a dozen pairs per person) across the border; and b) Larger, more formal operations using trucks and involving official clearance to supply Phnom Penh.

2.5.2.3. TRANSPORT AND CLEARANCE

Transport and clearance of small-scale imports goes through several steps. The shoes are transported in taxis from HCM to Krayov market, about eight kilometres from the border in Vietnam. The Bavet importers bring the shoes by rented motorbike or bicycle from the Krayov market, stopping near or in front of Bavet border gate on the Vietnamese side. Next, several Cambodian carriers are hired to bring the shoes on their bicycles across Bavet border gate to the Cambodian side, to avoid payment to the Cambodian border authorities. The shoes are then transported on local “trucks” a distance of 5–10 kilometres from the gate to the importers’ houses. The importers are then able to send the shoes to Neak Loeng market in Prey Veng province. Table 2.5 shows that the total cost of transport and clearance of 500 pairs of shoes is about 483,600 riels (976.2 riels per pair), of which only 163,000 riels (about 34 percent) is spent in Vietnam.

Table 2.5: Transport and Clearance Costs of 500 Pairs of Shoes Imported through Bavet Border Gate (in riels)

	Expenses in Cambodia	Expenses in Vietnam
Transport	105,000	138,000
Custom officials (at the border)	39,000	-
Border police (at the border)	30,000	-
Camcontrol officials (at the border)	15, 600	-
Payment to authorities along the way, in Svay Rieng and Neak Loeang	110,000	-
Vietnamese authorities	-	25,000
Others	21,000	-
Total	320,600	163,000

Note: - means zero value.

In the case of larger imports, transport and clearance responsibilities are subcontracted to a transport agent. Supplies from HCM are loaded into Cambodian trucks in no man's land or near the international Bavet border market, about 2 km from the border on the Cambodian side. Some of these are then transported to PP warehouses and from there to the Olympic Market. Transport agents who use the alternative checkpoint in Kompong Cham charge 5,000 riels per sack of about 60 pairs of shoes, while supplies through Bavet border gate cost 15,000 riels for the same quantity of shoes.

2.5.2.4. COSTS AND BENEFITS

In the case of small-scale imports, the expenses incurred per trip include the cost of purchase and the cost of transport and clearance, amounting to 2.8–8 million riels for 500–1,000 pairs of shoes. The net income per trip ranges from 100,000 to 150,000 riels. Large-scale importers spend between 5.2 and 9.5 million riels for the purchase of 1,100–2,000 pairs. Other costs include expenses in Phnom Penh (39,000 riels), the cost for monthly stall rent in the Olympic Market (100,000 riels), and transport and clearance costs. In total, they earn 160,000–200,000 riels on each trip.

Table 2.6 shows that the net earnings of the main actors are not very different from one another. In fact, the retailers seem to earn more per unit than other groups.

Table 2.6: Net Earnings per Pair by Actors

Actors	Amount in riel
1. Bavet importer	100–200
2. PP wholesaler	100–200
3. PP middlemen	100–200
4. Provincial/PP retailers	300–1,000

2.5.2.5. CREDIT AND PAYMENT

Generally, the larger importers have been in the business longer than the small-scale ones and are able to command superior terms in the market. Thus, big importers adjust their debts with the suppliers once or twice per month (every four to eight purchasing occasions), whereas the small-scale importers have to adjust once per week (every two purchases). In addition, the big importers can get credit for costs of transport and clearance, whereas the small-scale ones cannot.

Importers generally do not sell on credit to their PP wholesalers. In other words, the PP wholesalers have to pay immediately in cash (always in riels) after each purchase. It is customary, however, for retailers to receive credit from their suppliers. It is for this reason that the importers do not want to work directly with the retailers, but only through the PP wholesalers and the PP middlemen, who are better able to handle the associated credit risks (i.e. “the agency problem”).

In most cases importers pay their suppliers directly in HCM in Vietnamese dong. Sometimes, money is sent through transport agents, but this is not the usual practice.

2.5.2.6. RISKS AND CONSTRAINTS

Both large and small importers complained about the tougher business environment faced: higher costs of clearance, higher credit risks and increasing demand for credit sales, in the face of dwindling profit margins.

Bavet importers face some risks and constraints on both the supply and the demand sides. On the supply side, these include: **i)** delayed orders—especially during the peak season, when the suppliers in HCM are under pressure; and **ii)** cash-flow problems—some Vietnamese suppliers require that their customers clear all old debts before offering further credit in the new year. Importers need to have enough money available for repayment at the end of each year, which is often difficult.

On the demand side, there is the problem of not being able to sell all the shoes—around 2 percent of shoes sold to the PP wholesalers are returned, sometimes two weeks after taking delivery. These cannot be sent back to HCM because they are already out of fashion, and have to be disposed of at a hefty discount. Further, the PP wholesalers sometimes refuse to accept their orders owing to sudden price changes.

2.5.3. VEGETABLE IMPORTS FROM VIETNAM

2.5.3.1. BACKGROUND OF THE CBT IN VEGETABLE IMPORTS FROM VIETNAM

Vegetable imports from Vietnam cover almost 70 percent of the vegetable demand in Cambodia, with Cambodian production meeting the remaining 30 percent. The last few years have seen a growing share of Vietnam in this trade, completely displacing Thailand.

The volume of daily imports ranges from 40 to 160 tonnes depending on the season¹¹ (Figure 2.5). The main products imported are onions, red garlic, carrots, potatoes, tomatoes, cabbage, Chinese cabbage, peas and *shou* (a kind of fruit used as vegetable).

Figure 2.5: Seasonality of Vegetable Demand-Supply in Cambodia

Month											
<i>Dec</i>	<i>Jan</i>	<i>Feb</i>	<i>Mar</i>	<i>Apr</i>	<i>May</i>	<i>Jun</i>	<i>Jul</i>	<i>Aug</i>	<i>Sep</i>	<i>Oct</i>	<i>Nov</i>
Season for local vegetables				Not season for local vegetables							
- Low demand for VN vegetables				- High demand for VN vegetables							
- Import: 4–5 trucks (10–20 tonnes per truck) to PP wholesale markets				- Import: about 8 trucks to PP wholesale markets							

Source: Interviews with five wholesalers at Daeum Kor and Chbar Ampov markets, Phnom Penh

¹¹ Estimated on the basis of interviews with traders and officials.

Fresh vegetables from Vietnam are imported through three main crossings: Bavet border gate in Svay Rieng (20 percent), Trapeang Phlong (TP) checkpoint in Kompong Cham (60 percent), and some border gates in Takeo, Kandal and Kampot (20 percent).

Two big vegetable wholesale markets are located in Phnom Penh: Daeum Kor and Chbar Ampov markets. These markets supply Phnom Penh as well as most of the provincial markets in the country. Of the two, Daeum Kor plays the most important role in vegetable distribution and accounts for about 70 percent of the total Vietnamese vegetable supply.

2.5.3.2. TRADE CIRCUITS FOR VEGETABLE IMPORTS FROM VIETNAM

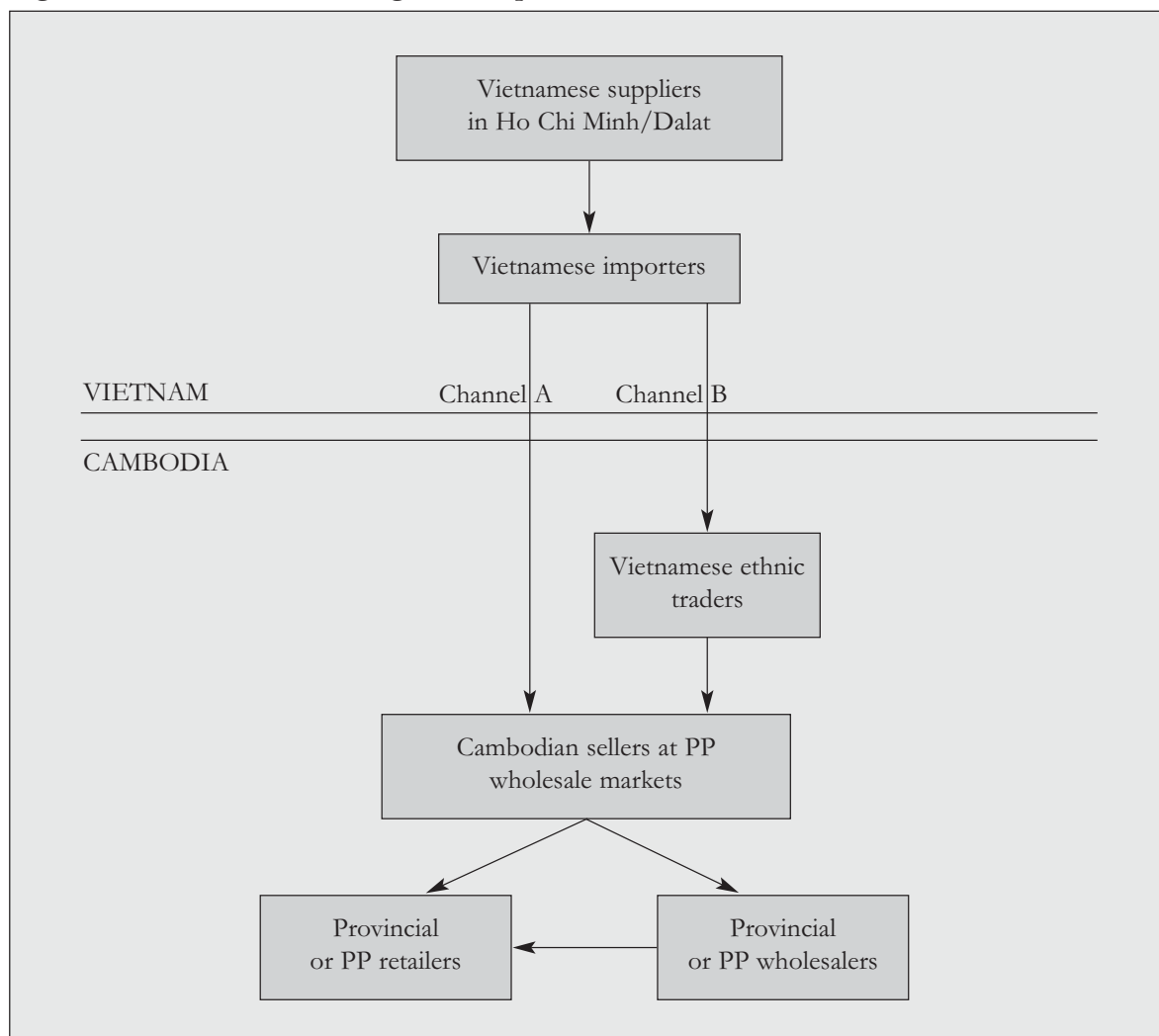
Six groups of actors can be identified in this trade: Vietnamese suppliers in Vietnam, Vietnamese importers, Vietnamese ethnic traders, Cambodian sellers at Phnom Penh wholesale markets, provincial or PP wholesalers and provincial or PP retailers.

The major source of vegetables imported to Phnom Penh is Ho Chi Minh City and Dalat province in Vietnam. There are two main two distribution channels, marked as A and B in Figure 2.6. In channel A, the Vietnamese importers purchase vegetables from Vietnamese suppliers at the source markets and supply direct to the Cambodian sellers at PP wholesale markets. They have their own agents, who generally tend to be their relatives living in Cambodia, to help them with delivery and money collection. Out of the total of nine importers, five are working through this channel. The remaining importers are working through channel B. After the purchase of vegetables from Vietnamese suppliers, the Vietnamese importers sell to one of four ethnic Vietnamese traders, who are their relatives or friends and have lived in Cambodia for many years. These traders then supply the PP wholesale markets.

In general, Cambodian sellers at PP wholesale markets tend to have several suppliers among the Vietnamese importers or the ethnic Vietnamese ethnic traders. Currently, there are some 30 sellers in Daeum Kor market, and about 20 in Chbar Ampov market. The sellers specify the quantity and type of vegetables they want from each supplier. However, in practice they have to confirm the order at least two days before the agreed delivery date, either by phone or directly to the suppliers' agents who deliver vegetables every day at these markets.

At PP wholesale markets, three groups of customers may be identified: big customers, provincial or PP wholesalers and provincial or PP retailers. The big customers are mainly those who purchase vegetables on a regular basis for restaurants. The provincial or PP wholesalers procure from PP wholesale markets for sale to provincial or PP retailers. On average, they earn about 50 riels per kg of vegetables. This group may cease to operate, because provincial or PP retailers increasingly prefer to purchase directly from the Cambodian wholesalers at PP wholesale markets.

Figure 2.6: Trade Circuits for Vegetable Imports from Vietnam



2.5.3.3. FINANCE AND CAPITAL

Vegetable wholesale activity in Phnom Penh does not require large investments because credit plays an important role at each end of the transaction (from suppliers and to consumers). Average capital needed in the business ranges from only 3 to 4 million riels, generally financed from own savings or loans from relatives.

Expenses include the purchase cost of 2–5 tonnes of vegetables every 1–2 days at PP wholesale markets, the monthly rent for stalls (0.64–0.72 million riels), the cost of labour (800 riels per basket of 100–150 kg), and the *pheasy* or market fee (200 riels per basket of 100–150 kg). The profit in total is about 0.8–1.2 million riels per month (Box 2.1).

Box 2.1: Case of a Cambodian Seller in Daeum Kor Vegetable Wholesale Market

The trader has two Vietnamese suppliers and purchases on average two tonnes per day of onions, garlic, carrots, potatoes, tomatoes, cabbage and peas. His customers are from Sihanoukville, Battambang, Kratie, Kompong Chhnang and Phnom Penh. In total, he has some 10 tied customers. His current capital is estimated to be 3 million riels, whereas it was only 1 million riels when he set up business four years ago. Previously, he worked for another wholesaler, from whom he learned about the business and gained valuable access to the wholesaler's customers. In running his business, he gets help from four relatives who live with him. In exchange for this labour, he pays for their schooling and living expenses.

From his two suppliers, he gets credit of up to 70–80 percent of the total value of purchase, to be repaid at the time of the next purchase. He usually pays debts on time. In addition, he also makes a part-credit deal with his big regular customers. The sales to this group of customers represent about 70–80 percent of his total sales. Of these, some 20 percent repay debts late.

Most of his big customers place orders by phone, and delivery is made by a mutually trusted taxi driver.

Expenses in his business include the cost of vegetable purchase (2–3 million riels for two tonnes), the cost of monthly stall rent (640,000 riels), the cost of daily labour (16,000 riels), and the daily *phasy* of 200 riels. On average, he sells 1 kg of vegetables at a 50 riels margin. At two tonnes per day—this happens during the lean season—he earns just enough to feed his family. During the peak season, he purchases about seven tonnes per day, and earns on average 800,000–1,200,000 riels per month.

The system of supplier-customer credit is widely used among all actors. Payment is carried out in the following three ways:

- (a) Some big sellers at PP wholesale markets make part-credit deals with Vietnamese importers and repay debts once a week or at every two to three shipments, in the following steps: **i)** a Vietnamese importer's agent gives the seller a receipt, called a *bon*; **ii)** the agent contacts an exchange house in Phnom Penh; and **iii)** the exchange agent collects money from the wholesaler and adds a mark-up of \$4–5 for every \$1,000 transferred to his agent, who in turn delivers the money, in *dong*, to the importer in Vietnam.
- (b) The majority of the sellers at PP wholesale markets repay their debts in cash, directly to their suppliers, i.e. Vietnamese importers.
- (c) There are two ways that the provincial or PP wholesalers and retailers pay back suppliers: **i)** payment in cash directly at PP wholesale markets; **ii)** cash transfers through an agreed taxi driver, who carries vegetables from Phnom Penh to the provincial markets. It is reported that there is no risk involved in this kind of transfer because the two parties have been able to find and agree on a reliable taxi driver.

2.5.3.4. TRANSPORTATION AND CLEARANCE

Transportation of vegetables needs to be done quickly and carefully because these are perishable items that cannot be stored for long. For this reason they are transported separately from other goods that are imported from Vietnam.

Table 2.7: Transportation and Clearance Costs through Bavet and Trapeang Phlong Border Checkpoints

Activities	Bavet	Trapeang Phlong
Capacity	10–20 tonnes	10–20 tonnes
Time spent	Starts at 8 am and arrives at Daeum Kor market at 4:30 pm.	Starts at 7 am and arrives at Chroy Chongva bus station at 6 pm. Allowed to enter the city at 10 pm.
Transportation fee	100,000-150,000 riels	150,000-200,000 riels
Mobile checkpoints along the way	Four checkpoints (one at Svay Rieng, two at Neak Loeng, in Prey Veng, and one at Boeung Snor in Kean Svay district, in Kandal). At each point, except the border point, 20,000 riels are paid to economic police and 30,000 riels to customs officials.	Three checkpoints (one at Prek Leap, two in Kompong Cham). At each point about 40,000-50,000 riels are paid to economic police and customs officials.
Customs clearance at the border	Unknown	Unknown
Other expenses	Chbar Ampov bus station: 2,000-3,000 riels	Chroy Chongva bus station: 400,000 riels

Source: Interview with an independent truck owner at Daeum Kor Market on 09 March 2004

The trade route used in the transport of vegetables changed from the Bavet gate to the Trapeang Phlong gate after the construction of a new bridge in Kompong Cham in 2002. This new trade route is reported to have both advantages and disadvantages. On the positive side, the new route is part of the direct road network from Ho Chi Minh City to Phnom Penh, and involves lower clearance costs and fewer ad hoc payments along the way. The total cost of transport and clearance through Bavet is about three times higher than that through the TP checkpoint (Table 2.7). On the negative side, big vehicles are prohibited from entering the city in the daytime, which causes delays and can sometimes result in spoilage of vegetables. Traders, however, usually manage to bypass this provision by paying off relevant authorities (in this case, staff of the Chroy Chongva bus station).

2.5.3.5. RISKS AND CONSTRAINTS

Interviews with some sellers in the PP wholesale markets suggest that their sales volumes have remained stagnant in the face of increased competition, with many local traders importing vegetables directly.

Default on payment is a risk, more so for the sellers at PP wholesale markets than for suppliers because the latter know their customers better than the former. According to a respondent, “Out of ten customers who buy on credit, there are two defaults.”

Cambodian sellers at PP wholesale markets tend to have a standing arrangement with their suppliers, agreed orally but requiring confirmation at least two days in advance of the delivery date. The ordering and delivery system generally functions very well, except when the harvest is affected by adverse weather conditions and poor quality of crops. Thus, the sellers potentially face additional risks relating to quality and price.

Box 2.2: Case of an Ethnic Vietnamese Trader Engaged in Vegetable Imports from Vietnam

Min, a Cambodian of Vietnamese origin, has been in the vegetable import business for several months. Previously, he was an independent distributor on behalf of another Vietnamese importer.

Currently he owns a house in Bavet Kandal commune, in Chantrea district of Svay Rieng province and rents a house in Phnom Penh. He owns a 16-tonne truck. He imports vegetables once every two days and delivers them to five wholesalers at Daeum Kor market. Besides taking supplies from Min, the five wholesalers also procure vegetables from other importers.

Min gets his supply from his brother-in-law, who in turn gets the vegetables from Dalat province, about 300 km from Ho Chi Minh City. Vegetables in Ho Chi Minh City cost about the same as in Dalat province, but are less fresh. Given the low transportation costs in Vietnam, such distance is not very significant. The brother-in-law hires a transport agent (who is also his younger brother-in-law) to bring the vegetables to Min in no man's land on the Cambodia-Vietnam border near the Bavet border gate.

Min's truck goes to no man's land to collect the vegetables. He lets Vanna, a clearance agent in Bavet, clear all the official and unofficial payments at the border. Each trip's load of 16 tonnes is worth around 10 million riels, and the total cost of the clearance at the Bavet border gate is about 390,000 riels. Only 50 percent of this amount is for taxes, the rest being informal fees, the so-called money for rice to the officials, including customs officials, Camcontrol officials, officials of the Frontier Defence Department, the economic police and officials of the Office of the International Border Checkpoint of Bavet. Min rarely goes to Bavet for his business and usually stays in Phnom Penh, instead sending his nephew if necessary.

In addition, Min pays about 500,000 riels to get his vegetables to Daeum Kor market from the border. This amount is paid to customs officials and economic police along the way (some checkpoints in Svay Rieng town, and some at Neak Loeang in Prey Veng province). At each checkpoint, about 40,000–100,000 riels is paid. When he was an independent distributor, he made 350,000 riels in each trip. This amount is net of the ferry fee of 70,000 riels but excludes remuneration of one driver and one driver's assistant/conductor.

In one month Min brings in 10-15 shipments. Only three shipments are through the TP border checkpoint, while the rest are through the Bavet border gate. The total cost of transportation and customs clearance of vegetables imported through the TP border checkpoint is 100,000 riels—less than that through Bavet.

For both trade routes Min pays a “rice” fee of 10,000 riels per trip to Daeum Kor market officials. On average, he can make a profit of about 100,000–200,000 riels on each trip.

Min gets credit from his older brother-in-law, who also gets a certain amount of credit from his suppliers in Dalat, and he usually pays debts off every three to five trips through his nephew. The nephew converts the riels into Vietnamese dong in Bavet to pay the suppliers. From Min's point of view, there is no risk in such money transfers because he pays small amounts each time (around 10 million riels).

On the demand side, Min gives a certain amount of credit to his customers, i.e. the wholesalers at Daeum Kor market. The credit that Min gives to each customer can be as much as 4–9 million riels.

He complains that the business environment is getting tougher as the number of suppliers in Daeum Kor market has increased.

Min is able to closely monitor both the demand and supply sides of the market for vegetables, both in Cambodia and Vietnam, through his close network of traders and relatives.

2.5.4. PROCESSED FOOD IMPORTS FROM THAILAND

2.5.4.1. BACKGROUND OF PROCESSED FOOD IMPORTS FROM THAILAND

An enormous amount of processed foods consumed in Cambodia are imported from Thailand. These imports can be categorised into three groups: **i)** third-country products, mostly Malaysian and Singaporean foods (a small share); **ii)** items provided exclusively to certain companies for local distribution such as milk (powder and liquid), MSG, sugar, beer, branded instant noodles; and **iii)** smuggled processed foods such as canned/bottled soft drinks, fruits, vegetables and processed meats, cooking oil, snacks, candy, biscuits, instant noodles and spices.

The Poipet gate is officially one of the main gateways through which processed foods are imported from Thailand. Foodstuffs were estimated at 27 percent of total imports through the gate, and about 23 percent¹² of the total foodstuffs imported into Cambodia in 2003. In practice traders continually switch between gates (both official and unofficial ones) in Banteay Meanchey and Battambang to avoid making higher payments (both official and unofficial) to a number of related border and/or mobile authorities along the transport route.

Imports of third-country products and of products exclusively assigned to certain companies are carried out through official lines, although it is believed that this involves unofficial payments and/or tax avoidance. It is hard to quantify the level of such payments. The import of smuggled items varies in form and complexity. This involves a number of actors ranging from a group of cart carriers to more sophisticated transport agents who have built up relations with border authorities or high-ranking officials in Phnom Penh.

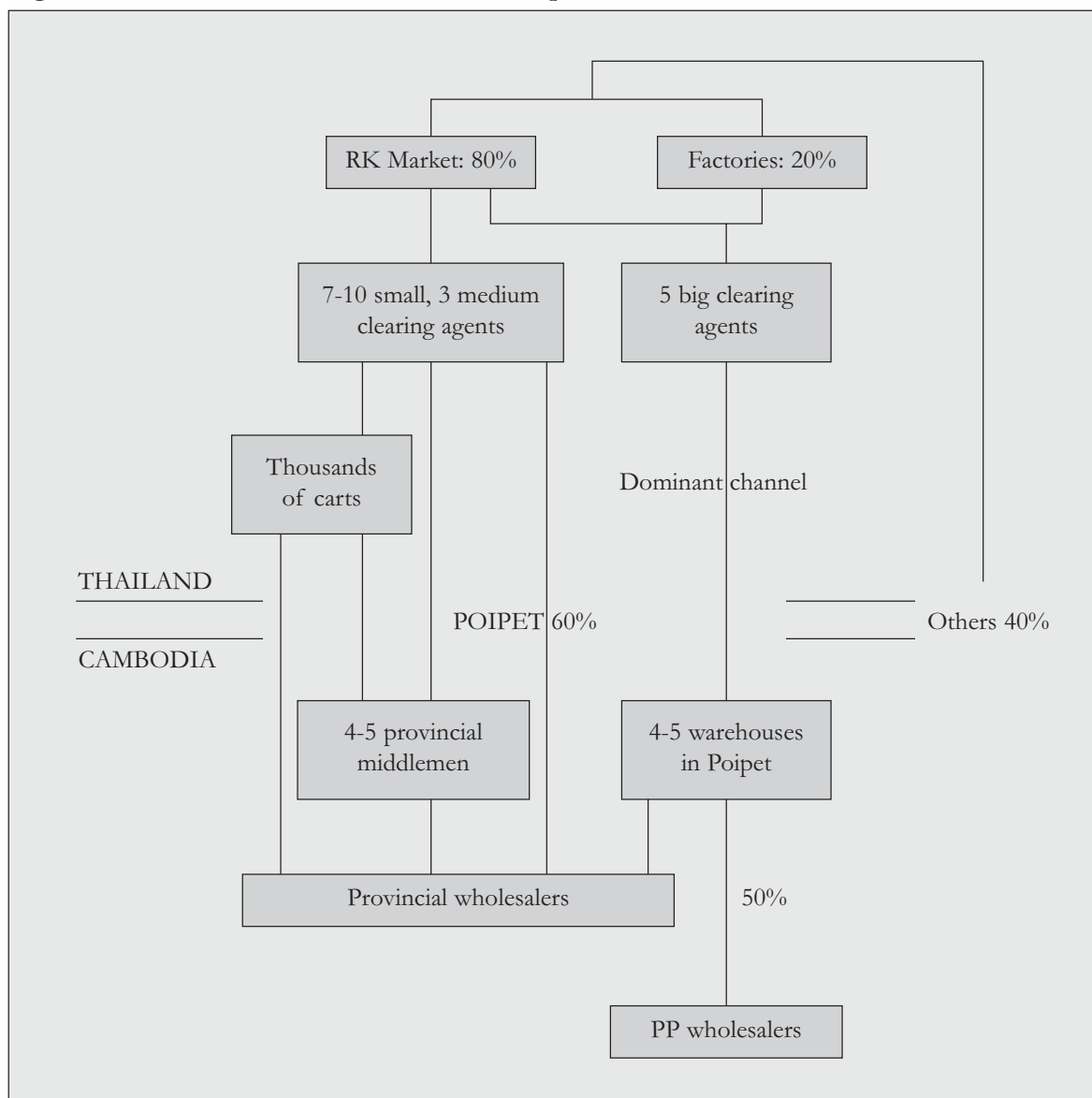
2.5.4.2. TRADE CIRCUITS OF PROCESSED FOOD IMPORTS FROM THAILAND

The RK market supplies a wide range of processed foods, including products made from rice, bottled soft drinks, snacks and biscuits. Some big traders obtain their supplies directly from Thai factories.

Varying with the trading scale and the level of complexity, this trade is based on a special network built up among the suppliers (Thai sellers at RK market or Thai factories), the transport and clearing agents (Cambodians responsible for transport, clearance and money transfer services) and the customers (Cambodian retailers and wholesalers in Banteay Meanchey, Battambang, Pursat, Siem Reap and Phnom Penh).

¹² This figure is generated from the data of the Customs and Excise Department and Camcontrol office of Poipet.

Figure 2.7: Trade Circuits of Processed Food Imports from Thailand



We can classify these imports broadly into two main channels: **(a)** large-scale operations using 30-tonne trucks or big six-tonne carts, involving official clearance; and **(b)** small-scale operations facilitated by small clearing agents and cart carriers.

Channel 1: Imports Facilitated by Big Clearing Agents

In general, each big clearing agent makes a deal with several big processed food wholesalers residing in Phnom Penh, Battambang, Pursat or Banteay Meanchey provinces. The wholesalers order goods either through the agent or directly from their suppliers, and take delivery at home. They usually pay an agreed lump sum to cover the costs of transport and clearance (both official and unofficial fees at the border and along the way).

Personal relations are very important in trading through Poipet. Currently, four of the big clearing agents permanently use the Poipet gate because they have a special relationship with important border authorities in charge of the checkpoint and are able to obtain favourable terms. These relationships are less important at other border checkpoints, where the less influential agents go because of the Poipet “oligopoly.”

Neither the big clearing agents using the Poipet gate nor the agents using other checkpoints own the goods, nor do they require much capital. Over the years, Phnom Penh and provincial wholesalers have built up strong rapport with the big clearing agents and the Thai wholesalers in the RK market. This has generated confidence and trust, which in turn has enabled a well-ordered, safe and rapid trading system to emerge—despite some oligopolistic elements as noted.

Channel 2: Small-Scale Imports

The small-scale operation has two sub-channels: small clearing agents and cart carriers.

Small Clearing Agents

Some cart carriers can develop into small clearing agents. There are 10 operating at the moment in Poipet, specialising in specific items of trade. They clear and transport goods on behalf of middlemen who in turn collect orders from several small provincial wholesalers in the provinces. Depending on the degree of trust, some agents also play a role in money transfers. Some small clearing agents take full responsibility for bringing the goods across the border, but others subcontract the work to several other cart carriers.

Cart Carriers

Processed foods flowing through this channel end up in Poipet in the first instance. A number of retailers and wholesalers pay money in advance daily to several cart carriers to purchase certain items from the RK market.

There are thousands of Cambodians involved in the carrying business, travelling back and forth every day through the Poipet checkpoint. Most of them own a small cart, hiring themselves out at 20–25 baht per day. They buy a border pass at 10 baht per ticket, which allows them to cross the border up to three times a day. On each trip they carry goods for two or three clients, earning 30 baht each time.

2.5.4.3. OBSERVATIONS

The information for this case study was much harder to collect than for the other three cases (and less complete). This is due to: **(a)** a higher level of trade activities in general in Poipet so that competition is fierce and traders tend to be suspicious of “too many questions”—Poipet is viewed as a good place for people to earn a living and become prosperous easily, but also as a risky place where people are highly suspicious of each other; **(b)** the main actors in the processed food trade are big (in terms of capital) so the degree of involvement in unofficial or illegal activities for each actor is also relatively big. For instance, the clearing business involves a close, special relationship between the agents and border authorities, and traders are reluctant to discuss this; and **(c)** the dominant trading channel is used for some high-tax items, which the agents prefer not to discuss.

2.5.5. SUMMING UP

Our case studies illustrate how CBT is carried out and describe the formal and informal mechanisms and rules that enable transactions. These also provide an insight into the complexity (or otherwise) of alternative trading arrangements and their implications for the local and the broader economy. These help us to speculate about the evolving nature of CBT and the development of regional market integration.

Thai Trade

In terms of sheer volume and number of participants, CBT with Thailand is by far the most important. Unrecorded flows are large, as is easily brought out by comparing Cambodian and Thai trade data¹³.

¹³ The total trade during 1999–2003 was \$2,434.5 million according to the Thai Ministry of Commerce, 2004, whereas it was only \$1,104 million based on the Cambodian Ministry of Commerce, 2004.

Our case study of garment processing and trade reveals a complex but well-organised system of subcontracting that utilises mainly Thai inputs to manufacture garments for re-export to Thailand.

Judging by its growth, this is a dynamic sector, employing thousands of people, not only along the border but well inland. The most interesting aspect of the trade is the complete informality with which it is practised, but it is nevertheless complex enough to ensure that all basic trade objectives are met: fast delivery, good quality, competitive prices and low risks. The sector has been left largely unregulated, and this may hold the key to its success.

The case study of imports of processed food from Thailand reveals another aspect of CBT. Two clear channels are reported. The dominant channel is tied to Phnom Penh but appears to be controlled by a handful of large traders/clearing agents. No importer of any significance can hope to avoid dealing with one of these agents, whose role incorporates all the different stages of imports up to delivery in Phnom Penh. The key to this dominance is the personal relationship forged with border authorities, enabling the agents to make a considerable saving, but also preventing others from entering the clearance business. This could be considered the more formal channel.

Curiously, the other local channel (basically targeting local, border markets) is allowed to function informally. While this channel is small in terms of volume and value, large numbers of very poor people are engaged in this activity. The system, it would seem, allows the poor a share of the pie—even if it is very small.

In the absence of formal regulations or institutions, what makes the system tick? A crucial factor seems to be the dominant role played by Khmer traders or agents operating from both sides of the border. Even though the trade is between Cambodia and Thailand, most of the actors on either side are Khmer. The key actors here are the RK traders inside Thai territory, who are able to unite Thai suppliers and consumers with Cambodian traders. Clearly, a regulatory regime that allows Khmer people to trade inside Thailand is a crucial ingredient to this success story.

Vietnamese Trade

CBT at Bavet is in decline in the face of stiff competition from other land ports. Our two case studies reveal a completely informal system, increasing competition and growing risks—particularly with regard to credit. Unlike with Thai trade, Khmer traders do not dominate the Vietnamese trade. In fact, as one of the case studies shows quite graphically, the entire trading circuit is closely controlled by traders who are frequently related to each other by blood or marriage. Thus, much of the CBT with Vietnam is controlled by Vietnamese or ethnic Vietnamese living in Cambodia.

From both Thai and Vietnamese CBT, there are suggestions that:

- (a) Official and unofficial costs of border clearance are rising, especially for small traders.
- (b) There is greater risk of credit default as competition rises and traders have a greater choice of business partners. The basic guarantee of credit in trade is the need for repeat transactions. A debtor is more likely to renege on his debt if he does not have to go back for a repeat transaction with his creditor, i.e. when he is able to find an alternative supplier.
- (c) Personal links and “trust” have substituted for missing institutions, including financial, enforcement and risk-bearing institutions. These have inherent limitations, the most important of which is the inability to expand rapidly. It takes time to build trust.

2.6. WELFARE IMPACT OF CBT

Village and household surveys were conducted in Chantrea district, adjoining the Bavet border gate with Vietnam. In Ou Chrov district along the Thai border near Poipet, only village-level surveys were fielded—household surveys were originally planned but later abandoned due to resource constraints. Table 2.29 (annex) provides a list of villages in Ou Chrov and Chantrea districts selected for the study. This section is based on the survey findings and is designed to evaluate the socio-economic and welfare impacts of CBT on local communities.

Impact assessment is based on direct evidence of involvement in employment or activities that are linked to CBT, their contribution to total incomes/earnings and subjective perceptions of the people themselves of the extent of their involvement in and dependence on CBT.

2.6.1. RESOURCE ENDOWMENTS

2.6.1.1. HUMAN RESOURCES

Chantrea is considerably smaller in population than Ou Chrov, the population of the latter being almost four times that of the former. This also means there are bigger villages in Ou Chrov (more than 800 households/village on average) than in Chantrea (around 250 households/village). Average household sizes are similar in the two areas and consistent with overall rural figures (Table 2.8).

Table 2.8: Demography, Illiteracy and Schooling

	Ou Chrov District	Chantrea District	Rural (1998)
Total population	84,952	24,956	n/a
Total household number	16,305	4,977	n/a
Average household number/village	815	249	n/a
Average household size	5.20	5	5.10
Female-headed households (%)	8.40	17.60	25.70
Divorced/separated households (%)	0.18	0.70	n/a
Female population (%)	50.30	52.60	51.90
Sex ratio	98.60	90.30	92.50
Dependency ratio	0.58	0.30	0.45
Disabled females (%)	0.40	0.60	n/a
Disabled males (%)	1.40	1	n/a
Girls attending school (age 7–18) (%)	78.70	75.60	49
Boys attending school (age 7–18) (%)	83.90	74	59
Girls illiteracy rate (age 7–18)	13.70	5.10	n/a
Boys illiteracy rate (age 7–18)	12.80	3.70	n/a
Female adult illiteracy rate (over 18)	13.70	23.20	45.70
Male adult illiteracy rate (over 18)	12.20	16.20	22.40

Note: n/a means not applicable

With respect to most of the demographic, illiteracy and school-related indicators presented in Table 2.8, the two districts are quite different from one another as well as from the overall rural situation. Thus school attendance rates for both areas are considerably higher than for overall rural Cambodia, and illiteracy rates for both males and females are much lower. The sex and dependency ratios are considerably higher in Ou Chrov than in both rural Cambodia and Chantrea district. In general, Ou Chrov appears to be better off in terms of human resources, judging from the demographic and illiteracy figures.

There has been a considerable flow of people into Ou Chrov over the last five years, mainly from the refugee camps along the Thai border that provided shelter to many Cambodians during the period of insurgency. These camps closed down after the cessation of hostilities, prompting refugees to relocate. It is not surprising that many settled in and around the border zones.

According to our estimates, over 21 percent of households in Ou Chrov belong to the category of recent settlers (moved in during the past five years). Interestingly, around 7 percent of households moved out of Ou Chrov over the same period, in search of less densely populated areas or work opportunities. By contrast, population movements in and out of Chantrea have been insignificant (Table 2.9).

Table 2.9: Population Movement

	% of hh moved in	% of hh moved out	% of hh moved in-out
Chantrea	0.50	0.84	0.36
Ou Chrov	21.54	14.24	1.88

2.6.1.2. LAND AVAILABILITY

Ou Chrov district is relatively land scarce due to a heavy population density; per capita and per household agricultural land owned are 0.01 ha and 0.58 ha, respectively. Chantrea seems better off in this respect, with per household and per capita agricultural land owned of 1.84 ha and 0.37 ha respectively. Residential land ownership differentials between the two areas are also striking, at 0.53 ha and 0.08 ha for Chantrea and Ou Chrov respectively.

The incidence of landlessness in Ou Chrov is also high. Almost 21 percent of households have no residential land and over 50 percent own no cultivable land, whereas in Chantrea the figures are 3 percent and 18 percent (Table 2.10).

Table 2.10: Land Ownership

	Avg. resid. land per hh, ha	Avg. agr. land per hh, ha	Total resid. land, ha	Total agr. land, ha	% of hh having no resid.	% of hh having no agr. land	% irrigated agr. Land
Chantrea	0.53	1.84	2655.07	9175.90	3.00	18.38	0.06
Ou Chrov	0.08	0.58	1119.92	8407.00	20.94	51.08	0.11

Apart from the population pressure faced by Ou Chrov because of the need to resettle large numbers of displaced persons, another factor that may have contributed to relative land scarcity for agriculture is an active land market. There is anecdotal evidence that areas around Poipet have been subject to intense speculative activity and a surging demand for land for non-agricultural use. The data, however, failed to pick this up, as we find that the

land market activity in our two areas is not very different. Thus, in Ou Chrov 4.8 percent of households accounted for the sale of 9 percent of the land over five years, while in Chantrea, 5.9 percent of households sold 3 percent of the land over the same period. On average, each selling household sold 1.13 ha in Chantrea and 1.09 ha in Ou Chrov. The reasons behind the land transactions appear quite similar in both districts: paying for medical treatment, debt, food etc. In the case of Ou Chrov, however, moving has been identified as an important additional factor explaining land sales, confirming the more volatile nature of population dynamics there (Tables 2.11, 2.12).

Table 2.11: Land Sales in Chantrea

Village Name	% of hh sold land in the past 5 years	% of land sold	Reasons for land sale
Banla S'et	8.2	1.6	food & hh consumption, paying debt (CHC, ACLEDA)
Baray	4.7	3.9	food & hh consumption
Bavet Kandal	3.5	2.0	high price
Bavet Leu	10.1	4.4	sickness, paying debt
Chantrea	4.4	3.7	moving, sickness
Chek	-	-	n/a
Chrey Thom	2.5	1.7	food & hh consumption, paying debt (ACLEDA)
Daun Tey	3.1	0.7	paying debt, sickness
Koh Kou	5.8	1.8	sickness, food & hh consumption
Kork Lvieng	3.4	4.6	paying debt, doing business
Prasat	19.5	7.7	high price, food
Prey Angkunh	7.6	3.7	lack of foods, paying debt (CHC)
Svay Kuy	2.5	1.3	food & hh consumption, sickness
Ta Boeb	-	-	n/a
Ta Pov	2.4	2.1	high price
Thnal Kaeng	29.4	14.3	paying debt (CHC, PRASAC, ACLEDA)
Thnanh	15.6	9.0	food & hh consumption, paying debt (CHC)
Tong Mau	5.9	2.9	sickness, food & hh consumption, paying debt
Trapeang Bon	2.4	1.7	sickness, paying debt
Trapeang Thlok	6.7	3.6	sickness
Average	5.9	2.8	

Note: "n/a" means no data. "-" means zero.

Table 2.12: Land Sales in Ou Chrov

Village Name	% of hh sold land in the past 5 years	% of land sold	Reasons for land sale
Baliley	n/a	n/a	n/a
Dong Aranh	-	-	n/a
Kbal Spean	n/a	n/a	n/a
Kilou Lekh Buon	1.7	10.2	moving
Kompong Reab	1.8	1.5	sickness, paying debt
Kuttaksat	23.4	10.4	sickness, high price
Naka Chhay	16.2	10.3	food & hh consumption
Nimit Muoy	3.2	0.8	sickness, selling to relatives who have just moved
Nimit Thmei	10.5	3.7	moving
Or Neang	27.5	10.3	moving
Ou Russey	5.4	1.8	moving, sickness
Phkoam	5.3	1.9	foods and hh consumption, sickness
Prey Chan	4.7	n/a	sickness, paying debt
Prey Kob	35.1	n/a	n/a
Souphi Tboung	2.6	0.2	paying debt
Souriya Thmei	11.7	21.1	moving
Ta Chrueng	2.2	1.3	sickness
Tuol Pongro	n/a	n/a	n/a
Tuol Prasat	8.7	8.2	moving
Yeang Thmei	n/a	n/a	n/a
Average	4.8	9.0	

Note: “ n/a ” means no data. “ - ” means zero.

The more agrarian character of Chantrea is borne out by the fact that 18 villages have reported wet rice cultivation while six have reported dry season rice, out of 20. On the other hand, only wet rice cultivation has been reported from Ou Chrov, from 14 villages out of the total 20 (Table 2.13).

Table 2.13: Main Crops

Main crops	Chantrea		Ou Chrov	
	No. of villages	Yield (tonne/ha)	No. of villages	Yield (tonne/ha)
Wet rice	18	1.23	14	1.43
Dry rice	6	2.03	-	-

2.6.1.3. ANIMAL RESOURCES

Animals play an important role in the rural economy as a source of income and investment as well as a form of savings. Animals are also used for draught power and transport. Thus, next to land, animal wealth is often the most useful indicator of rural wealth, especially in an agrarian context.

Ownership of large animals (cattle/buffaloes) was found to be negligible in Ou Chrov, less than 2 percent of households reporting positively. This compares with around 53 percent of households in Chantrea reporting large animal ownership. Pig raising and rearing of poultry are popular activities in rural Cambodia, and this is also true for our two areas. However, Chantrea villagers are much more involved in these activities than is the case in Ou Chrov. Thus around 84 percent and 50 percent of Chantrea households reported ownership of poultry and pigs compared to 43 percent and 23 percent in Ou Chrov (Table 2.14).

Table 2.14: Main Animals

Main Animals	Chantrea		Ou Chrov	
	No. of villages	% of hh	No. of villages	% of hh
Cattle/Bufaloes	20	52.60	12	1.74
Chickens/Ducks	20	84.09	20	43.34
Pigs	20	49.71	19	23.31

The picture that emerges so far from the pattern of land and animal ownership is that Chantrea is much more agrarian in character than Ou Chrov, inhabitants in the latter being much less dependent on agricultural and animal rearing activities. This would suggest that non-farm activity and employment are likely to be much more important in Ou Chrov than in Chantrea.

2.6.2. ACCESS TO INFRASTRUCTURE AND SERVICES

2.6.2.1. CREDIT AND LOANS

Two villages in Chantrea and four in Ou Chrov (out of 20) reported the existence of a bank or other entity within the village operating a credit programme. In another six villages (three in each area) a bank or NGO is available within 5 km. The average distance from a village to a bank/NGO is 21.4 km for Chantrea and 15.5 km for Ou Chrov.

It is quite remarkable that the primary sources of credit reported in both areas are formal or semi-formal (NGOs) in nature, contrary to the prevalent notion that informal credit markets and “friends and relations” are the most important port of first call. Recent evidence generated by CDRI from a sample of households from six provinces lends credence to these findings, indicating that formal sources of credit meet 60 percent of demand and semi-formal sources (NGOs) another 23 percent.

Table 2.15: Access to Credit (in number of villages)

	Bank	NGO	Friends/ Relatives	Money Lenders	Self-help group
Chantrea	11	4	2	2	1
Ou Chrov	11	4	-	5	-

While the broad picture for the two areas is similar, it is nevertheless interesting to note the higher dependence in Ou Chrov on moneylenders.

In terms of credit utilisation patterns, it is hard to read much into the highly aggregated, village-level data based on key informants. Nevertheless, it seems that the most common uses are for farming or animal raising, business and trade and, in the case of Chantrea, food consumption (this was not reported from Ou Chrov).

2.6.2.2. ACCESS TO SCHOOLS AND MARKETS

In terms of access to educational infrastructure, Ou Chrov appears to be much better placed. Most Ou Chrov villages (17 out of 20) have a primary school within walking distance, with a fifth of the villages reporting a junior high school. Only one village has a high school close by. In Chantrea, on the other hand, 12 villages (out of 20) reported a primary school close by, while one reported a junior high school in the village. No high schools were found.

Table 2.16: Access to Schools

School	Chantrea		Ou Chrov	
	No. of villages	Avg. distance km	No. of villages	Avg. distance km
Primary	12	1.70	17	1.20
Junior high	1	5.50	4	5.50
High	-	14.00	1	24.20

Market infrastructure endowments in Ou Chrov too are found to be superior to those in Chantrea. More than 50 percent of the villages in Ou Chrov report having a food shop or restaurant while only two (out of 20) villages in Chantrea reported the same. Similarly, eight villages in Ou Chrov reported the presence of a permanent market, and seven villages declared the existence of a nearby shop selling manure and agro-chemicals. The numbers for Chantrea are far fewer, two and one respectively (Table 2.17 below).

Table 2.17: Access to Markets (in number of villages)

	Food shop/ Restaurant	Avg. distance, km	Permanent market	Avg. distance, km	Shop selling agri. inputs	Avg. distance, km
Chantrea	2	7.10	2	7.80	1	7.40
Ou Chrov	11	7.80	8	7.30	7	13

2.6.2.3. OTHER SOCIAL SERVICES

Access to basic services like water and electricity are uneven between the two areas. Different hinterland characteristics have also led to the fielding of quite different sets of development programmes by NGOs and other agencies.

Villagers in Chantrea depend largely (14 villages) on pump wells for water supply, with four villages reporting surface water as the main source. In Ou Chrov, surface water and pump wells are about evenly distributed. The greater dependence on surface water here has obvious implications for health and sanitation standards in the area. Few villages reported having a clinic in the immediate area (Table 2.18), the average distance from a clinic being 4–5 km for both areas.

Table 2.18: Access to Clinics or Health Centres (in number of villages)

	Chantrea		Ou Chrov	
	No. of villages	Avg. distance km	No. of villages	Avg. distance km
Clinics/health centres	3	4.74	4	4.19

Electricity access is much better in Ou Chrov, with 11 villages covered compared to four in Chantrea. Almost all the villages in both areas report ongoing development activity by NGOs and others. Five villages in Chantrea reported three development programmes each, while nine villages reported two programmes. The most popular development interventions are agriculture and animal husbandry, infrastructure, credit and education, in that order. In Ou Chrov, the focus on agriculture is missing, most interventions focusing on infrastructure, credit and education. Some villages have also reported programmes for refugee welfare, indicating that the problem of resettlement and rehabilitation after the cessation of the insurgency in the late 1990s remains relevant. Most villages (70 percent) in Ou Chrov have at least three development programmes ongoing.

A history of war, displacement and destruction has had much greater impact in areas like Ou Chrov along the Thai border, which remained under Khmer Rouge control until quite recently. This in turn appears to have led to a proliferation of development interventions by government and non-government agencies, particularly in infrastructure development.

2.6.3. WELFARE PERCEPTIONS AND LABOUR MARKET IMPACTS

Perceptions of key village informants on changes over time with respect to a number of indicators of welfare are shown below. These suggest that, in both areas, the overwhelming majority of respondents felt that there has been an overall improvement in their living standards compared to five years ago. Thus villagers in 16 villages in Chantrea reported an improvement in incomes, food security, transportation and social security; 17 villages thought that personal security had improved, while 19 considered public health to be better today. In terms of the changes experienced by the poorest, only nine villages reported an improvement and five reported that the situation had worsened.

In Ou Chrov, there was almost universal agreement that things were much better today compared to five years ago, in terms of the indicators discussed above. The condition of the poorest was stated to have improved in 10 villages, with eight reporting “no change” and two reporting being worse off.

Table 2.19: Perceptions of Welfare (in number of villages)

	Better		No Change		Worse	
	Chantrea	Ou Chrov	Chantrea	Ou Chrov	Chantrea	Ou Chrov
Income	16	19	1	-	3	1
Public Health	19	19	1	-	-	1
Food	16	19	1	1	3	-
Transportation	16	20	3	-	1	-
Social Problem	16	19	4	-	-	1
Security	17	18	3	-	-	2
Overall	17	19	-	-	3	1
Poorest	9	10	6	8	5	2

Note: “-” means zero value.

2.6.3.1. LABOUR MARKET ACTIVITIES

The major labour market activities in each village (up to seven) were ranked and grouped for the two districts. The approach used was to look for labour/income activities that are linked to the cross border economy directly (e.g. through trading activities or migration) or indirectly, by working in sectors that are obviously dependent on the cross border economy (gambling, transport, hotels etc.).

For Ou Chrov, seven villages were identified where cross-border-related labour-market activity could be described as very high (marked by three asterisks—see Table 2.20 below). The following villages were grouped into this category: Baliley, Kbal Spean, Ou Russey, Tuol Prasat, Prey Kob, Kilou Lekh Buon and Or Neang. Major occupations reported from these villages are trading, farm and non-farm labour in Thailand, work in the transport/carrying sector in and around the border gate, employment in casinos and garments subcontracts from Thai traders. Most of the major activities reported from these seven villages have strong links with the cross border economy.

Another four villages were categorised as having important cross border links through the labour market even though in most cases the single most important activity was farming (two stars). The rest of the nine villages were given single stars to denote low but significant impact. The information and the attendant scheme are described below.

Table 2.20: CB Impact as Income Sources in Ou Chrov

Serial No.	Village	Category	Major Activities Reported
1	Baliley	***	Trading, labour sale in Thailand, transport, casino work, garments subcontract
2	Kbal Spean	***	Carrying/transport, trading, garments, casino work
3	Ou Russey	***	Farm labour work in Thailand, transport, garments
4	Tuol Prasat	***	Farm labour work in Thailand, labour in Poipet, transport, garments
5	Prey Kob	***	Farm labour, long-term employment, moto-taxi in Poipet
6	Kilou Lekh Buon	***	Port work, non-farm work in port area, motorcycle-taxi and casino
7	Or Neang	***	Labour sale in Thailand, carriers, motorcycle-taxi, casino work
8	Nimit Thmei	**	Farming, labour in Thailand, collecting from common property, garments, casino
9	Souphi Tboung	**	Farming, labour sale in Thailand, trading
10	Tuol Pongro	**	Farm labour sale in Thailand, land clearing, motorcycle-taxi, petty trade
11	Yeang Thmei	**	Farming, labour sale in Thailand, petty trade, motorcycle-taxi, petty cross border trade
12	Dong Aranh	*	Farming, labour sale in Thailand, local farm labour, petty trade
13	Naka Chhay	*	Farming, labour sale in Thailand, petty trade, motorcycle-taxi and garments
14	Prey Chan	*	Common property, farm labour in Thailand, charcoal production, motorcycle-taxi

Serial No.	Village	Category	Major Activities Reported
15	Kg. Reab	*	Farming, common property, farm labour in Thailand, local farm labour, garments
16	Kuttaksat	*	Farming, sawmill work, farm labour in Thailand, petty trade
17	Nimit Muoy	*	Farming, charcoal, garments, labour in Thailand, casino
18	Phkoam	*	Farming, sawmill work, farm labour in Thailand, charcoal, garments
19	Souriya Thmei	*	Farming, collecting from commons, labour in Thailand, charcoal
20	Ta Chrueng	*	Farming, wine production, collecting from common property, labour in Thailand

Categories: *** Major impact; ** Important impact * Low but significant impact

Table 2.21: CB Impact as Income Sources in Chantrea

Serial No.	Village	Category	Main CB Activities
1	Bavet Kandal	++	Carrier (export/import), port labour
2	Bavet Leu	++	Bulk trading, port labour
3	Ta Pov	++	Carrier (export/import), bulk trading, casino labour
4	Chek	+	Petty border trade (rice), port labour
5	Ta Boeb	+	Bulk trade, carrying/transport
6	Daun Tey	+	Carrying/transport, farm/non-farm labour in Vietnam
7	Prasat	+	Farm labour in Vietnam, carrying, casino
8	Prey Angkunh	+	Petty trade (rice exports)
9	Thnal Kaeng	+	Farm labour in Vietnam
10	Trapeang Bon	+	Petty border trade (rice and other goods)
11	Trapeang Thlok	-	None
12	Tong Mau	-	Some farm labour in Vietnam
13	Thnanh	-	Some casino work
14	Svay Kuy	-	Some petty border trade
15	Koh Kou	-	Some petty border trade
16	Chrey Thom	-	Some port labour and petty border trade
17	Chantrea	-	Farm labour in Vietnam
18	Baray	-	Petty border trade
19	Banla Sét	-	Petty border trade
20	Kork Lvieng	-	Some bulk trade

Note: Farming is the most important activity/occupation in all the villages. The categorisation has been made on the basis of major activities ranked 2nd, 3rd, 4th and 5th in the villages.

Categories: ++ : Very significant impact—second major activity relates to CBE along with at least one additional activity from the group of cross border activities.
+ : Significant impact—third major activity relates to CBE plus one other from the group. The remaining villages display weak or negligible impact.

Overall, the CBE labour market impact is much higher in Ou Chrov than in Chantrea. This has led us to adopt different signs to denote this in the latter (table above). In all villages in Chantrea, the most important economic and labour market activity was farming, with CBE activities coming second, third or later. Thus a ++ refers to “significant impact” (CBE in second position, at least), while a + refers to some impact (CBE coming in third place or later). The sign - refers to little or no impact. Three villages in Chantrea were awarded a double ++, seven villages are categorised as + while the remainder are in the third (or no impact) category.

That Ou Chrov, being close to Poipet, experiences substantial CBE impact is to be expected. The tables above serve to underline the extent of this dependence, with all villages exhibiting impact and some exhibiting very substantial impact. Even in Chantrea, where our preliminary discussions with key informants led us to expect rather little direct impact, quite significant effects are in fact observed in at least half of the villages.

2.6.3.2. OTHER DIRECT IMPACTS OF CBE

A number of additional issues were probed, related to the extent that people in the two areas depend on cross border trade or movement to purchase essential agricultural inputs, food or consumer products, for medical attention or as tourists. Currency use patterns were also examined.

It became clear that Chantrea villagers moved to Vietnam frequently and regularly for **(a)** purchase of agricultural inputs or agro-chemicals (42 percent) and **(b)** for purchase of food or consumer products (56 percent). Recreational visits were also reported from 13 percent of households. Half of the villages reported either sole or predominant use of the dong as the currency of choice.

Given the strong cross border influence already reported from Ou Chrov, it was surprising to note that few households went to Thailand for the above reasons (purchase of agro-inputs or consumer goods, or for medical treatment). However, the use of the Thai baht was dominant in 14 of the 20 villages.

2.6.3.3. PERCEPTIONS OF CBE

Key informants were asked to choose from a list of possible advantages and disadvantages of border trade (Table 2.22). The most frequently reported advantages were: **(a)** demand for agricultural goods (eight villages in Chantrea and six in Ou Chrov); **(b)** as a source of employment (15 and 19 villages respectively); **(c)** as a source of agricultural inputs (10 and two villages); and **(d)** as a source of food and non-food items (11 and seven villages in the two areas).

Table 2.22: Perception of CB Impacts in the Two Areas (in number of villages)

Advantages	Chantrea	Ou Chrov
Access to credit (e.g. to buy fertiliser)	1	-
Access to health services/medical treatment	2	-
Collaboration in combating security or social problems	2	-
Demand for agricultural products	8	6
Enabling condition when importing goods	-	1
Exchange of culture/knowledge	-	2
Source of income/employment	15	19
Supply of agricultural inputs	10	2
Supply of goods (food and non-food)	11	7
Disadvantages	Chantrea	Ou Chrov
Anarchy, robbery, drugs, trafficking	4	3
Free immigration	3	-
Health problems resulting from imported foods	4	1
High cheating rate when working in Thailand/VN	-	1
High formal/informal expenses of crossing the border	-	6
Imbalanced access to the border	3	2
More environmental pollution	-	1
Competition in production/employment (in Cambodia)	6	2

Note: “-” means zero value.

The main disadvantages identified were: **(a)** security—drugs, trafficking, robbery, in four villages in Chantrea and three in Ou Chrov; **(b)** having to compete with foreigners for employment or in trade (six and two villages), **(c)** high informal costs for crossing the border (zero and six villages in the two areas).

2.7. HOUSEHOLD LEVEL EVIDENCE FROM CHANTREA

A total of 140 households were selected on the basis of a two-stage sampling strategy, with 20 villages drawn at random from a list of 49 villages in Chantrea district. At the second stage, six to eight households were randomly selected from a complete listing of households in each village, yielding our total of 140 households deemed to be representative of the district as a whole. We will now turn to this body of data to explore the implications of CBE for rural welfare in the Bavet area adjoining Vietnam.

2.7.1. LAND DISTRIBUTION AND POVERTY ASSESSMENT

The distribution of land in Chantrea district seems more uneven than elsewhere in the country. Recent data available from six provinces (So *et al.* 2001) put landlessness (defined as less than 0.5 ha of land owned) at around 22 percent of households, compared to almost 30 percent for Chantrea. Similarly, the socio-economic survey 1997 puts landlessness (defined as zero land owned) at 12 percent of all rural households (Acharya *et al.* 2003). This compares with the figure of 21 percent for Chantrea. In fact, landlessness levels in Chantrea appear to be closer to those pertaining to fishing villages, e.g. around the Tonle Sap, which can sometimes approach 24 percent (Acharya *et al.* 2003). This is also well above the provincial average for Svay Rieng, where landlessness has been estimated at 6 percent (Biddulph, 1998).

Poverty self-assessments by the villagers themselves established three categories: medium, poor and very poor. It is of course difficult to relate these to the national poverty line, but the assessment nevertheless is a good indication of the status of poverty. Around 44 percent of households were designated as medium and another 44 percent labelled poor. Around 12 percent of households were designated very poor. We would assume that this group consists of those who are food poor, unable to meet even basic food-calorie norms, approximately corresponding to food poverty as defined by the NIS (Gibson, 1999). Interestingly, according to CSES 1999 (the latest data available at the national level), 12.1 percent of the rural population were found to be food poor.

2.7.2. CONSUMPTION EXPENDITURES

Table 2.23 provides estimated consumption expenditures per capita per day for Chantrea. The poor spend around 2,100 riels on average and the very poor spend 1,800 riels. The non-poor, on the other hand, spend 4,600 riels per day. These figures compare well with the estimated poverty line in 1999, which was 1,777 riels (food poverty line was 1,379 riels). Allowing for inflation of, say, 10–15 percent over the past five years, our poverty line today for rural Cambodia would be around 2,000 riels (1,955–2,043 riels). The self-perception of the poor and their average consumption levels appear to match the national poverty line quite well. The standard deviations of the estimates are low, especially for (both) groups of the poor.

2.7.3. LAND AND ASSETS

Land and other assets owned by households are distributed in order of importance of the classification of well-being: medium, poor and very poor, respectively. The difference between the medium and the poor is much more important than that between the poor and the very poor (Table 2.23).

Table 2.23: Average Value of Land and Assets and Per Capita Daily Consumption by Household Categories (in 10,000 riels)

Asset/Consumption	Medium	Poor	Very poor	Average
Land, animals	299.90	151.73	32.06	201.76
Durables	27.00	3.01	0.55	13.24
Transport equipment	77.78	40.72	9.23	53.04
Farm equipment	75.03	1.13	0.33	33.23
Per capita consumption	0.46	0.21	0.18	0.33

2.7.4. DEMOGRAPHIC AND OCCUPATIONAL PATTERNS

The total population of our sample is 788, grouped into 140 households (average household size 5.63). The population found to be economically active was high at 84.5 percent (all ages), with females being 52.7 percent of the economically active, reflecting the general female to male ratio in the population. Significant population movement was reported, a total of 99 persons (42 female) leaving the area over a period of five years. The main reason was marriage, followed by death and rural-urban migration. The percentage of female-headed households was 23.5 percent, which is slightly below the national average of 25.7 percent.

The major occupation of the head of household was “cultivation” (64 percent). Another 11 percent reported “no job,” while 6 percent were petty traders (vendors), 5 percent worked for the government and 4 percent hired out their labour. Around 60 percent of household heads reported a second occupation and 20 percent a third occupation, with non-farm labour, transport and “collection-gathering” being important contributors.

2.7.5. EDUCATION AND LITERACY

For the age group six and above, the percentage of people without any schooling was found to be 15 percent, 8.6 percent for males and 21.1 percent for females. Some 33.5 percent of the population had one to three years of schooling, 32 percent had four to six years of schooling, 17 percent reported seven to 10 years and 2 percent more than 10 years. Female participation remained consistently below male participation, especially at the junior high and high school level.

Table 2.24: Education of Household Members by Sex

Sex of Member	Age	Years of Education					Total
		1–3	4–6	7–10	>10	zero	
Male	6–12	50	22	1	-	11	84
	13–18	12	36	12	3	1	64
	19–50	25	53	53	11	11	153
	51 and over	5	7	8	-	5	25
	Total	92 (28.20)	118 (36.20)	74 (22.70)	14 (4.30)	28 (8.60)	326 (100)
Female	6–12	54	11	1	-	10	76
	13–18	17	34	17	-	8	76
	19–50	58	57	26	-	29	170
	51 and over	10	2		-	30	42
	Total	139 (38.20)	104 (28.50)	44 (12.10)	-	77 (21.10)	364 (100)
	Grand Total	33.50	32.20	17.10	-	2.00	15.20

2.7.6. CROSS BORDER IMPACT

2.7.6.1. DIRECT IMPACT OF CBE (BUSINESSES/EMPLOYMENT)

Ten percent of all households reported being engaged in businesses directly related to CBE, with annual earnings ranging from \$30 to around \$12,000. The average amount earned is estimated at \$270 per annum. However, the bulk of these earnings accrued to the non-poor. The “very poor” obtained no earnings from this source, while the poor earned only around \$13 per annum on average. This picture is also borne out by the distribution of earnings by land ownership.

The broad structure of earnings by households is presented below:

Table 2.25: Earning Structure by Household Categories (annual, in 10,000 riels)

	Medium	Poor	Very poor	Average
Common property resources	10.7	6.9	11.4	9.10
Animals	49.9	47.0	7.6	43.5
Crops	73.2	49.5	27.4	57.2
Worker in a hotel/restaurant/ casino/shop/...	-	-	-	-
Off-farm worker outside Svay Rieng, in Cambodia (daily based)	1.7	7.6	2.2	4.4
Off-farm worker outside Svay Rieng, in Cambodia (monthly based)	26.5	32.0	6.0	26.4
Worker in Vietnam (daily based)	0.7	0.8	2.7	1.0
Worker in Vietnam (monthly based)	-	1.9	-	0.9
Farm worker for others	1.8	6.2	19.6	5.9
Small business not directly related to CB activities	92.0	93.4	-	81.5
Business directly related to CB activities	244.3	5.1	-	252.9
Transport (including both own business and working for others)	62.8	27.3	-	39.4
Others	177.5	66.0	143.8	124.0
Total	741.3	343.4	220.6	536.6

The landless are not the poorest, having average earnings per household of around \$900 per annum, a figure that places them at the level of those with 1-2 ha of land (around \$1,000/annum). However, households reporting significant earnings from cross-border-related businesses are to be found mainly among land size groups above two hectares.

2.7.6.2. CROSS BORDER IMPACT: CONSUMPTION

All 140 households reported consumption of Vietnamese products during the reference year—not a particularly surprising finding. More than 50 percent reported purchase of farming goods as the most important, followed by household appliances (18 percent), clothes (12 percent), fuel (10 percent) and food (5 percent). While Vietnamese goods were not considered high quality, they were thought to be highly price competitive.

Around 68 percent in the sample reported at least one trip to Vietnam over the past year, while regular border trips by females were reported by 30 percent of households, and a similar proportion of males. Around 53 percent reported shopping as the main purpose of their trips, followed by trade (29 percent), employment (8 percent) and others (4 percent).

Irregular or occasional visits were also recorded, with shopping being the most cited reason (54 percent), followed by medical treatment (25 percent) and visiting relatives/tourism (8 percent). A total of 63 households out of 140 reported making regular trips, with most using local (official) border points for crossing (47 percent). Use of local informal crossing points was not very popular. They were used only by 17 percent of reporting households. The remaining used Bavet border gate.

The magnitude of dependence on Vietnamese goods by Bavet households is also clearly borne out by the following table, with bold items showing a preponderant dependence on products of Vietnamese origin.

Table 2.26: Country of Origin of Goods-Services Consumed by Households
(in number of households)

	Total	Cambodia	Vietnam	Thailand	Other countries	Not Applic.
Animal feed	59	52	2	-	-	5
Veterinary and medical service	47	1	6	-	8	32
Rice and other staple foods in last week	140	135	1	-	-	4
Fruits and deserts in last week	92	22	66	-	-	4
Meat in last week	138	112	22	-	-	4
Vegetables in last week	140	55	83	-	-	2
Cooking ingredients in last week	139	5	122	1	-	11
Tobacco products in last week	97	47	50	-	-	
Beverage in last week	90	53	24	2	-	11
Other food products last week	14	4	1	-	-	9
Products to use in the household in last month	86	2	78	2	-	4
Clothes and foot wear in last year	135	6	70	35	7	17
Health care/treatment/medicines in last year	139	5	16	3	19	96

2.7.7. BORDER CONTROLS

A clear majority of households (65 percent) wanted more border controls and regulations **(a)** to prevent smuggling (e.g. drugs, timber), **(b)** because the border trade does not benefit Khmer people, **(c)** to counter greater social insecurity (trafficking, crime) and **(d)** because poor quality goods come in. It was also hoped that greater controls would lower informal fees charged for cross border activities.

A significant number asked for reduced control, mainly to reduce fees (formal) and allow cheaper imports of food and agricultural inputs.

2.7.8. WELFARE CHANGES

Around half (73) of sample households thought that their living standards had improved “moderately” over the past five years, while 44 households (31 percent) reported becoming poorer. Of the latter, 23 households thought they had become much poorer, while at the other end of the scale, only two households reported becoming much better off. These figures suggest that considerable social-economic dynamics have been in operation in the area.

Table 2.27: Perception of Well-being by Land Ownership (in percent)

Land Owned (ha)	Much better off	Moderately better off	About the same	Moderately poorer	Much poorer	Total
Landless	3.3	50.0	3.3	16.7	26.7	100.0
0–0.5	-	33.3	8.3	16.7	41.7	100.0
0.51–1	-	41.2	17.6	17.6	23.5	100.0
1.1–2	-	58.3	19.4	13.9	8.3	100.0
2.1–5	2.9	52.9	17.6	17.6	8.8	100.0
5 and above	-	85.7	14.3	-	-	100.0

It is interesting to note the welfare dynamics of the different land ownership groups. Of the landless, 53 percent improved their position while 43 percent said they were worse off, compared to five years ago. Of this, a large proportion (27 percent) reported being much worse off. Of the marginal land owners (0–0.5 ha) almost 42 percent reported being much worse off. Even in the upper size groups (up to 5 ha), a significant proportion of households reported being much worse off.

Households were also asked to report on the factors that have contributed to being better off or worse off, as the case may be. We continue to examine possible links with the CB economy while exploring these responses. The distribution of these responses is reported in Table 2.28 below.

Table 2.28: Reasons behind Mobility

Reasons	Better Off	Reasons	Worse Off
Higher crop yields	25	Lower yields	17
More earners in hh	18	Lower earnings	8
Higher earnings	7	Fewer earners	3
More CB opportunity	6	Old/sick	5
More land	6	Less land/no land	7
Other	12	Other	6
Total	74	Total	46

Four types of factors are seen to be operative here: agricultural yields, land access, household demographics (number of earners) and age/illness. It was interesting to note that a few households (8 percent) flagged cross border income opportunities as being an important factor behind their upward mobility.

2.8. CONCLUDING OBSERVATIONS

There are four aspects of CBT that this study has sought to explore:

- (a) The overall regulatory regime and evolving trade policy of Cambodia, including participation in international trading arrangements;
- (b) Specific policy issues or strategies for development of cross border trade, including participation in regional trading arrangements, setting up of special zones or provision of special privileges;
- (c) Actual conduct, performance and constraints of cross border trade arrangements, with particular reference to specific case studies, e.g. garments, shoes etc. As part of this exercise, formal/informal trade-enabling arrangements and mechanisms are explored; and
- (d) Local impact of CBT on livelihoods and poverty based on purposively generated village and household data.

Generally, the border areas with Thailand were found to be much more active. The economically active population, both men and women, were found to be heavily dependent on CBT or CBE and demonstrated a quite significant poverty reduction impact. The areas along the Thai border studied were also found to be better off in terms of infrastructure and service delivery, including communications, access to schools and health centres, credit and financial institutions and rural development programmes.

The Thai border also reveals the evolution of complex subcontracting arrangements for the processing of and trade in fabrics/garments. The bulk of the commodity import trade, however, appears to be associated with dual, quite distinct, trade circuits. The dominant circuit is huge (accounting for 75–80 percent of trade volume), is formal in nature, employing official channels/routes and clearing-transport agents, to conduct the trade. This trade, however, appears to be cartelised, with just four or five clearing-transport agents holding sway. All importers would need to work with one of these four or five entities to arrange for delivery of their shipments. These actors are able to restrict entry and provide rapid, less costly services to their clients because of their special relationship with the border authorities. In other words, to survive in this business, it is essential to have these special relationships to help navigate around the complex and expensive procedures involved.

At the same time, the system allows a small (in terms of volume) purely informal trade circuit to operate as well, allowing some of the gains from trade to be spread more evenly. This dichotomy between dominant/formal-but-managed and small/informal trade circuits is also present on the Cambodia-Vietnam border, even though in terms of volume, complexity and structure, CBT with Vietnam is on a much lower evolutionary plane.

In the same vein, our village/household level evidence points to quite significant impacts on livelihoods, and this is especially true for the areas adjoining Thailand. The question of distribution is quite mixed, with the poor in the border zones near Vietnam not receiving any direct benefits. Whatever benefits they do obtain are through access to cheaper products available from Vietnam.

In terms of the policy implications of our study, three sets of recommendations could be advanced:

1. **Do less:** There seems to be an endless plethora of rules, regulations, arrangements, policy statements, paper incentives and paper facilitation measures. In addition, there is a multiplicity of agreements (bilateral, triangular, regional, sub-regional). We do not need any more policy; we now need to take concrete action if we are really interested in using CBT as a trade-development vehicle.
2. **Do nothing:** No attempt should be made to regulate or formalise the small-scale informal circuits or activities like the informal garment processing trade. Any attempt to do so would have adverse effects and would threaten the livelihoods of many poor people of the area.
3. **Do more:** Clearly more needs to be done on a number of fronts: infrastructure, border gate facilitation measures, and allowing more competition in the dominant trade circuits, especially amongst transport-clearance-forwarding agents. At the same time, institutional measures are crucial in order to increase availability of working capital and reduce transaction costs and risks. Market or trader level associations are likely to be useful in developing low cost enforcement measures, as well as dealing with conflict and dispute resolution. The absence of these structures makes trading more uncertain than it needs be.

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ANNEX

Table 2.29: Village Lists of the Two Studied Areas

Ou Chrov, Banteay Meanchey		Chantrea, Svay Rieng	
Village	Commune	Village	Commune
Baliley	Poipet	Banla S'et	Chres
Dong Aranh	Nimitt	Baray	Me Sa Thngak
Kbal Spean	Poipet	Bavet Kandal	Bavet
Kilou Lekh Buon	Poipet	Bavet Leu	Bavet
Kompong Reab	Samraong	Chantrea	Chantrea
Kuttaksat	Kuttaksat	Chek	Samraong
Naang Chan	Nimitt	Chrey Thom	Prasat
Nimit Muoy	Nimitt	Daun Tey	Tuol Sdei
Nimit Thmei	Nimitt	Koh Kou	Prey Kokir
Or Neang	Poipet	Kork Lvieng	Prasat
Ou Russey	Poipet	Prasat	Prasat
Phkoam	Soengh	Prey Angkunh	Prasat
Prey Chan	Prey Chan	Svay Kuy	Me Sa Thngak
Prey Kob	Poipet	Ta Boeb	Bavet
Souphi Tboung	Souphi	Ta Pov	Bavet
Souriya Thmei	Koub	Thnal Kaeng	Bati
Ta Chrueng	Changha	Thnanh	Bati
Tuol Pongro	Poipet	Tong Mau	Chantrea
Tuol Prasat	Poipet	Trapeang Bon	Prey Kokir
Yeang Thmei	Koub	Trapeang Thlok	Chres

Lao PDR's

CROSS BORDER ECONOMY

Case Study in Dansavanh, Savannakhet, and
Houaysai/Tonpheung, Bokeo, Lao PDR

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3.1. INTRODUCTION

3.1.1. COUNTRY BACKGROUND

Laos is a landlocked country with a total land area of 236,800 square kilometres, much of it forests and mountains. With a population of 5 million people and a population density of 21 persons per square km, and about 49 ethnic groups, it is predominantly an agricultural country, in which about 80 percent of the population is engaged in farming. Laos shares borders to the north with China (416 km), Myanmar (230 km) to the north-west, Vietnam to the north-east (1,957 km), Cambodia to the south (492 km), and Thailand to the west (1,730 km). The country is divided administratively into 17 provinces and one special zone. Trade across borders with neighbouring countries has prevailed for many years. In total there are more than 70 border checkpoints, of which 15 are international checkpoints. Many of the local border checkpoints were established during 1960–90, and some in 2000–02. Most of the international checkpoints were established in the 1990s.

In 1986, the Lao government adopted a relatively comprehensive reform programme called the New Economic Mechanism (NEM) to shift from a centrally planned to a market-oriented economy. Development efforts are aimed at achieving transitions from a command economy to a market economy, and from a subsistence-based and isolated rural economy to a production and service economy, guided by the state through market forces and private initiatives.

In 1997, Laos became a member of ASEAN. In the context of regional and global integration, the government stresses the importance of trade with neighbouring countries as well as other countries worldwide. It considers border trade as one of the most important components of its foreign trade policy, contributing significantly to economic growth as well as improving the living standards of Lao people in the border regions. Thus, within its foreign trade policy framework, the government has formulated specific policies giving certain border trade areas preferential status in order to promote and facilitate trade and investment.

The objective of this study is to describe the socio-economic impacts of border trade on the living standards of people in border areas, in particular in Houaysai village in Bokeo province and in Dansavanh village in Savannakhet province. Based on these studies, policy recommendations will also be made.

The report is divided into four main parts. The first describes the policy framework related to border economy/border trade. The second part presents commodity case studies, which try to explore the nature and flows of goods and services, exchange arrangements and facilitation needs as well as issues related to long-distance trade crossing international boundaries. The third part analyses the impact of border trade on the living standards of people in border areas, in particular in the selected border villages, using village and household surveys. The last part draws conclusions and highlights some trade policy recommendations.

3.1.2. SURVEY METHODOLOGY

The survey covered two main border areas, namely Dansavanh-Lao Bao (border crossing to Vietnam) and Houaysai-Chiang Kong (border crossing to Thailand), located in Savannakhet and Bokeo provinces respectively. In total there are seven border checkpoints in Savannakhet province, of which two are international. In Bokeo there are five such checkpoints (two international). More information on the two selected checkpoints will be given in section two of the report.

Case studies were conducted to identify and gain a better understanding of the nature and flows of goods and services, trade procedures and facilities needed to engage in cross border trade. Target groups for interviews included officers at different administrative levels, commercial companies including exporters and importers and traders of specific products.

Two types of product were chosen for the case study on Lao trade with Vietnam, namely imports of agricultural products (garlic and onions) and imports of manufactured products (clothes). Export goods were not included, although Laos exports some products with duty exemption, such as timber, cardamom, gypsum, semi-finished wood and furniture, to Vietnam. However, general observations on export procedures, flows of goods and trade procedures were discussed during the fieldwork.

While the case study on trade with Vietnam focuses only on imports, that with Thailand encompasses both exports and imports, namely construction material imports and agricultural and forestry product exports.

The village and household surveys gathered both quantitative and qualitative data. Target respondents included village chiefs, local authorities and household heads.

Sample Selection

Savannakhet province has 15 districts, 1,542 villages and 125,960 households. The total population is 782,600 of whom 394,800 are female (mid-year population head count 2003). The target of the survey was Sepone district, because it has an international border crossing between Laos and Vietnam. Sepone district consists of 159 villages, many of them located far from what can be defined as an impact area for this cross border point. The defined impact area covers the capital of the district on Route 9 and two to three kilometres on each side of the road. With that definition, the target area covers 60 villages, from which 20 villages were selected randomly. In each sample village, eight households were selected for interview.

Bokeo province has five districts and one special zone, 364 villages and 41,000 households. The total population is 136,200, of whom 68,900 are female (mid-year population head count 2003). Houaysai and Tonpheung districts were identified as target areas. Both districts consist of 189 villages. The impact area was defined as the villages located along the Mekong River. From a total of 64 such villages, 20 were selected randomly, and in each of these eight households were interviewed.

A two-stage sampling scheme was used:

- At the first stage, a sample village was selected by probability proportion to size (PPS) sampling. The villages were classified as urban villages, rural villages with access to road and rural villages without access to road.
- In the second stage, a systematic sample of eight households was selected from each sample village. The selection was based on an updated list of households in the villages at the time of the survey.

3.2. POLICY CONTEXT OF THE LAO BORDER ECONOMY/BORDER TRADE

3.2.1. THE NEW ECONOMIC MECHANISM

The key reforms under the NEM are: (1) price liberalisation; (2) state owned enterprise reform; (3) fiscal reform, i.e. tax reform to simplify and improve the efficiency of the tax system, and consolidation of central and provincial budgets into a single general budget; (4) trade reform, i.e. liberalisation of internal and external trade, such as simplification of tariff codes and elimination of most quantitative restrictions and special licensing requirements; (5) exchange rate reform, i.e. unification of a multiple exchange rate system; (6) banking and finance sector reform, i.e. a two-tier banking system set up and most banking activities opened to the private sector; and (7) foreign investment policy reform, i.e. liberalisation of the FDI code promulgated in 1988 with guarantees against nationalisation, and permission to repatriate capital and profits. A more generous FDI Law was passed in 1994.

3.2.2. REGIONAL INTEGRATION

Laos became a full member of ASEAN in 1997. As a consequence, it has made a commitment to liberalise its trade with the other members in accordance with the ASEAN Free Trade Area (AFTA) arrangements. The AFTA scheme sets obligations for members to liberalise their trade with other members. These obligations are defined in terms of four product lists, with different obligations applying to the items on the list. The four lists are: Inclusion List (IL),¹⁴ Exemption List/Temporary (TEL),¹⁵ Sensitive List (SL)¹⁶ and the General Exception List (GEL).¹⁷ The Lao government is seriously committed to implementing the ASEAN agreement on the Common Effective Preferential Tariff (CEPT), which is based on the four product lists mentioned above. More than 50 percent of a total number of 3,551 tariff lines have already been transferred from TEL to IL, and the remainder are being transferred in equal annual instalments and will be completed by 2005. At the same time, tariff rates on all items on IL will be gradually reduced to 0–5 percent, which will be completed by 2008. Items on the SL are expected to be transferred to IL beginning in January 2006 and to be completed by January 2015, when their tariff rates will be reduced to 0–5 percent.

3.2.3. EXPORT AND IMPORT POLICIES

On 13 October 2004, the Ministry of Commerce of Laos issued Order No. 962 on importation and exportation, which commands trade divisions of all provinces and the capital, Vientiane, to enforce the decrees and the order of the prime minister, and in particular to establish one-stop services at border points, including the services of all trade-related agencies, and to abolish export-import

¹⁴ Products that have to be liberalised immediately through reduction in intra-regional tariff rates and removal of quantitative restrictions or other non-tariff barriers.

¹⁵ Products in this list can be shielded from trade liberalisation for a temporary period. However, all products will have to be transferred to the IL and subject to tariff reduction so that tariffs are 0–5 percent.

¹⁶ This list is for unprocessed agricultural products, which are given a longer period for integration into the AFTA.

¹⁷ Lists of products that are permanently excluded from the AFTA for reasons of national security, protection of human, animal or plant life and health and articles of artistic, historic or archaeological value.

licences (except for gold and copper export in Savannakhet, and except for vehicles, spare parts, petroleum, gas, diamonds and other prohibited goods that require import licences from the Ministry of Commerce).

Export-import companies have to submit their export-import plans to the trade division for monitoring purposes. Applications for technical certification of goods should not take more than two days.

Imports for Projects: For regular goods, importers such as diplomats, international organisations, foreign experts, foreign investors and domestic investors are required to submit all documents such as letters of request, invoices and packaging documents to the Ministry of Foreign Affairs, the Committee for Planning and Investment and the related ministry, after which the approved documents are sent to the one-stop service centre. For vehicles, importers are required to submit all documents to the Ministry of Foreign Affairs, the Committee for Planning and Investment and related ministries, after which the authorities concerned forward the approval letter to the Ministry of Commerce for permission, and then the importers submit all related documents to the one-stop service centre.

3.2.4. BORDER TRADE POLICY

3.2.4.1. BORDER TRADE ZONES

The government considers border trade as one of the most important factors for the economic development of the country. Recently the government officially determined two border trade zones as focal points for border trade development. The first is located in Dansavanh village, sharing a border with Vietnam in Savannakhet province, located along Route 9, the east-west corridor of South-East Asia. The second is the Boten trade zone, sharing a border with Yunnan province in China, and which is located in Luang Namtha province, along Route 2, the north-west corridor between China and Thailand. The purpose of the policy is to attract FDI and to promote commercial production for export as well as to create jobs and generate income, which will contribute to the socio-economic development of the country.

The border trade zone of Dansavanh village was selected for study. This zone was developed under a specific policy framework, as discussed in detail in the next section.

3.2.4.2. BORDER TRADE POLICY FOR SMALL-SCALE BUSINESSES

In 2001, the Ministry of Commerce issued Instruction No. 0948 on Small Export Border Businesses, which comprises 17 paragraphs. The purpose of the instruction is to promote small-scale commercial production for export and border trade management as well as to promote job creation and income generation. Paragraph 8 distinguishes two kinds of border points: those in remote areas and those in non-remote areas. Border points in remote areas are in areas with no or difficult access to domestic markets. For these border points, members of “border trade clusters” can export and import all kinds of products necessary for production and consumption, under the list of goods permitted. At border points in non-remote areas, members of “border trade clusters” can export all their products and import inputs necessary for their production. However, consumption goods can be bought only from domestic markets.

3.2.4.3. BORDER TRADE ZONE OF DANSAVANH

On 25 March 2002 the prime minister issued a decree on the Dansavanh Border Trading Commercial Zone (BTZ). The decree was established on the basis that integration and development should fit the reality of local situations and comply with future regional development. In particular, the BTZ is to be developed based on priority policies for specific sectors, referring to the relevant Lao laws, including agreements and international conventions to which the Lao PDR is a party.

Boundary of the BTZ

The BTZ from the Bane Dong zone in Savannakhet to the Vietnam border is about 19 km long and includes 14 villages populated by 5,274 persons, on the right side of the Sepone River. The zone includes both the north and south sides of Route 9, extending for 1,000 metres on each side. The BTZ area totals 3,301 ha (see the map of the BTZ in Diagram 2) and has only one gate for entry and exit. It has three separate sites with a total allocated area of 1,823 ha, including areas reserved for checkpoints, commercial centres and an industrial production area.

Regulations and Some Preferential Policies of the BTZ

The government has the following policies to encourage Lao nationals, including Lao residents abroad, foreigners, and foreign nationals living in Laos, either as individuals or as legal entities, to invest in the BTZ.

Land Leasing: Investors are exempt from land leasing fees for one year during the first phase.

Duty Incentive Policies: Investors are exempt from duties or subject to reduced duties such as:

- Exemption from business tax.
- Exemption from profit tax continuously for six years beginning from the first profitable year. For the duration of profit tax exemption, the investor will be exempted from Dividend Income Tax.
- Enterprises in the BTZ which reinvest profits in any business within the BTZ for three years continuously, will be reimbursed all profit taxes paid over these years.
- After the expiry of the exemption period for profit taxes, the losses (if any) can be transferred to and deducted from the next profit tax payment.

Taxation Incentive Policies: Products and goods imported to or exported from the BTZ will be exempt from import or export tax.

- Some products or goods originating in Vietnam will receive permission to be imported into Laos through the BTZ with a reduced import tax.
- Products and goods produced, assembled or processed in the BTZ will be allowed to be imported to the domestic market with an import tax 10 percent lower than normal rates. Products or goods imported into the BTZ for demonstration or for marketing purposes will be exempt from import tax, but if these products or goods are sold within the BTZ, there will be a business tax at 20 percent of the normal rate.

Export and Import: Enterprises in the BTZ can import or export all goods or equipment required for their own activities.

Re-Export: Products or goods imported from foreign countries or purchased from local sources in Laos and imported to the BTZ can be resold to third countries.

Investment Licence: Parties intending to establish or operate businesses or invest in the BTZ can request permission for investment directly from the board of management of the BTZ. Processing the paper work will take no more than 10 days.

Migration Policy: People in border areas on both sides (Laos-Vietnam) can cross the border by local authorisation without visa.

3.2.4.4. BORDER TRADE IN BOKEO PROVINCE

Although the border trade area in Bokeo province is not considered a special border trade zone, border trade here is well developed and contributes significantly to the well-being of the local population. The governor of Bokeo province stresses strongly that border trade with Thailand has major potential for socio-economic development in Bokeo and gives it his strong support. According to the report of the trade division, the provincial governor has promoted border trade in the following ways:

- Promoting commercial production for export;
- Attracting FDI (coffee plantation, animal feed production);
- Importing raw materials for industrial processing for domestic consumption and for export;
- Promoting private sector development of production chains to rural areas and across the border;
- Attracting investors/traders (construction materials, agricultural products);
- Promoting and facilitating contract farming across the border.

Of special importance is the fact that people in the border area from both sides (Lao-Thai) can cross the border with local authorisation without visa.

3.3. CASE STUDIES IN BORDER DISTRICTS IN SAVANNAKHET AND BOKEO PROVINCES

3.3.1. SAVANNAKHET PROVINCE

Savannakhet is located in the southern part of Laos and shares a border with Khammuan province to the north, Saravane province to the south, Vietnam to the east and Thailand to the west. From this geographical viewpoint, Savannakhet has a strategic location as it shares borders with two countries, an advantage in terms of access to foreign markets and potential for attracting foreign investment. Savannakhet is the largest province in the country, with 15 districts and 125,960 households. In addition, it has the largest population in the country, accounting for 15 percent of the total population. In 2000, the economically active population was estimated at 340,000 and is expected to reach 494,000 in the year 2010.¹⁸

Table 3.1: Savannakhet at a glance

	Lao PDR	Savannakhet
Land area	236,800 km ²	21,774 km ²
Population	5,679,000	833,900
Population density	24	38.30
Economic growth 2003 (2002)	5.8% (5.8%)	8% (12%)
GDP per capita 2003 (2002)	\$375* (331)	415* (378)

* *Estimated*

Source: The National Statistical Centre and the Department of Planning and Investment of Savannakhet province

Furthermore, Savannakhet houses the national highway Route 9, which is considered as the strategic east-west highway of the region (see Diagram 3). It stretches to the east from the Lao-Vietnam border through Vietnam to the South China Sea, giving access to China, Hong Kong, Taiwan, Indonesia, the Philippines, Korea, Japan and North and South America. To the west across the new bridge at Savannakhet/Mukdahan, the highway provides access to Thailand, Myanmar, Malaysia, Singapore and via the Andaman Sea to India, Africa, the Middle East and Europe. Apart from the transportation assets, the economic infrastructure—such as electricity and water supplies, communications and human resources—is being developed gradually and effectively in this province. In addition, after Vientiane, Savannakhet is also known as the industrial base of Laos, housing 198 factories employing 6,738 workers.¹⁹ Finally, it is rich in tourist sites such as temples and religious monuments, ancient Khmer structures and dinosaur fossils, and has eco-tourism potential.

There are two international checkpoints in Savannakhet, to Vietnam through Lao Bao-Dansavanh and to Thailand through Mukdahan-Khanthabouly.

¹⁸ JICA (2000b), p.4.

¹⁹ JICA (2000a), pp.2–3.

3.3.2. BOKEO PROVINCE

Bokeo is one of the smallest provinces in Laos. It is located in the north-west of the country and shares borders with Thailand (about 145 km, in which 48 km are land border) and Myanmar (about 98 km) in the west, Luang Namtha province (about 100 km) in the north and east, and Sayabouly province (about 35 km) in the south. It consists of five districts and one development focal area, 369 villages and 23,630 households. The total population is 134,900, with a population density of 22 people/km². The total land area is 6,196 km², of which 177 km² is agricultural land.

In Bokeo there is one international border checkpoint (Houaysai-Chiang Kong) and three local border checkpoints between Laos and Thailand (Bandan, Tonpheung and Paktha). Paktha is an inside country river checkpoint, used to re-check boats from China, Myanmar and Thailand, which have been checked at the Houaysai international checkpoint and continue to Luang Prabang, Vientiane or the south of the country. Banmom is an official trade checkpoint between Laos and Myanmar, but due to its remoteness and commercially unviable access, it is not popular with traders. This border is basically used as a river port to collect boat transit fees between Thailand and China in both directions. The checkpoints are all situated along the Mekong River.

3.3.3. STUDY AREAS

The study areas are located in the provinces of Savannakhet and Bokeo. The study area in Savannakhet was the Dansavanh BTZ. It is approximately three to four hours' drive along Route 9 from Savannakhet town. A special survey was conducted in Savannakhet on imports of garlic from Vietnam, while in Bokeo the focus was on imports of construction materials from Thailand and exports of agricultural products and non-timber forest products (NTFP).

In Bokeo the study was conducted in Houaysai and Tonpheung districts, where there are four border checkpoints (Houaysai-Chiang Kong, Bandan, Tonpheung and Banmom). These two districts consist of 192 villages and 13,370 households, and the total population is 69,300, with a population density of 29 people/km².

Houaysai is the capital of Bokeo province. It is a centre of businesses, trade, investment, education, health, culture and tourism for the province. There are four markets in Houaysai, and about 80 percent of the goods sold in three of the markets are from Thailand. Only one market sells Chinese goods, and many Thai people come to buy Chinese goods from this market on weekends. The international border checkpoint (Houaysai-Chiang Kong) at the outskirts of the town is open every day from 8 am to 6 pm (closed to movements of goods on Saturdays and Sundays).

Tonpheung is a rural district and shares a border with Houaysai district and the provincial capital about 40 km away. There are no permanent markets in the town, but it has a fresh market open early every morning and a market fair every Saturday, in which most of the traders come from Houaysai town. Small shops in homes, selling noodles, snacks and consumption goods, are common in Tonpheung, as elsewhere in the country. There are also some Chinese shops in the town.

3.3.4. CROSS BORDER TRADE

Goods cross the border through two channels: trading companies and individuals. They may be classified as formal and informal trade.

3.3.4.1. FORMAL TRADE

Formal trade is the most common and understandable form of trade, and is often conducted by major players, such as trading or import-export companies. The size of these businesses is medium to large. There are four major forms of formal trading activities: imports, exports, re-exports and transit trade.

In Savannakhet re-exports make up the largest volume of trade. Vietnam and Thailand do not have a long history of trade, as do Laos and Vietnam, and there is a lack of trust between business people; consequently, direct trade between them and transit trade are relatively small. As a result, Lao businesspeople often act as middlemen who coordinate and facilitate business transactions. Some goods and commodities are further processed in Laos before being exported to third countries like Thailand.

Re-export is an interesting form of trade because it involves contacts and agreements between three countries, mostly Thailand, Vietnam and Laos. Lao trading companies unload the goods at storehouses and sell them in Laos or export them to a third country. Foreign buyers are responsible for the transport to their country.

There are many trading companies that conduct import and export activities between Laos and Vietnam. Most of the companies are located in the central district of Savannakhet province. They also have their representative offices in Dansavanh village close to the border checkpoint. The main import goods range from necessities such as food products (garlic, cookies, noodles etc) and household utilities to large items such as transport equipment (cars). The main export goods include processed wood, wood products, and gypsum among many other goods. The operations of the trading companies at this checkpoint are on a large scale and constitute a large percentage of total imports and exports of Savannakhet province—second only to Khantabouly international checkpoint (on the Lao-Thai border in Savannakhet province).

In Bokeo province there are eight import-export companies (four are state owned), all of them located in the two target districts of the study (seven in Houaysai and one in Tonpheung).

Trade can be conducted at any local inter-country checkpoint, but all related documents should be submitted to the international checkpoint in Houaysai and activities reported to the international checkpoint on a weekly basis.

The “trade indicative plan” provided by the Ministry of Commerce to the Provincial Trade Division is usually redistributed to these eight companies in the province, who share this plan with their customers (community subcontractors or traders’ representatives in the community and retail construction material shops). In turn, these customers pay commission fees (2.5 to 3 percent of the total value of goods) to those companies. This means that customers of a company can trade directly by using the name and licence of the import-export company.

Formal export of agricultural products and NTFP from Bokeo are often conducted through import-export companies and traders’ representatives in the community. The business is medium to large in scale, and takes place through certain procedures. Most of the trade of agricultural products involves joint investments between Lao farmers and Thai traders. Thai traders provide seeds, fertilisers, insecticides and techniques to Lao farmers through community subcontractors or traders’ representatives in the community and guarantee to buy all products at market price after subtracting the input value.

Bokeo province shares a border with Thailand. The populations of Lao and Thai along the border area have close kinship relationships, which enable them to conduct good negotiations on trade among themselves. However, this also provides opportunities for smuggling and makes them prone to illegal trade or tax fraud on both sides.

The trend is that formal import volumes are declining, because the price of construction materials in Thailand has increased and some products are produced domestically, and the government is paying more attention to enforcing import regulations at the border checkpoint.

3.3.4.2. INFORMAL TRADE

Apart from the activities of trading companies and agencies through formal channels, everyday transactions by small-scale traders are significant in the border trade. Informal trade is defined as the activities of small and regular traders at the international checkpoint and the kinds of trading activities that do not go through formal channels. There are two kinds of informal trade.²⁰

Small-scale traders often carry goods by themselves across the border and walk to local markets. It is quite common for flows of goods to be from Vietnam to Laos; flows in the opposite direction are very small. Goods brought into Laos by these traders can be of any kind, including food items such as vegetables, garlic, fruits, noodles, cookies, as well as clothes and plastic ware. Each small trader can bring only a small quantity of goods on each trip. These traders are often exempted from any kind of customs or import fees, and they need only to pay the border-crossing fee of 1,500–3,000 kip for each crossing. The rationale for these exemptions is based on the fact that they are regular traders in the local market and sales occur only within the BTZ. Such reasons for exemption may be valid if there is a mechanism for tight control that can prevent the flow of these tax-free goods to other regions. It may also be the case that without exemptions, most of the trade might cease, and thus it cannot be seen as a potential new source of revenue. Nonetheless, this kind of trade is significant for the lives of the people in the border villages as well as many other semi-rural and rural villages along Route 9. The local people rely significantly on goods brought in via this channel because Vietnamese goods and products are cheaper than those from other countries.

Large traders normally use pushcarts to transport their goods from the Lao Bao local market in Vietnam to the Dansavanh market in Laos. Each trader may use one to five carts to transport goods. The traders often pay a lump-sum customs fee for each cart because it contains many kinds of products and each product is bought in small quantities; this makes it difficult and time consuming for the customs officers to calculate a fee for each item.

Apart from this kind of informal flow, the flows of goods such as garlic and clothes to third countries can also be considered informal. Part of the garlic imported from Vietnam is re-exported to Thailand through informal channels. Because many goods, including garlic, are subject to high customs and import fees, there are significant advantages to using informal channels. If fees were paid, many goods and products would not be price competitive. Therefore, many traders use the informal channels to ship their products across the border. In addition, the import of some goods and products is totally banned even when there is a high demand. Therefore, once again, traders use the informal channels to transport these products. However, informal trade activities are subject to high risks, because the authorities of both countries make serious attempts to catch and impose penalties on this form of trade.

A significant proportions of exports to Thailand go through informal channels.²¹ Around 80 percent of exports of agricultural products and NTFP are estimated to be informal. Our interviews suggest that about 8 percent of construction materials sold come through informal channels, bought from individuals or groups of traders. Another estimate indicates that about 20 percent of imports are informal, conducted by individuals and groups through both border checkpoints and illegal crossing points.

²⁰ Lao Bao-Dansavanh case study on imports of garlic.

²¹ Case study in Houaysai/Tonpheung, Bokeo province, on NTFP.

Before 2003, due to a policy of promoting and protecting domestic agriculture, the Thai government imposed high tax rates (60–100 percent) on imported agricultural products from Laos, which increased the use of informal trade channels. Currently, as a result of negotiations between the authorities of the two countries, the tax rate on Lao agricultural products in Thailand has been reduced. The Thai government also pays more attention to certification of the origin of goods. It has also introduced a policy to fight border crime and narcotics trafficking, which means paying more attention to illegal cross border traffic. Therefore, the informal (mostly illegal) exports of agricultural products from Laos to Thailand have declined and the trade has become more official. However, illegal imports (of clothes, consumption goods, spare parts and construction materials) seem to be on the increase. Therefore, formal import businesses are facing big problems. Government revenues from import tax are declining; in the first half of 2004, the border checkpoint revenue of Bokeo declined from 30 million kip per day to 3 million kip per day).

3.3.4.3. TRADE PROCEDURES

The procedure for importing goods through Dansavanh international checkpoint is similar to that at other checkpoints in Laos. The importer can obtain an import licence if the imported goods are not subject to any restrictions. Such applications are examined either by the Department of Foreign Trade in the Ministry of Commerce or the provincial trade division. For goods related to other concerned ministries, the importer must seek a certificate of compliance or of other factors related to individual goods. For example, an importer who applies for a licence to import vehicles needs a compliance certificate from the Ministry of Communication, Transport, Post and Construction with regard to technical specification requirements. The same policies apply to agricultural and forestry products, for which the importer needs a certificate from the Ministry of Agriculture and Forestry.

For the importing of garlic, trading companies need to submit their plans to the trade division in the province for approval. The approval and the import plan are based on the policy of the provincial authorities with regard to the import-export balance of the province.

Importers in Bokeo may apply to the provincial Trade Division or district trade office to obtain export licences within 24 hours. Usually it takes one week to get a tax clearance certificate at the provincial taxation office (at the Division of Finance), with variations according to the volume of work, but not longer than one month.

Imports can also be conducted through any local inter-country checkpoint in the two districts, provided that the companies receive proper documentation from the international border checkpoint in Houaysai.

Exporters in Bokeo apply to the provincial Trade Division or district trade office to obtain export licences within 24 hours. It usually takes one week to get a tax clearance certificate for NTFP (agricultural products are free of tax) at the provincial taxation office, but it varies according to the export volume and the nature of the goods, not taking more than one month. NTFP need an exploration licence, and scale, transit and quarantine certificates from the Agriculture and Forestry authorities before applying to the Commerce and Tax authorities. This takes three days.

Exports can be sent through any local inter-country checkpoint, provided that the companies receive proper documentation from the international border checkpoint in Houaysai and report the results of the operation to it on a weekly basis.

3.3.4.4. TRANSPORTATION AND CLEARANCE

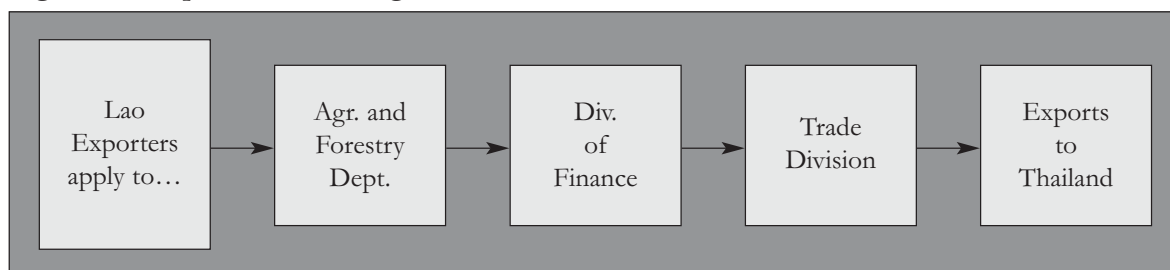
There has been extensive development of transportation and communication networks in the Lao PDR. For Savannakhet province, the construction of a bridge crossing the Mekong River to link Thailand to Vietnam via Lao Route 9 is one example of such development. The completion of the new bridge will make Route 9 south-east Asia's strategic highway connecting the east with the west and will not only improve transport and communications but also boost trade in the region. The road network in Savannakhet province is fairly good, with a total length of almost 5,000 kilometres, the highest in the Lao PDR.²² In addition, Route 9 is a high standard tarred road suitable for rapid transport of goods. Not only does Route 9 ease communication from border to border, but it is also connected with the high standard national highway Route 13, which will facilitate transport of goods from this area to northern and southern provinces. With such a complete network, goods from this border trade area could easily travel to other markets both nationally and internationally with great efficiency and effectiveness. In the future, there is a possibility that a new international airport may be constructed in Savannakhet, serving both domestic and international airlines, with the aim of becoming an aviation hub for the region.²³

Clearance procedures do not take long at this international checkpoint as long as the traders have completed the documents required. The trading companies commented that the clearance might take as little as 30 minutes to an hour. Most trading companies do not have problems with the documents and the clearance because they have a good knowledge of the policies and procedures at the checkpoint. Small traders, who mainly transport their goods by carts, first go through the immigration and customs procedures at the checkpoint, and then approach the customs check in the checking zone, which is located midway between the checkpoint and the local market. This customs procedure does not take long provided that required documents are ready and the customs fees have been paid accurately. In general, both small and large traders do not have any difficulties or problems with clearance procedures at this international checkpoint. In the future, there is a plan to build a BTZ gate on Route 9. This new gate will be where goods that will enter local Lao markets will be cleared. Goods traded within the BTZ will not need to go through any clearance procedures.

In Bokeo exporters use both land and river transport. For land transport they always use their own trucks to carry goods from inland areas directly to any nearby border checkpoint. For river transport, they usually hire boats from areas along the Mekong and use any of the border checkpoints in Houaysai or Tonpheung districts. They pay about 270,000 kip per tonne for each trip.

Agricultural products and NTFP export clearance in Bokeo go through three main steps (see Figure 3.1). First, exporters must contact the Agriculture and Forestry authorities to get certificates such as agricultural or forestry certificates and quarantine certificates. Then they go to the Division of Finance (Taxation and Customs Unit) for tax and customs clearance. Finally, they apply to the Trade Division to get export permission and licence) if required. For all these steps, the exporter has to pay about 137,000 kip in fees.

Figure 3.1: Export Process of Agriculture and NTFP



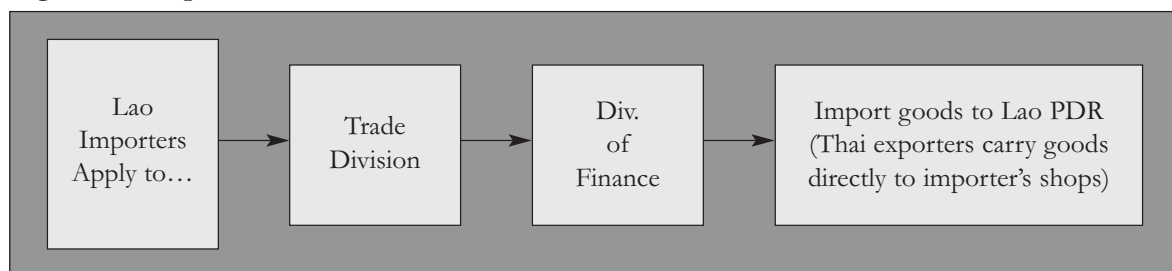
²² National Statistical Centre, 2002, p.76.

²³ This idea was among the development potentials discussed during the bilateral meeting between the governments of Thailand and Laos in July 2004.

Import transport from Chiang Kong to Houaysai is easier than export transport. Thai exporters simply use trucks to carry goods from Chiang Kong to Bokeo, paying 2,000–2,200 baht for the ferry to cross the Mekong River and 240 baht for truck and driver immigration fees at the Lao border checkpoint.

Import clearance in Bokeo entails two main steps (see Figure 3.2). First, the importers apply to the Trade Division of Bokeo to get import permission after checking the indicative plan. Next, importers go to the Division of Finance (Taxation and Customs Unit) for tax and customs clearance. For these two steps, the importer should pay about 70,000 kip in fees.

Figure 3.2: Import Process of Construction Materials



3.3.4.5. MARKET ACTORS IN DANSAVANH

Dansavanh market is just one of many local markets in Savannakhet province that are supplied by goods arriving through Lao-Vietnamese border trade. Other markets include Sepone district market (134 shops: Lao, Vietnamese, Chinese) and four medium and large markets in Khanthabouly district and the provincial capital of Savannakhet. The characteristics of each major market are as follows.

Dansavanh market:

- *Traders*: small traders, more than 80 percent of whom are Vietnamese.
- *Origin of products*: mostly from Lao Bao market in Vietnam, with some locally grown vegetables (dried chilli) and electronic equipment from China.
- *Delivery/transport channel*: most traders carry products by hand, and some use pushcarts to transport their products
- *Type of payment*: mostly cash and some credit to a few major buyers where good relations are established.
- *Scale of trade*: from micro to small.
- *Operating hours*: most traders bring in their goods in the morning and sell at the market for the rest of the day, until 4 or 5 pm. Some keep the remaining goods at their shop in the market; some who do not have permanent shops carry the remaining goods back to Vietnam.
- *Market size*: 84 shops with a total working capital at the beginning of 2002/2003 of 643 million kip, of which turnover capital is 78 million kip. Of the 84 shops, 44 are owned by Vietnamese.
- *Currency*: kip, dong and US\$.
- *Goods available in the market*: foodstuffs, textiles, clothing and other consumer goods, luxury goods such as alcohol, cigarettes and perfumes, building materials, electrical appliances and equipment, medicine etc. More than 60 percent of the goods sold in the market are from Vietnam.

3.3.4.6. IMPORTS OF GARLIC (focus on Lao-Vietnam border trade)

The flow of garlic from Vietnam to Laos through formal channel is as follows. After receiving an order from Thailand for garlic, the trading companies will place an order in Vietnam. These companies then hire local people to clean and select garlic that meets the expected export quality. After packaging, the garlic is sold in Laos. The buyers from a third country such as Thailand and are responsible for the transport to their country. Most of the major traders comment that the import and customs fees for taking garlic into Thailand are very high. Therefore, major buyers from Thailand often use two channels. Most of the garlic is taken through the formal international checkpoint in Savannakhet, while the remaining part goes through informal means (other local or domestic checkpoints) where traders have the possibility of avoiding customs and import fees. However, the formal trade of clothes from Vietnam to Laos often goes through small or individual traders and not through trading companies. These individual traders (mostly Vietnamese) bring clothes from one of many local markets in Vietnam and sell directly to the local markets in Laos. These traders pay normal customs fees at the checkpoint and use various means of transport to the markets.

As shown in Figure 3.3, garlic from Vietnam enters Laos through two channels. Most of the garlic is imported for re-export. From interviews with one company, the annual sale of garlic ranges from 20,000 to 30,000 tonnes. The wholesale (export) price ranges from 6 to 9 baht per kg, depending on the quality of the garlic. There are a few large trading companies in Savannakhet that are involved in this garlic business, and these companies often receive a big order from one of the two garlic buyer groups in Thailand, usually by telephone. After the order from Thailand is accepted, these companies will place an order from the major suppliers in Vietnam. The product normally arrives within three to four business days. Garlic is transported by truck from Vietnam and delivered to the warehouses of the companies in Savannakhet. During the peak season, the trading companies regularly import garlic from Vietnam and store it in their warehouses in Savannakhet. The employees who work in these companies, mostly local people, clean, peel and grade the garlic for re-export to Thailand.

Table 3.2: Value of Imports—Savannakhet (Laos-Vietnam cross border trade)

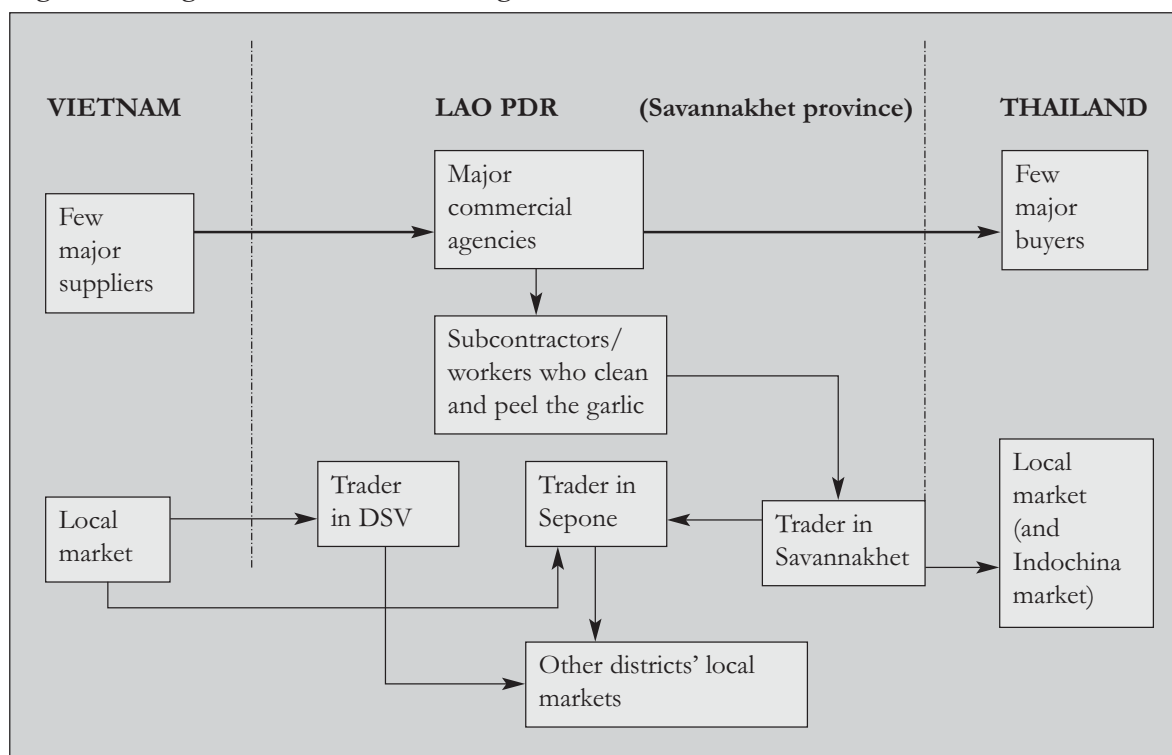
Dansavanh Cross Border Checkpoint	2001/2002		2002/2003	
	Weight (kg)	Value (million kip)	Weight (kg)	Value (million kip)
Total import of Dansavanh		15,734		259,950
Garlic/onions	14,783	47	59,156	136,412
Clothes	2,065	31	73,784	1,194
Percentage share				
Dry garlic/onions		0.30		52.48
Clothes		0.20		0.46

Source: The National Statistical Centre and the Department of Planning and Investment of Savannakhet province

Garlic is also imported to Savannakhet for domestic consumption and is sold in local markets. The flows are not easily described because the garlic comes from many sources. However, from interviews with traders and observations made at the garlic market in Savannakhet, the flow of garlic into the local market can be depicted as in Figure 3.3. The price per kg of garlic in Savannakhet varies from shop to shop depending on the quality and the variety of the garlic. However, the cheapest is 2,000 kip per kg, while the maximum price for good quality garlic reaches 4,000–5,000 kip per kg. At least three varieties of garlic are sold in the market. One is locally produced and the others are imported from Vietnam and China (through Vietnamese channels).

Garlic sold in Dansavanh market comes directly from Lao Bao market in Vietnam. The Vietnamese traders in this market bring small quantities of garlic from Vietnam to sell in Dansavanh market. There is no large-scale seller of garlic in this market, and the garlic is not distributed to any other market. It is mostly for consumption in nearby villages.

Figure 3.3: Organisation of the Marketing of Garlic



Another major market is the district market in Sepone (37 km from the border). There are two flows of garlic to this market. Some sellers buy garlic from the Vietnamese traders who bring it directly from Vietnam, often on pushcarts together with many other products. After arriving at Dansavanh market, the traders then transport their products to Sepone district on passenger buses. Another flow of garlic to this market is from Lao traders from the provincial market in Savannakhet. There are many micro-scale sellers and a few small sellers in this market.

The retail price is about 10 to 20 percent higher than the wholesale price. The retail price of garlic ranges from 5,000 to 6,000 kip per kg. The expenses of the traders include rent of the land, rent of the store and customs fees.

Box 3.1. Views on Trade Policies from Traders in Savannakhet

The major traders of garlic in Savannakhet had comments on the policy of the Department of Commerce with regard to the allocation of the indicative import plan for garlic. Each year the government sets indicative import plans for various products, including garlic, to direct/manage the national trade balance. The overall plan target is then allocated to various companies by the provincial Division of Commerce. Technically, the allocation is based on the ability of a company to find the market. However, in practice the allocation does not reflect that capability. There was one incident in 2003 in which the trade division chose to give most of the quota to one of the major traders of garlic. The decision was prompted by the need to ease collection of customs fees. From this decision, that company received a monopoly to import most of the garlic. Such an allocation, however, did not improve customs revenues because of the inadequate capacity of the company. This incident illustrates that government decisions should be made carefully.

Another constraint faced by the garlic traders relates to the official price of garlic set by the trade division and the exchange rate set by the Customs Department. The official price of garlic is set at \$220 per tonne for purposes of collecting fees. The reason for this intervention is that most traders try to avoid paying a lot of money to the customs, so they often produce a false invoice or contract with an unreasonably low price. However, traders commented that the real price of garlic is \$165–180 per tonne. The additional payment to the customs has an unfavourable effect on the competitiveness of their products in third countries.

Such official pricing policies apply to most imported products and therefore have an effect on the end price for consumers and users. The effect of the unrealistic and high exchange rate set by the customs office is similar. This also leads to a decrease in the competitiveness of the products in foreign markets and a general increase in the domestic price.

3.3.4.7. IMPORTS OF CLOTHES (focus on Lao-Vietnam border trade)

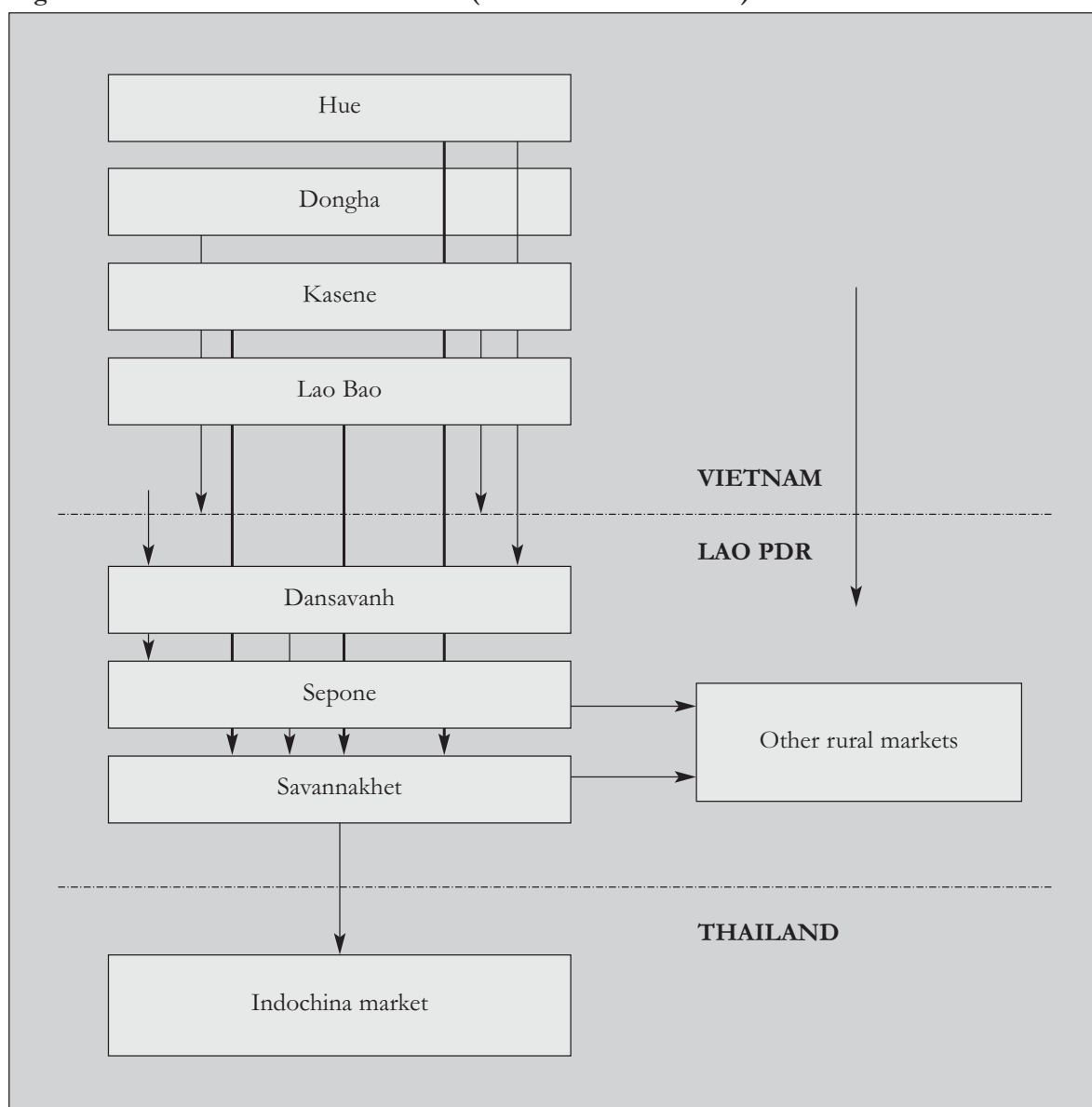
The flow of Vietnamese clothes to local markets will be observed in terms of the movement of goods into each major market (see Figure 3.4).

In Dansavanh market, there are mostly small sellers. More than 90 percent of clothes traders in this market are Vietnamese who buy clothes from any local market in the Vietnam BBTZ, such as the Lao Bao, Dongha and Hue markets. Some traders purchase clothes in big quantities and bring them to Dansavanh market on carts. These larger traders have to pay normal customs fees. Apart from this channel, many small traders always bring small quantities of clothes (up to three dozen pieces) from their houses in Lao Bao or other nearby villages as personal belongings. By doing this, they often escape paying customs fees. These traders come to the market every day, so the accumulated quantity for a week can be large enough to be a wholesale operation. Each trader who owns a shop in Dansavanh market has an expense of approximately 200,000 kip per month (including rent of land, market fees, customs, fees and cleaning). The traders in this market always buy from the same wholesaler and therefore often receive credit. Some buyers receive credit for the first order until they place an order for a second lot.

In Sepone market, there are many small to medium traders. Most traders buy clothes directly from Vietnamese sellers from Dansavanh market and the Lao Bao market in Vietnam. The traders often place orders by telephone and through bus drivers. Sellers sometimes receive credit from the traders. The sellers redistribute a proportion of their goods to other rural markets close to the district market in Sepone. Many small-scale Vietnamese traders nowadays sell clothes directly to the rural markets and rural villages, which has affected the amount of sales at the Sepone district market. These traders travel to the rural villages by bicycle and foot.

Finally, the provincial markets in Savannakhet tend to be the biggest hub for Vietnamese clothes. However, from interviews with the traders in these markets, urban customers do not prefer Vietnamese clothes. Their preferences are still for clothes imported from Thailand. Therefore, the major customers for Vietnamese clothes are medium to lower income earners and small traders from the many rural markets. Apart from this domestic use, some medium to large traders buy large quantities of clothes from Vietnam to be stored in Savannakhet waiting for big orders from Thailand. The distribution channel of clothes from Savannakhet to Thailand is unclear. However, based on interviews with some traders and observations in local markets in both Laos and Thailand, clothes are likely to flow to Thailand through informal means (both legal and illegal). The orders tend to be placed through networks of friends and relatives of traders located in Savannakhet, Mukdahan (Thailand) and many villages in Vietnam.

Figure 3.4: The Market Chain of Clothes (Vietnam-Laos-Thailand)



3.3.4.8. EXPORTS OF AGRICULTURAL PRODUCTS AND NTFP IN BOKEO

Table 3.3: Total Exports, Imports and Ttransit Trade Value, Bokeo Province, 1996–2003 (\$million)

Items \ Year	1996	1997	1998	1999	2000	2001	2002	2003
Exports	1.50	1.95	1.47	1.81	1.61	1.34	2.06	1.17
Imports	1.23	3.59	2.18	3.47	2.25	1.74	1.37	2.14
Re-exports	14.21	14.80	4.71	2.05	2.11	3,95	4.01	4.00
Trade Balance	0.27	-1.64	-0.71	-1.66	0.64	-0.40	0.69	-0.97
Exch. Rate kip/US\$	922	1,257	3,282	7,049	7,811	8,838	10,000	10,515

Source: Trade division of Bokeo and Bank of Laos

Bokeo's main exports to Thailand are agricultural products (corn, beans and ginger) and NTFP (palm seeds, straw, resin, fruits etc). The export value in 2003 was \$1.17 million, of which \$0.89 million was agricultural products and NTFP.

The provincial authorities allocate production areas for each community subcontractor or traders' representative in the community. The traders' representatives then go to the field to meet and negotiate with the NTFP collectors and agricultural producers, and set up their branches or representatives in the areas to buy NTFP and agricultural products.

The export of agricultural goods and NTFP goes through only four main steps:

Step 1: The collectors and producers sell the products to the community subcontractor or traders' representative in the community.

Step 2: The community subcontractor or traders' representative in the community supply the company or export the products to Thai traders.

Step 3: Thai traders in nearby border areas import goods from Laos and sell them to factories.

Step 4: Factories process the products further and sell them to customers or for re-export (see Figure 3.5).

Table 3.4: Value of Total Exports and of Agricultural Products and NTFP of Bokeo Province, 1996–2003 (\$million)

Items \ Year	1996	1997	1998	1999	2000	2001	2002	2003
Total exports	1.50	1.95	1.47	1.81	1.61	1.34	2.06	1.17
Agricultural products	0.33	0.55	0.63	0.78	0.55	0.50	1.12	0.64
NTFP	0.52	0.45	0.54	0.33	0.52	0.25	0.26	0.25
Exch. Rate kip/US\$	922	1,257	3,282	7,049	7,811	8,838	10,000	10,515
Percentage of total								
Agricultural products	22.0	28.2	42.9	43.1	34.2	37.3	54.4	37.4
NTFP	34.7	23.1	36.7	18.2	32.3	18.7	12.6	14.6

Source: Trade division of Bokeo and Bank of Laos

3.3.4.9. IMPORTS OF CONSTRUCTION MATERIALS IN BOKEO

Besides petrol, Bokeo's main officially imported goods from Thailand are construction materials (cement, tiles and steel). The total import value in 2003 was \$2.14 million, of which \$0.39 million was for construction materials.

Imports of construction materials go through two channels, import-export companies and imports directly by retail shops (see Figure 3.6).

The first channel goes through four main steps:

Step 1: Thai exporters buy goods from companies in Thailand and stock them in their wholesale shops in Chiang Kong and Chiang Saen.

Step 2: Lao import-export companies import goods from wholesale shops in Chiang Kong and Chiang Saen to their stores in Bokeo.

Step 3: Retailers buy construction materials from import-export companies or import directly, using an import-export company's licence, e.g. for cement imports.

Step 4: Retail shops sell the products to customers in Laos.

The second channel goes through three main steps:

Step 1: Thai exporters buy goods from companies in Thailand and stock them in their wholesale shops in Chiang Kong and Chiang Saen.

Step 2: Lao importers import goods from wholesale shops in Chiang Kong and Chiang Saen in Bokeo.

Step 3: Retail shops sell the products to customers in Laos.

Table 3.5: Value of Total Imports and Imports of Construction Materials, 1996–2003 (\$million)

Year	1996	1997	1998	1999	2000	2001	2002	2003
Imports	1.23	3.59	2.18	3.47	2.25	1.74	1.37	2.14
Construction materials	0.50	0.45	0.52	1.05	0.55	0.66	0.27	0.39
Exchange rate kip/US\$	922	1,257	3,282	7,049	7,811	8,838	10,000	10,515
Percentage of total	40.65	12.53	23.85	30.26	24.44	37.93	15.52	18.22

Source: Trade division of Bokeo and Bank of Laos

Figure 3.5: Market Chain for Exports of Agricultural Products and NTFP in Bokeo

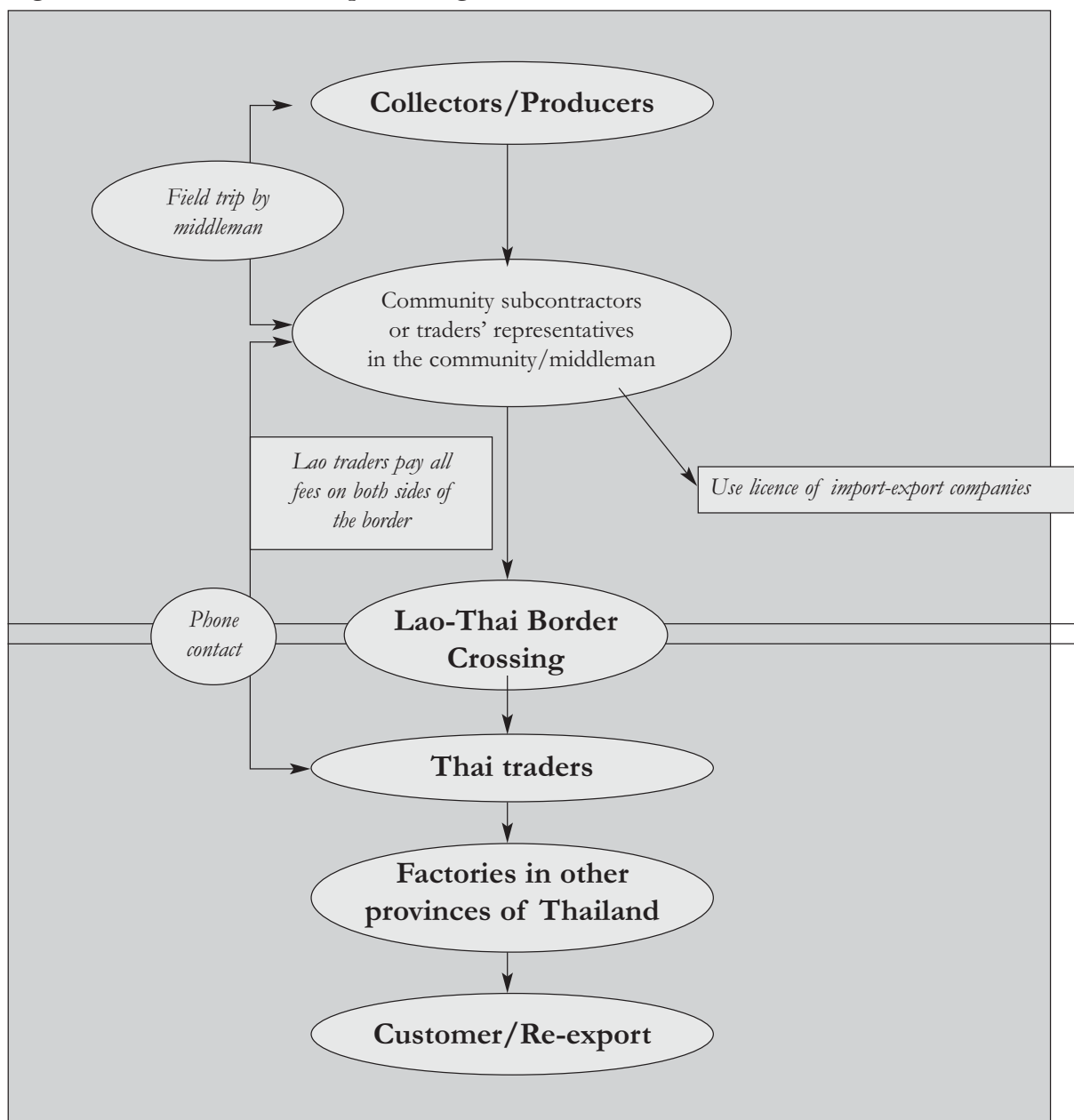
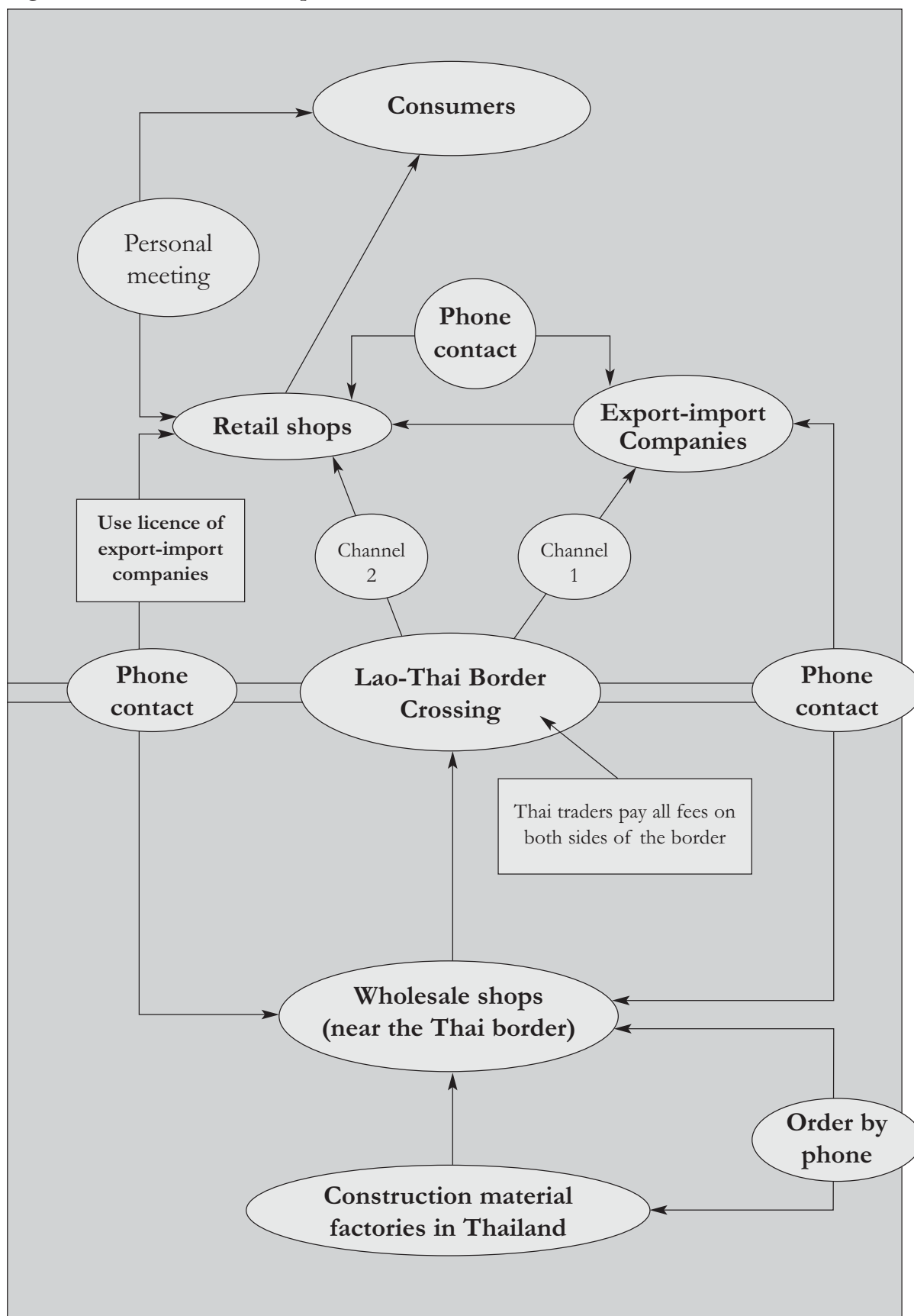


Figure 3.6: Market Chain for Imports of Construction Materials in Bokeo



3.3.4.10. WORKING CAPITAL

Due to difficulties in collecting sensitive information such as a company's working capital, this information could be collected only from small traders of food (including garlic) and clothes in Savannakhet. From interviews with shop owners, the working capital seems to range from 20 to 36 million kip. Our team visited a number of trading companies that are mainly engaged in cross border export and import activities.

Exporters of agricultural products and NTFP do not observe bookkeeping practices and pay lump sum tax of about 3 million kip to the provincial authorities for each export transaction. Therefore, it is difficult to collect any information on working capital.

Exports of agricultural products and NTFP are seasonal, and it takes a long time to get returns on investments. Exporters lack adequate working capital, so they are not able to expand and diversify their businesses. According to interviews with two subcontractors or traders' representatives in the community, the working capital ranges between 100 and 130 million kip. To maintain their ongoing businesses, they have to borrow money without interest or with minimum interest, with certain conditions imposed by Thai traders who supply the capital.

Because payments are made only in cash, Lao traders often face liquidity problems, because they have to make advance payments to producers in cash and in kind. They also require more cash in hand for purchases of products from collectors and producers. When Lao traders sell their products to Thai traders, they sometimes do so on credit. This adds to the cash-flow problem.

The retail construction material shops do not have official bookkeeping systems either, making it difficult to collect information on working capital. Import payments are made only in cash. The Lao traders often face liquidity problems because they have limited working capital. Interviews with five import-export companies and four construction material retailers found that the working capital for the companies ranges from 200 to 250 million kip and for the retailers from 90 to 120 million kip.

3.3.4.11. FINANCIAL AND BANKING ACCESS/SERVICES

In Laos, trading activities are financed through two major means, cash and credit. For border trade in this area, payments are mostly made with credit. Lao traders normally receive up to 30 days to make a payment after the arrival of the products, and they often give credit to Thai buyers for up to seven days. The form of payment is based on informal individual contracts or simply on trust. Business deals are therefore subject to risk. Payments are made both in cash and via banking institutions. Some traders comment that they prefer payments being made in cash or through a financial institution in the neighbouring country, believing those services to be relatively more reliable and efficient. However, access to local financial and banking services seems to be quite adequate. Savannakhet province has three bank branches and 13 banking service units of the Lao Development Bank, the Agricultural Promotion Bank and the Foreign Commerce Bank, and they are located in all major towns. Business people in this border area can thus choose between many banks. They can use banking services right at the border checkpoint, or access others in Sepone town, which is not too far from the border. The banking density²⁴ of Savannakhet province is slightly higher than the national average, due to the fact that Savannakhet has the highest provincial population in the Lao PDR. This density itself may in fact not fully reflect banking accessibility, because only a small part of the population conducts business transactions involving a bank. In general, the number of banks and service units appears adequate for Savannakhet.

²⁴ Banking density is calculated as the number of people per bank branch/service unit, using the population statistics from National Yearbook 2002 of the National Statistical Centre and the statistics of the number of bank branch and service units from concerned banks.

There are only two banks serving Houaysai district, namely the Lao Development Bank and the Agricultural Promotion Bank, and they have already expanded their branches to Tonpheung district. In addition, there are 94 semi-formal micro-finance institutions operating in the two districts, with 7,925 members.

Box 3.2. Interviews with traders in Bokeo

According to interviews with two community subcontractors or traders' representatives in the community and a number of farmers, the total cost of producing one kilogram of green beans is 579 kip and the selling price to the subcontractors or representatives is 2,295 kip (i.e. a margin of 1,716 kip). The total cost of producing corn was 200 kip per kg, the selling price to the subcontractors or representatives 780 kip (a margin of 580 kip).

3.4. IMPACT OF BORDER TRADE ON THE LIVING STANDARDS OF PEOPLE IN BORDER AREAS

3.4.1. HOUAYSAI-CHIANG KONG AND DANSAVANH-LAO BAO: A VILLAGE PROFILE

In order to describe the impacts of cross border trade on the living standards of people in border areas²⁵ where the case studies were conducted, village and household surveys were implemented in both Sepone district, bordering Vietnam, and in Houaysai and Tonpheung (HT) districts, bordering Thailand. Results from the village surveys are presented in this chapter.

3.4.1.1. HUMAN RESOURCES

The population of Laos has been growing rapidly in recent years. According to the population count in 2003, it had reached 5.5 million inhabitants, an increase of 20 percent from the 1995 census. The population in the sampled villages was 9,834 people in Sepone and 14,415 in HT and, as in the country as a whole, 21 percent of the population is in the age group 5–14.

As is shown in table 3.6, HT has a larger population, particularly in rural areas. The average household size is well below the size in Sepone (5.5 and 5.0 in urban and rural areas, respectively compared to 7.1 and 5.9). The average household size in Sepone is also larger than the average for the province, which is about 6.1 to 6.5 people/household, while the average household size in HT is similar to the provincial average. Larger households tend to incur more expenditure and suffer more hardship than households with fewer members.

With regard to the education level in these areas, the data give a somewhat conflicting picture. On the one hand, the percentage of school attendance is higher in HT than in Sepone for both rural and urban areas, reflecting that HT, as a capital district, is likely to have better educational opportunities while Sepone is basically a semi-rural and rural area. On the other hand, the illiteracy rate for both girls and boys in HT is higher in urban than in rural areas. Also the fact that the illiteracy rates for girls and boys in urban areas of HT are significantly higher than in Sepone is strange and contrary to expectations. It is interesting to note that in Sepone the percentage of female headed households is very much higher (6.5–12.4 percent compared to 0.1 percent in HT) and the illiteracy rates for girls and women are lower. These demographic and illiteracy data make HT appear better off in terms of human resources, but this difference is not very significant because Sepone is better off in terms of women's educational status and their role in the family.

²⁵ The survey is not representative of the whole districts in which it was conducted, but only, as with the case study, the border areas.

Table 3.6: Demographic, Illiteracy and Schooling Indicators in Sample Villages

Indicators, number and percent	Dansavanh-Lao Bao BTZ with Vietnam		Houaysa-Chiang Kong BTZ with Thailand		National level
	Sepone district, Savannakhet province		Houaysai, Tonpheung districts, Bokeo province		Pop. count 2003, LECS 3
	Urban	Rural	Urban	Rural	
Population	6226	3608	7631	6784	
Number of households	971	653	1592	1239	867,000
Average household size	7.1	5.9	5.5	5.0	6.1
<i>Percent</i>					
Female heads of households	12.4	6.5	0.1	0.1	
Divorced	12.4	8.4	0.1	9.8	
Female population	35.0	35.6	26.8	23.2	50.1
Disabled females	0.3	1.0	0.5	0.5	
Disabled males	0.6	0.5	0.1	0.1	
School attendance (age 6-18)	65.2	62.1	84.2	81.0	
Girl illiteracy rate (age 6-18)	4.5	50.4	62.9	10.0	
Boy illiteracy rate (age 6-18)	6.5	38.7	24.3	10.0	
Female adult illiteracy rate (age 19 to 60)	13.1	39.6	61.5	15.4	36
Male adult illiteracy rate (age 19 to 60)	19.8	27.5	13.0	5.8	15

Source: The National Statistical Centre, population count 2003. Illiteracy rates from Lao Expenditure and Consumption Survey 2002 (LECS 3) for population 15+

3.4.1.2. POPULATION MIGRATION

With the country's development, resettlement has been common in the Lao PDR, and the survey tried to investigate population movements into and out of the villages. The findings indicate that the number of people moving in was higher than those moving out, but migration accounts for a small proportion of the total population. However, over the past five years there has been a substantial number of people migrating into HT (4.3 percent of the population). The immigrants mostly come from neighbouring rural areas and some from other districts and villages. The main reason for the movements may be that HT, as the capital district of the province and the centre for business activities, provides more job opportunities and other social facilities. This situation is common in the Lao PDR, where people often migrate from their rural hometowns to seek opportunities in the cities. However, an estimated 1.3 percent of the population has moved out from HT.

Population movements were also observed in Sepone, but the movements are less significant. There the migration percentages were 3.2 (in) and 2.6 (out).

3.4.1.3. RESOURCES/ASSETS

These districts are endowed with different resources. Tonpheung has the largest average land area per village (956.9 ha), followed by Sepone (834.5 ha) and Houaysai (84 ha). The availability of agricultural land and the total land area prepared for paddy reflect the scale of their agricultural capacity, with Tonpheung having the largest area of agricultural land and paddy, followed by Sepone and Houaysai respectively. However, half of the agricultural land in Houaysai is irrigated, compared to one fifth in Sepone and only a small proportion in Tonpheung. The intensity of land use is thus different, as well as the possibility of producing more than is required for household consumption. However, the average agricultural land per household in the districts is almost the same.

The irrigation system is likely to be better in urban districts like Houaysai, whereas Sepone may face less land scarcity problem because the total land area per household is larger than in the two Bokeo districts. However, the recent formation of the border trade area in Sepone may boost the demand for land there. Access to agricultural equipment such as rice mills and hand tractors is about the same. The number of livestock raised per household is less than ten, but relatively more in Sepone.

Table 3.7: (Agricultural) Land Resources in Sample Villages

			Bokeo (Houaysai/ Tonpheung)	Savannakhet (Sepone)
1	Total land area	Ha/hhld	1.2	10.3
2	Area of agricultural land	Ha/hhld	1.1	1.7
3	Total irrigated agricultural land	Ha/hhld	0.0	0.1
4	Total area of rented land	Ha/hhld	0.0	0.0
5	Total area prepared for paddy cultivation	Ha/hhld	0.8	0.9
6	Area of irrigated paddy	Ha/hhld	0.0	0.1
7	Rice mills in the village	Units	5	4
8	Hand tractors in the village	Units	5	6
9	Water pumps in the village	Units	0	2
10	Households not owning any cattle/buffalo	%	13	14
11	Households owning more than two heads of cattle/buffalos	%	5	9
12	Households with no land	%	1	1
13	Households having sold their land during the past five years	%	5	4
14	Households having bought land during the past five years	%	0	1

Source: The National Statistical Centre

Note: The value 0.0 represents less than 0.05.

3.4.1.4. CROPS AND LIVESTOCK

Cultivation and livestock are essential for people in rural areas because these are the two main activities through which they make a living. Not only are they often the only source of income, but they are sometimes also the only source of food, other than what is collected (growing wild) from the forest. There is a great deal of similarity between the types of crops grown in the areas studied, with the major crops being rice and maize. The scale of the plantings is larger in HT for both crops (2,281 ha for rice and 1,289 for maize) than in Sepone (1,872 and 86 ha, respectively). Although the percentage of irrigated land is lower in HT, the farmers in these areas are able to produce a higher yield (kg/ha). This might be due to the fact that these areas are equipped with more agricultural equipment such as tractors, while Sepone still mainly relies on buffalos in farming work. In general, cultivation in HT is more intensive.

Besides crops, people in the areas studied raise livestock because, apart from being a source of income and investment, animals are often used for transportation and in farming. The livestock activities are somewhat different in the study areas. There are more villages engaging in livestock activities in Sepone, but the number of animals raised in HT is more than double that of Sepone. Livestock activities in Sepone may be more widespread but the scale of activity is smaller. The main animals raised in both areas are buffalos, cows and pigs; however, there are more sheep and goats in Sepone.

3.4.1.5. ACCESS TO INFRASTRUCTURE AND SERVICES

Roads and Transportation

In general, the infrastructure in the villages of HT is very different from Sepon's. Villagers in the urban areas of HT are within a distance of 0.86 km from an unpaved road and 6.7 km from a paved road, while figures for rural villagers are 0.4 and 8.2 km respectively. These figures are similar or slightly below the national averages. The distances in Sepone are 0.15 km to an unpaved road and 3.4 km to a paved road. Thus roads appear to be more accessible for rural villagers in Sepone, which is possibly a result of the extensive road development in Savannakhet. In addition to roads, villagers in both areas have access to water transportation.

Villagers in HT spend considerably less amount of time to reach the formal border gates (about 10 minutes from urban and 4 minutes from rural villages) compared to Sepone (111 and 77 minutes respectively). Villagers' involvement in border trade activities is therefore likely to be higher in HT.

Table 3.8: Access to Roads and Border Gates by Motorbike

Items of infrastructure and services	Urban		Rural	
	Distance (km)	Time (min)	Distance (km)	Time (min)
Bokeo (Houaysai/Tonpheung)				
To the nearest unpaved road	1	3	0	2
To the nearest paved road	7	20	8	30
To the nearest formal border gate from the village	2	8	10	31
To the nearest informal border gate	3	11	1	4
Savannakhet (Sepone)				
To the nearest unpaved road	-	-	0	1
To the nearest paved road	-	0	3	10
To the nearest formal border gate from the village	37	111	26	77
To the nearest informal border gate	0	0	1	2

Source: The National Statistical Centre

Note: The value 0.0 represents less than 0.5.

Water and Electricity Supply

The water supply situation appears to be better in HT. The major source of drinking water there is dug wells (both protected and unprotected), while particularly important water sources for rural villages are ponds/rivers/streams. For urban areas, piped water is provided from reservoirs or tankers. For Sepone, the main sources of drinking water are unprotected dug wells and tubed/piped wells or bore holes for urban areas, while ponds/ rivers/streams are almost the only source for rural villages. In addition, 756 households in HT have access to piped water while such access for Sepone is nil. Finally, the number of households that have access to electricity in HT (1197 for urban, 973 for rural) is higher than in Sepone (717 for urban and 197 for rural). Villagers in both urban and rural areas of HT thus have more choices in terms of water supply and more access to electricity. The difference is more noticeable for rural villages.

Table 3.9: Percentage of Households Having Access to Electricity and Piped Water

	Houaysai and Tonpheung		Sepone	
Areas	Percent using electricity	Percent using piped water	Percent using electricity	Percent using piped water
Total	76	27	56	0
Urban	75	41	74	0
Rural	79	7	30	0

Source: The National Statistical Centre

Access to Services

Access to health care: Access to health care services is again different for the study areas. Ten villages (out of 20) in HT are reported as having access to clinics/health centres, pharmacies or drug stores, while only three (out of 20) villages in Sepone report such access. This gap reflects the difference in the level of business activities and the level of development in those areas. However, this insufficiency in Sepone is offset by greater availability of health care workers. For instance, the frequencies of community health workers, traditional birth attendants, traditional health care workers and medicine bags are higher in Sepone. In addition, health care facilities are located relatively closer to the villages there.

Table 3.10: Number of Villages Having Access to Various Health Care Services

Services	Houaysai/Tonpheung			Sepone		
	Urban	Rural	Subtotal	Urban	Rural	Subtotal
Access to clinic/health centre/ pharmacy or drug store	4	6	10	3	0	3
Trained nurse	7	9	16	5	11	16
Community health worker	2	8	10	4	12	16
Traditional birth attendant	0	3	3	4	2	6
Traditional healer	3	2	5	4	2	6
Medicine bag/kit	1	7	8	1	6	7
Number of sampled villages	8	12	20	7	13	20

Source: The National Statistical Centre

Table 3.11: Distance by Motorbike from Villages to the Nearest Health Care Premises

Access to clinic/health centre/ pharmacy or drug store	Distance (km)		Travel time (minutes)	
	Urban	Rural	Urban	Rural
Houaysai and Tonpheung	1.7	5.4	2.1	6.6
Sepone	0.3	1.1	9.2	27.5

Source: The National Statistical Centre

Access to markets: In access to market facilities, HT appears to be better placed, as the number of various markets is higher. The major markets in both areas are mini-markets. Both rural and urban villages in HT are endowed with permanent and periodic markets, while such markets are available only in urban villages in Sepone. The story behind this situation is that local people in HT are more business oriented and therefore participate more in business activities, while people in Sepone seem to lack much interest in business activities. In addition, villagers in HT also have more food shops or restaurants due to a larger population and more business activities.

Table 3.12: Access to Markets/Restaurants

Amenity/service	Houaysai and Tonpheung			Sepone		
	Urban	Rural	Sub total	Urban	Rural	Sub total
Food shop or restaurant	6	3	9	4	1	5
Mini-market	6	9	15	5	8	13
Permanent market	1	1	2	2		2
Periodic market	2	2	4	2		2
Shop selling manure and agro-chemicals	1		1			
No. of sampled villages	8	12	20	7	13	20

Source: The National Statistical Centre

Access to schools: HT appears to have better access to schools. There are 20 schools in 20 villages with a total of 193 teachers, while only 16 villages in Sepone reported having a school in the village, with a total of 66 teachers. Consequently, the number of teachers per school is higher in HT (about 15 teachers/school in urban villages and six in rural) compared to Sepone (six teachers/school in urban and three in rural areas). The more populous and prosperous districts of HT thus gain from better educational services. In addition, the highest education available in Sepone is lower secondary school, whereas students in HT can access a higher secondary school in one urban village.

In addition to the differences in the number of schools and teachers in the study areas, the distance to the schools from villages also varies to the advantage of the Bokeo villages. Table 3.14 shows a slight difference in the distance to school from urban villages, but a large difference for rural areas. For instance, on average the lower secondary school is located 17 km from rural villages in Sepone and the travelling time for students is as high as 170 minutes, compared to 1.6 km and 16 minutes in HT. Although HT is a better place for schooling in terms of the number of schools and teachers and distance to schools, the number of textbooks available and the school operating status are very similar in the two areas.

Table 3.13: Number of Villages with Schools and Teachers by School Type

School type:	Houaysai and Tonpheung (Sepone)			
	Urban		Rural	
	Number of schools	Number of teachers	Number of school	Number of teachers
1. Non-complete primary school	0 (1)	0 (2)	2 (4)	2 (5)
2. Complete primary school	5 (5)	53 (32)	6 (4)	41 (12)
3. Lower secondary school	2 (1)	46 (8)	3 (1)	21 (7)
4. Upper secondary school	1 (0)	21 (0)	1 (0)	9 (0)
Total	8 (7)	120 (42)	12 (9)	73 (24)

Source: The National Statistical Centre

Note: Sepone in brackets

Table 3.14: Distances from Village to School and Travel Time (by motorbike)

School type:	Urban		Rural	
	Average distance (km)	Average time (minutes)	Average distance (km)	Average time (minutes)
Houaysai and Tonpheung				
1. Non-complete primary school	-	-	0.0	0.8
2. Complete primary school	0.9	2.9	0.8	9.2
3. Lower secondary school	1.7	15.7	1.6	15.8
4. Upper secondary school	4.9	33.6	5.0	50.0
Sepone				
1. Non-complete primary school	1.1	11.4	1.4	13.8
2. Complete primary school	0.3	3.6	5.9	73.1
3. Lower secondary school	2.3	24.3	17.1	170.8
4. Upper secondary school	8.6	87.1	22.9	227.7

Source: The National Statistical Centre

Credit and loans: Villagers in both areas appear to have access to credit programmes to some extent. Six rural villages and one urban village in HT and three urban villages in Sepone reported that bank or credit loans exist. The number of villagers with credit is higher in HT (17 villagers) than in Sepone (nine villagers). The main source of credit for urban villagers in HT is commercial banks, while rural villagers rely on commercial banks and self-help groups. In Sepone, the main sources of credit are commercial companies, self-help groups and moneylenders in urban areas and commercial companies in rural areas. It is interesting to note that commercial companies are the major source of credit for both study areas, suggesting confidence in formal credit programmes. In addition, villagers in both HT and Sepone use credit for similar purposes, such as agriculture, livestock and construction.

Table 3.15: Number of Villages with Access to Credit

	Houaysai and Tonpheung			Sepone			Total
	Urban	Rural	Subtotal	Urban	Rural	Subtotal	
Bank/credit unit	1	6	7	3	-	3	10
No. of sampled villages	8	12	20	7	13	20	40

Source: The National Statistical Centre

3.4.1.6. WELFARE PERCEPTIONS AND LABOUR MARKET IMPACTS

Perceptions of Changes in Living Standards

The major sources of income for most of the villagers in both study areas are agricultural activities, i.e. cultivation and livestock. Almost all villagers in Sepone are reported to have these activities as their main sources of livelihood. Other than agricultural work, villagers in both areas are working in trade/commerce, especially in re-sale and transport (mainly passenger transportation) businesses. However, the establishment of new businesses over the past five years is not very high. Most of the new businesses in HT are in entertainment, retail and passenger transportation, while rice milling and retailing are the major types of new establishments in Sepone. For those who are employed, wages are generally low. For example, the current wage for preparing land in urban area is 11,250 kip per day in HT and 10,700 kip per day in Sepone; while the wage for the service sector is 15,000 kip in urban areas of HT and 30,000 kip for Sepone.

Overall, villagers have a positive perception of how their welfare has changed over the past five years, with most feeling that there has been an improvement in their lives. In both areas, the most significant improvements are in education, personal security, income, public health, food and transportation. Some villages do have negative perceptions. For instance, seven villages in HT think that social problems have become worse. The number of villages that see improvements in their living standards is higher than the number of villages that think the opposite, with changes in laws and policies and changes in access to roads and other services seemingly tipping the balance.

Table 3.16: Opinions of Villages on Changes in Living Standards

Item	Bokeo		Savannakhet	
	Urban	Rural	Urban	Rural
Better off	4	4	3	5
Worse off	1	-	-	1
No change	3	8	4	7
No. of sampled villages	8	12	7	13

Source: The National Statistical Centre

Table 3.17: Opinions of Villages on Living Standards

	Better		Worse		No change	
	HT	Sepone	HT	Sepone	HT	Sepone
1. Income	14	13	3		3	7
2. Food	12	15	4		4	4
3. Public health	13	18			7	3
4. Education	19	15	1			5
5. Transportation	12	18	2		6	2
6. Social problems	8	12	7	2	5	6
7. Personal security	15	17	1	1	4	2
8. Other	0				2	1

Source: The National Statistical Centre

The reality is that benefits are often distributed unequally to different groups of people in society. But does this lead to differences in how people perceive their welfare situation? In HT almost all rural villagers felt that there had been improvements in education, personal security and income, while most urban villagers recognised improvements in education, public health and transportation. On the other hand, 11 (out of 12) rural villages in Sepone thought that public health, transportation and social security had been improved while seven (out of eight) urban villages considered income, food, public health and transportation as being better today. There are thus few differences between rural and urban areas. There are various reasons for these perceptions. Villagers attributed improvements in their living standards to changes in laws and policies, changes in access to roads and other services and the expansion of non-agricultural work.

Table 3.18: Number of Poor Households by Rural and Urban Areas

Poverty criterion	Bokeo				Total	Savannakhet				Total
	Urban	%	Rural	%		Urban	%	Rural	%	
1. Not enough rice (<16 kg/month/person)	23	1.4	109	8.8	132	337	34.7	433	66.3	770
2. Lack of adequate clothing	71	4.5	132	10.7	203	34	3.5	68	10.9	102
3. Not having permanent housing	195	12.2	313	25.3	508	381	39.2	433	66.3	814
4. Unable to meet expenses for health care	9	0.6	110	8.9	119	284	29.2	267	40.9	551
5. Unable to meet educational expenses for one's self and other family members	256	16.1	317	25.6	573	173	17.8	292	44.7	465
No. of households in sampled villages	1592		1239		2831	971		653		1624

Source: The National Statistical Centre

Poverty in Bokeo and Savannakhet

There is a considerable difference between the two areas in terms of various poverty indicators. Both urban and rural areas in Savannakhet are much worse off, especially with regard to rice security, access to housing, health and education expenditures. The difference in term of rice security seems particularly large, with less than 10% of rural households reporting inadequate rice consumption in Bokeo, compared to almost 35% in Savannakhet.²⁶

Perceptions of Cross Border Trade

It is expected that villages situated close to border points would experience the effects of trade activities, and this proved to be the case in both urban and rural areas in both study areas, where trade and trade-related activities have a dominant role for villagers. A total of 232 people and 164 households in HT reported involvement in cross border trade activities. Such figures are similar for Sepone (215 people and 171 households). The second most frequently mentioned activity is transport. Interestingly, in terms of labour migration, the number of people and households involved is very high for rural villages in HT, while it is shown as nil for rural villages in Sepone. An explanation may be that people can migrate abroad relatively easier in the border area between Thailand and Laos, reflecting the fact that these two countries are very similar in terms of customs and culture and the lives of the people are historically closely linked.

Table 3.19: Households and People Engaged in Cross Border Activities

	Houaysai and Tonpheung				Sepone			
	Urban Village		Rural Village		Urban Village		Rural Village	
	Person	HH	Person	HH	Person	HH	Person	HH
1. Trade (cross border)	144	124	88	40	114	70	101	101
2. Labour migration	7	5	52	34	20	18	-	-
3. Cross border production	26	14	-	-	-	-	-	-
4. Tourism	5	4	3	1	-	-	-	-
5. Transport	32	30	43	43	91	71	41	41
6. Other	9	9	5	5	40	30	-	-
No. of persons and households in sampled villages	7631	1592	6784	1239	6226	971	3608	653

Source: The National Statistical Centre

²⁶ In mid-2001, the Lao government was developing a reporting system on poverty levels within the country following the prime minister's Directive No. 10, dated 25 June 2001, on the "Development of Poverty Eradication Programmes." The definition of poverty was: "Poverty is the lack of ability to fulfil basic human needs, such as: not having enough food [i.e. less than 2,100 calories per day/capita], lack of adequate clothing, not having permanent housing, not capable of meeting expenses for health care, not capable of meeting educational expenses for one's self and other family members, and lack of access to transport routes." This directive introduced specific criteria for defining poverty at household, village, district and provincial levels. Households considered as poor are households with an income (or the equivalent in kind) of less than 85,000 kip (100,000 kip for urban and 82,000 kip for rural) per person per month (at 2001 prices). This sum allows the purchase of about 16 kilograms of milled rice per person per month; the balance is insufficient to cover other necessities, such as clothing, shelter, schooling and medical costs.

Furthermore, the survey indicates that the villagers look at cross border trade similarly to international trade in general, i.e. that the key benefits are new opportunities for domestic products to reach export markets and the boost of foreign direct investment that would follow. As shown in Table 3.20, the villages in both study areas agree that the most obvious advantage is that cross border trade eases travel to the neighbouring country (for pleasure, health care etc.), increases business opportunities and business deals with neighbouring countries and promotes local business orientation. The second most frequently reported positive impact is access to other markets and the increase in varieties of goods in the domestic market. In both study areas, social problems are seen as the main negative effect of cross border trade. These social problems include crime, drugs, prostitution and outside cultural influences. These problems not only persist in these areas but are also among the most worrying social problems associated with the opening up of the country. Villagers in Sepone appear to be more concerned about the negative impacts of cross border trade, with other perceived major disadvantages including increased competition for local businesses and booming informal or illegal trade.

Table 3.20: Number of Households with Positive Views of Cross Border Trade

View	Houaysai and Tonpheung		Subtotal	Sepone		Subtotal
	Urban	Rural		Urban	Rural	
1. Ease of travel to neighbouring country (for pleasure, health care etc.), increase in business opportunities and promotion of local businesses	44	76	120	53	79	132
2. Creation of job opportunities				1	3	4
3. Improvement in living conditions				22	24	46
4. Access to markets and increase in choice of commodities	3	2	5	19	47	66
5. Increased economic growth and opening of economy to neighbouring countries				10	2	12
6. Increased government revenue and national income at large	4		4	1	2	3
7. Improvement in mutual understanding among nations and strengthening of friendships	3	1	4	5	4	9
8. Increased income from tourism	2		2	4		4

Source: The National Statistical Centre

Table 3.21: Number of Households with Negative Views of Cross Border Trade

View	Houaysai and Tonpheung		Subtotal	Sepone		Subtotal
	Urban	Rural		Urban	Rural	
1. Outflow of money (foreign currencies) from the country	2		2	2		2
2. Illegal immigration and emigration (labour)	7	5	12	5	8	13
3. Informal/illegal trade		3	3	9	25	34
4. Competition for local business				33	31	64
5. Social impacts such as crime, drug problems, prostitution, outside cultural influences	19	24	43	48	71	119
6. Increase in trade deficit		1	1	2		2

Source: The National Statistical Centre

3.4.2. HOUSEHOLD EVIDENCE FROM DANSAVANH, SEPONE DISTRICT IN SAVANNAKHET, AND HOUAYSAI/TONPHEUNG (HT) DISTRICT IN BOKEO

3.4.2.1. HOUSEHOLD CHARACTERISTICS

The households have lived in the selected districts for a long time, on average 20 years for urban and 27 years for rural dwellers in Sepone, and about 20 years for both urban and rural dwellers in HT. Male household members between 20 and 60 years of age constitute about 43 percent of the total male population in Sepone, and 45 percent in HT, both of which are higher than the national average of 31 percent. Females of the same ages are below the national average. Urban households in Sepone have slightly more members than the national average of 6.1 (LECS 3),²⁷ while rural households at 5.9 have fewer members on average. The average household size in HT is lower than the national average, 5.5 in urban and 5.0 in rural areas. The age allocation of the population living in HT is somewhat different from the overall national figures. The base of the age pyramid is slightly narrower and the middle level is slightly wider, especially for the female population. The share of the population in the age group 20 to 59 is 45 percent for male and 41 percent for female. This is higher than the national statistics (31.5 percent and 41 percent respectively). The districts are thus equipped with quite a large labour force.

Almost half of household members are uneducated in Sepone. This problem is more severe in the rural areas, where 65.5 percent have not received any education. Of the urban sample, 24 percent report a few years of study at a primary school, another 13 percent completed primary education, and 12 percent attended secondary schools. In HT also, a large proportion of the population is uneducated or has completed only a few years of study. The survey reveals that of the population aged six years and above, 33.2 percent has received some

²⁷ The Lao Expenditure and Consumption Survey

schooling but did not complete the primary level, while 29.1 percent is uneducated. Only 0.6 percent had entered university or higher levels while the remainder (more than a third) only completed secondary education, and some went on to vocational or technical schools. The village survey further disclosed that there is only one upper secondary school and no tertiary institution in this area. This is a typical situation for many rural provinces in the Lao P.D.R, where students leave school quite early to earn a living. The low level of education in both areas is a constraint on human resource development.

3.4.2.2. HOUSING CONDITIONS AND SAFE WATER

Housing conditions are quite poor in Sepone, where the majority of the urban population (80 percent) live in wooden houses with tin roofs and 16 percent live in thatched houses, only 4 percent residing in concrete or brick houses. The situation is again worse for rural households, 70 percent living in thatched houses, another 20 percent having wooden houses with tin roofs, and no families owning a concrete house. Although the housing conditions are not very good, nearly all families (159 out of 16) have their own house. The average living area is 68.3 square metres for urban villages and 29.4 for rural villages. Housing conditions in HT are reasonable. There is a variety of housing in urban areas, including thatched houses, wooden houses with tin roofs, wooden houses with tile roofs and concrete houses. Similarly, there is no dominant house type in rural areas. The four common types are wooden houses with tin roofs (36 percent), thatched houses (30 percent), wooden houses with tile roofs (20 percent) and concrete or brick houses (14 percent). The type of house reflects the different living conditions of households in this area. Almost all families live together in their own house, with an average living area of 72.7 m² in urban and 52.7 m² in rural areas.

The basic infrastructure in Sepone is quite inadequate. Most urban households (73 percent) rely on dug wells as their main source of drinking water, while 17 percent some have access to hand pumps or bore holes. Ninety-six percent of rural households rely on rivers for their water supply. No household in Sepone has piped water in the dwelling. Sanitation facilities are also very inadequate, only 44.6 percent of the urban and 1 percent of rural households having any sanitation facility. Fortunately, households do have access to fuel sources. In urban areas, fuel sources include self-collected firewood (33 percent), bought firewood (13 percent) and bought charcoal (26 percent). Rural households usually have to rely on self-collected firewood. The inadequacy of basic infrastructure is a major health concern. Households in HT have reasonably good access to infrastructure. In terms of access to water supplies, households in urban areas are much better off. The major sources of drinking water for urban households are piped water and dug wells (56 percent and 30 percent respectively). Rural households rely on dug wells and big rivers (60 percent and 30 percent respectively). In addition, 83.9 percent of urban households and 69.2 of rural households have access to sanitary toilets. Last but not least, for cooking 67 percent of urban households and 93 percent of rural households use self-collected firewood, while the others buy firewood.

3.4.2.3. ACTIVITIES AND EMPLOYMENT

The main occupation of household members in the selected districts is working on one's own farm, with crop cultivation, animal farming and fish culture also being important. About half of the urban and most of the rural households participate in such activities, while a small proportion are engaged in small self-owned businesses or working in service businesses located along the main road to the border checkpoints (Table 3.22). The survey shows that farming households spend less time working than other self-employed workers. Although employed work is not common, it should be mentioned that 10 percent of the economically active population in Houaysai are employed. Small businesses and sellers at border points make up about 10 percent of the economically active population in both districts.

Table 3.22: Economically Active Household Members by Type of Activity (in percent)

No	Items	Savannakhet/Sepone		Bokeo Houaysai/Tonpheung	
		Urban	Rural	Urban	Rural
	Total number of household members	197	328	212	285
1	Schooling	4	1	0	3
2	Own farm work	54	96	48	86
3	Farm work for others	4	0	1	2
4	Worker in a hotel/restaurant/shop along main road to border	6	0	10	1
5	Manufacturing	1	1	1	0
6	Transportation (motor-taxi, vehicle)	5	0	2	1
7	Seller at border market	4	0	5	0
8	Small business (grocery, repair shop, barbershop)	6	0	11	1
9	Collecting from common property resources	1	0	0	0
10	Other	18	2	23	5
	Total	100	100	100	100

Source: The National Statistical Centre
Economically active household members are those who can do some work or study and work.

3.4.2.4. LAND OWNERSHIP AND ACCESS TO LAND

The majority of the sampled households own non-residential land. As expected, this is more frequent in rural than in urban areas. Ownership is less common in urban villages in HT, which may be explained by the fact that HT includes the capital city of Houaysai.

Table 3.23: Household Ownership of Non-Residential Land

	With ownership	Without ownership	Total	Percentage	
				With ownership	Without ownership
Sepone	150	10	160	94	6
Urban villages	46	10	56	82	18
Rural villages	104	0	104	100	0
HT	121	39	160	76	24
Urban villages	42	22	64	66	34
Rural villages	79	17	96	82	18

Source : The National Statistical Centre

The average agricultural land area for rural households in Sepone is less than 1 ha, the highest figures being 0.97 ha for wet season rice land and 0.78 ha for two-season paddy land. The average household has only 0.55 ha of dry season paddy land with access to irrigation. On the other hand, urban households have a slightly larger agricultural area. In addition, households also have an average of 1.03 ha of plantation land areas. Households in Sepone use their land mainly for cultivation, and land leasing does not exist. Households in Bokeo appear to have more rice land (including more irrigated rice land). However, in both selected districts farming is a small-scale activity. The latest national household survey shows that the average household consumes at least 600 kg of rice per year. If the yield is 1,200 kg per ha, equivalent to 2,000 kg of paddy rice—a fairly normal yield—this means that a household needs at least 0.5 ha to be self-sufficient in rice.

3.4.2.5. ASSETS

Possession of assets is more uneven between rural and urban households in Sepone than in HT. All urban households in Sepone own electric fans (17.3 percent in rural areas), 79 percent have a television (10 percent in rural areas), and about 59 percent possess cassette players (10 percent in rural areas). The most common possession in rural households (25 percent) is a radio. Urban households in Sepone have slightly more durables than urban households in HT, but rural households there are far less equipped. In terms of access to information media, rural households are disadvantaged. Except in urban areas in Sepone, few households own income-generating durables like sewing machines.

Bicycles and motorbikes are frequently owned by urban households, while motorbikes are far less frequent among rural households. Households in Sepone have slightly more transport equipment, households in HT more farming equipment. Few households have cars. Agricultural equipment, such as threshing machines and rice mills, is rarely owned.

Table 3.24: Percentage of Households Possessing Durable Goods

Region	Television	Radio	Cassette player	Electric fan	Sewing machine	Water pump	Other
Sepone							
Total	34	26	27	46	16	14	1
Urban	79	27	59	100	38	39	2
Rural	10	25	10	17	5	0	0
HT							
	66	26	43	54	14	7	15
Urban	69	27	55	67	11	3	27
Rural	64	26	35	45	16	9	7

Source: The National Statistical Centre

Table 3.25: Percentage of Households Possessing Transportation and Farming Equipment

Type of equipment	Sepone	HT
	%	%
Motorbike	41	36
Bicycle	64	56
Boat	13	8
Threshing machine	1	1
Rice mill	2	9
Plough and harrow	10	6
Hand-tractor	10	22
Harvester	0	1
Generator	0	2
Car	10	7
Other	1	3

Source: The National Statistical Centre

3.4.2.6. CROP CULTIVATION AND LIVESTOCK

The survey indicates that 77 percent of the urban and 98 percent of rural households participate in cultivation in Sepone, compared to 45 and 89 percent respectively in HT. Most households own land for rice farming. Thirty-six urban and 149 rural households in Sepone own land and grow rice, the majority being wet season rice fields among urban, and two-season paddy land and rainy season paddy land among rural households.

In total, about 70 percent of households in HT own land for growing rice, the majority being wet season rice land, while 21 percent are reported as using land for maize cultivation. The households also own considerable amounts of land to grow additional crops such as vegetables and beans.

Table 3.26: Household Crop Cultivation

	Total households	No. of households cultivating crops	Percentage	No. of households not cultivating	Percentage
Sepone					
Urban	56	43	77	13	23
Rural	104	102	98	2	2
HT					
Urban	64	29	45	27	42
Rural	96	85	89	19	20

Source: The National Statistical Centre

For cultivation, draught power, land rent (in kind) and planting materials are most costly for farmers in Sepone. For farmers in HT, the cost of draught power is more than half of the total cost. Use of fertilisers is not common, and pesticides even less, but more common in HT than in Sepone. Transport accounts for a larger part of the overall cost in HT, while rent of land is far more important in Sepone. It seems farmers in Bokeo run their farms in a more efficient way than farmers in Savannakhet.

Table 3.27: Costs of Cultivation

Cost Item	Sepone		Houaysai		Tonpheung	
	No. of hhlds with costs	% of total cost	No. of hhlds with costs	% of total cost	No. of hhlds with costs	% of total cost
Planting materials (seeds, seedlings)	11	22	5	6	22	8
Manure, fertilisers, pesticides	16	11	17	21	54	22
Electricity, oil, gas, diesel oil	9	4	1	1	33	6
Storage	-	-	3	2	1	0
Hired draught power (tractors/animals), including human labour, for ploughing/harrowing	17	26	18	51	57	52
Irrigation charges	1	0	-	-	2	0
Transportation of inputs and products	9	2	20	17	29	8
Services/technical support from government and other agencies	48	4	1	0	-	0
Repair and maintenance of farm houses, animal sheds and equipment	39	16	4	2	12	2
Rental of farm land or equipment	4	15	-	-	1	0
9. Other	1	0	3	2	3	0
Total		100		100		100

Source: The National Statistical Centre

Table 3.28: Animals Owned

	Sepone				Houaysai/Tonpheung			
	Urban		Rural		Urban		Rural	
	Number owned	Average per hhld	Number owned	Average per hhld	Number owned	Average per hhld	Number owned	Average per hhld
1. Cows	87	2	71	1	11	0	66	1
2. Buffalos	113	2	74	1	11	0	100	1
3. Pigs	45	1	78	1	38	1	192	2
4. Goats and sheep	53	1	55	1	20	0	4	0
5. Chickens and ducks	900	15	435	4	590	9	1700	18
6. Other	11900	213	6000	58	-	-	380	4

Source: The National Statistical Centre

3.4.2.7. HOUSEHOLD REVENUE

Table 3.29 shows the average household annual income from agriculture and business. It further indicates that while farmers in HT have some capacity to produce crops for market, this is much less the case in Sepone. Although livestock are essential as food and as an input in farming, raising livestock is not an important income-generating activity. Income from business is much higher in HT and is mainly an urban activity in both districts.

Table 3.29: Average Annual Household Revenue by Source (thousands of kip)

Item	Sepone		HT	
	Urban	Rural	Urban	Rural
Crops in wet season	704	9,931	24,744	142,458
Crops in dry season	7,205	1,000	1,525	87,224
Livestock	3,936	2,129	2,981	1,785
Business	71,008	1,150	124,217	16,710
Work for others (wages)	600	7,400	561	6,103
Natural resources (wet season)	335	311	394	385
Natural resource (dry season)	250	2,068	492	742
Other sources in wet season	400	133	1,933	153
Other sources in dry season	1,575	15	2,139	489

Source: The National Statistical Centre

Note: Business revenue is mainly from retail trade.

3.4.2.8. HOUSEHOLD CONSUMPTION AND EXPENDITURE

Average consumption and expenditure levels are higher among urban households, particularly in Sepone, where rural household expenditures are around half those of HT. Rural households in Sepone have only half the average consumption of rural areas in Laos. On the other hand, urban households in Sepone have a level of consumption that is in line with the national average. Urban and rural households together in Bokeo have

20 percent lower consumption than households in Savannakhet. Households in HT are somewhat better off than their provincial neighbours.

Urban and rural households on average spend from 134,648 to 57,484 kip per month on food, respectively. These figures are much lower than the national average of 288,200 kip. Food in Sepone makes up 41 percent of urban household's total consumption and as much as 71 percent of rural household's total consumption. In HT the food shares are 47 and 58 percent, respectively

Table 3.30: Per Capita and Household Consumption and Expenditure (kip)

Per capita	Sepone		HT	
	Urban	Rural	Urban	Rural
Monthly food consumption	134,600	57,500	120,200	105,500
Monthly food expenditure	107,700	46,000	96,100	84,400
Monthly non-food expenditure	157,500	19,000	106,900	60,800
Total monthly consumption	292,100	76,500	227,100	166,300
Total monthly expenditure	265,200	65,000	203,000	145,200
Food consumption as percentage of total consumption	46.1	75.2	52.9	63.4
Food expenditure as percentage of total expenditure	40.6	70.8	47.4	58.1
Monthly average consumption per household	1,925,000	446,000	1,054,000	892,000

Note: The difference between consumption and expenditure is the value of own produced food. This difference has been estimated at 25 percent of food expenditure based on data from the national household survey.

Examining household expenditure in more detail, it is revealed that fish and meat make up the largest share of food expenditure in urban households in Sepone, while rice of all kinds, fish, meat and cooking ingredients make up the majority of rural households' food expenditure. Table 3.31 illustrates that fish and meat make up 46.8 percent of rural households' food expenditure, while rice takes only 15 percent. On the other hand, rural households spend a similar amount of money on cooking ingredients (spices and seasonings) as on protein sources such as fish and meat. This is because rural households have significantly less funds available for food expenditure and therefore have to rely on such ingredients to improve dishes in the most economical way. In addition, rural households spend as much as 15 percent of their food expenditure on tobacco, which is significantly higher than among urban households. For non-food expenditures, urban households spend significantly on fuel and education, while public transport, personal care, education and fuel are major non-food items among rural households. Clothing and education are major expenditure items for both rural and urban households, while health care/treatment/medicine is especially heavy for rural and house maintenance/repair for urban households.

In HT expenditure on food, fish and meat make up the largest proportion of household total expenditure (37 percent in urban and 46 percent in rural areas) followed by rice (15 percent for urban and 10 percent for rural areas). The expenditure on rice may not be so significant because most village households grow their own rice for consumption. It is interesting to note that rural households spend more on tobacco and dining out than urban households (Table 3.31).

Outlays on children's education and transportation make up close to or more than half of the total expenditure on non-food items in both districts. Rural households have to spend more on fuel and transportation than urban households. Public transport is more used by rural households, with 18 percent of the total non-food expenditure going to this among rural households compared to just 3.4 percent among urban households in HT. The share spent on education is significantly higher in urban areas. The origin of the goods consumed illustrates links to cross border trade activities. The majority of food items originate in Laos with the exception of cooking

ingredients (including spices and sauces) and other non-major food items, while purchases of non-food items rely significantly on imports such as personal care products, lighting and fuel.

Table 3.31: Percentage Expenditure on Types of Food

Food	Sepone		HT	
	Urban	Rural	Urban	Rural
1. Rice and other cereals (bread, maize, noodles)	15.0	32.4	15.5	10.4
2. Fresh fish and meat (chicken, eggs, pork)	46.8	20.5	36.4	46.3
3. Fresh, prepared and preserved vegetables	6.0	0.5	12.8	6.2
4. Fruits and seeds	3.9	3.3	11.3	4.2
5. Cooking ingredients, spices and seasonings	7.9	21.0	8.9	8.5
6. Tobacco products	2.6	15.0	2.9	8.4
7. Beverages	9.9	5.8	3.0	4.8
8. Tea, coffee, cocoa	0.8	0.0	0.8	0.3
9. Other food products (fried insects, peanut preparations, flavoured ice, ice)	1.0	0.9	4.5	4.5
10. Eating outside home	6.0	0.8	3.8	6.4
Total	100	100	100	100

Source: The National Statistical Centre

3.4.2.9. CREDIT AND DEBTS

The credit situation in Sepone is quite different from the norm for the country, where it is usually believed that people in rural areas tend to use credit more than people in urban areas. The survey indicates that 18 percent of urban households have members who use credit programmes, while this is just 6 percent in rural areas. Most borrowers receive loans from community credit schemes (nine out of 16) or moneylenders (five). The average loan is about 5 million kip per household for loans from community services and state-owned banks, while loans from moneylenders average 2.6 million kip.

A considerable number of households are also engaged in credit programmes in HT. Table 3.32 shows that 20 percent of urban households and 29 percent of rural households have taken loans. A majority of households borrow from friends/relatives and from state-owned banks. For Houaysai households, the values of the loan range from 3 to 255 million kip with the largest loans being taken from state-owned banks. The average loan per household ranges from 1.1 to 31.8 million kip. Tonpheung households seem less inclined to place themselves in debt, with the value of loans ranging from 6 to 22 million kip, and an average loan per household from 1.5 to 2.5 million kip. Finally, the interest rates appear to be higher in Houaysai, especially for loans from relatives and friends. The average interest rate for Tonpheung is 3.3 percent per month for loans from moneylenders and 3.1 percent from relatives and friends, while the interest rate for loans from relatives and friend was just 1.5 percent for rural households. However, the interest rates from state-owned banks and community credits were higher in Tonpheung (2.3 percent and 1.4 percent, compared with 1.6 and 0.8, respectively in Houaysai).

Table 3.32: Households with Members Engaged in Borrowing

	Sepone		HT	
	Urban	Rural	Urban	Rural
Percent with loan	18	6	20	29
Number of households in sample	56	104	64	96

Source : The National Statistical Centre

3.4.2.10. IMPACTS OF CROSS BORDER ECONOMY/TRADE

The impacts of cross border trade on households in Sepone and HT will be examined in various ways. Assessments of welfare, work opportunities, poverty and other indicators will give a general picture of how the lives of household members have been influenced by the opening of cross border trade. The survey reveals that in Sepone, 80 people out of 525 (15 percent) had crossed the border at some time in the past year. In HT, 127 people out of 497 (26 percent) had crossed the border. These include people who may cross the border quite frequently. Working people form 90 percent of those crossing the border, and they cross mostly to purchase something, visit friends/relatives and for tourism (Tables 3.33, 3.34). Working people may be those who benefit most from CBT. The types of goods that household members buy are mostly daily consumption products, clothing (including footwear) and food. Purchases for agricultural production are less frequent.

Table 3.33: Number of Household Members Crossing Border during Last Year in Sepone District, by Activity and Purpose

Purpose of crossing	Able to work	Study only	Unemployed	Total
Visit relatives/friends	12	0	0	12
Wage worker at border				
Purchasing goods	27	0	1	28
Selling goods	7	3	1	11
Tourist visit	13	1	1	15
Work that requires travel to border	2	0	0	2
Own business	8	0	0	8
Other	3	1	0	4
Total	72	5	3	80

Source: The National Statistical Centre

Table 3.34: Number of Household Members Crossing Border during Last Year in HT, by Activity and Purpose

Purpose of crossing	Able to work	Study only	Unable to work because of old age	Unemployed	Total
Visit relatives or friends	9	1	0	0	10
Wage worker at border	2	0	0	0	2
Purchasing goods	42	2	1	1	46
Selling goods	7	0	0	0	7
Tourist visit	19	2	3	0	24
Work that requires travel to border	2	0	0	0	2
Own business	3	0	0	1	4
Other	27	0	0	5	32
Total	111	5	4	7	127

Source: The National Statistical Centre

Table 3.35: Number of Household Members in Sepone Crossing Border, by Type of Job and Purpose

Specific activities	Visit relatives or friends	Wage worker at the border	Purchasing goods	Selling goods	Tourist visit	Work that requires travel to border	Own business	Other	Total
Own farm work	11		20	5	7	0	2	1	46
Farm work for others	0		0	0	2	0	0	0	2
Transportation	1		1	1	0	0	1	0	4
Border market sellers	0		3	1	2	0	1	0	7
Small business	0		0	0	0	0	4	0	4
Other	0		3	0	2	2	0	2	9
Unspecified	0		1	4	2	0	0	1	
Total	12		28	11	15	2	8	4	80

Source: The National Statistical Centre

Table 3.36: Number of Household Members in HT Crossing Border, by Type of Job and Purpose

Specific activities	Purpose of Border Crossing								
	Visit relatives or friends	Wage worker at the border	Purchasing goods	Selling goods	Tourist visit	Work that requires travel to border	Own business	Other	Total
Go to school	0	0	0	1	1	0	0	0	2
Own farm work	7	1	29	5	11	2	3	17	75
Worker in hotel/restaurant/shop along the main road to border	0	0	0	0	0	0	0	2	2
Transportation	0	0	1	0	2	0	0	0	3
Border market seller	0	0	1	0	0	0	0	1	2
Small business	0	1	8	0	1	0	0	2	12
Other	2	0	3	1	4	0	0	5	15
Unspecified	1	0	4	0	5	0	1	5	16
Total	10	2	46	7	24	2	4	32	127

Source : The National Statistical Centre

Since Sepone shares a border with Vietnam, it is not surprising that most goods purchased are from Vietnam and that Thai products are mostly purchased in HT. Vietnamese goods are considered to have a medium and affordable price with a moderate quality, while Thai goods are considered more expensive, but the quality is regarded as high.

Table 3.37: Purchases Abroad by Origin of Purchased Goods (%)

District/Item	Urban			Rural		
	Thai	Vietnamese	Other	Thai	Vietnamese	Other
Sepone	20	77	3	11	88	1
HT	89	0	11	89	2	9

Source : The National Statistical Centre

The benefits of cross border trade appear to be increased availability of goods, and working households appear to benefit more from this than others. However, both urban and rural households support the operation of the checkpoint or cross border trade. The survey shows that 91 percent of urban households and 99 percent of rural households in Sepone fully support the opening of the checkpoint. In HT the support is slightly less but still high, 79 and 85 percent, respectively.

Table 3.38: Household Support for Opening of Checkpoints

	Sepone		HT	
	Urban	Rural	Urban	Rural
Fully support	91	99	79	85
Do not support at all	5	1	9	7
Mixed	4	0	12	8
Total	100	100	100	100

Source : The National Statistical Centre

The main difference between the districts is that those who consider themselves as very poor are more numerous in rural Sepone, at 36 percent compared to 6 percent in rural HT, for the rural areas. Few households believe they are rich. Possession of durable goods, the value of transportation and farm equipment and the consumption level reflect poverty. Rich households have more capital and durable goods than poor households. Access to land and the value of land are probably good indicators of the perception of poverty. Access to land can generate food for the household and, if large enough, be an important source of income. The largest gap between rich and poor is in Sepone.

Table 3.39: Household ranking of wealth status

	Sepone				HT			
	Urban	%	Rural	%	Urban	%	Rural	%
Rich	1	2	2	2	1	2	6	6
Medium	28	50	27	26	31	48	55	57
Poor (earning just enough for food)	21	37	38	37	26	41	30	32
Very poor	6	11	37	36	6	9	6	6
Total	56	100	104	100	64	100	96	100

Source: The National Statistical Centre

Table 3.40: Main Indicators by Classes in Sepone (per household)

Item	Rich	Medium	Poor	Very poor
	Mean	Mean	Mean	Mean
Cultivated areas (ha)	1.00	1.35	1.00	0.73
Value of cultivated areas (kip)	5,050,000	10,861,000	6,419,000	1,236,000
Durable goods (kip)	6,355,000	2,377,000	1,102,000	736,000
Value of transportation and farm equipment (kip)	122,043,000	20,263,000	4,924,000	1,075,000
Value of other assets (kip)	1,302,000	575,000	128,000	112,000
Weekly food expenditure (kip)	757,000	149,000	76,000	67,000
Monthly non-food expenditure (kip)	2,710,000	417,000	177,000	31,000
Other non-food annual expenditure (kip)	41,072,000	2,753,000	1,144,000	282,000

Source: The National Statistical Centre

Table 3.41: Main Indicators by Classes in Houaysai and Tonpheung (per household)

Item	Rich	Medium	Poor	Very poor
	Mean	Mean	Mean	Mean
Cultivated areas (ha)	1.60	1.90	1.30	0.80
Value of cultivated areas (kip)	22,190,000	19,413,000	29,643,000	2,005,000
Durable goods (kip)	3,585,000	1,882,000	1,131,000	730,000
Value of transportation and farm equipment (kip)	45,421,000	7,833,000	12,696,000	1,349,000
Value of other assets (kip)	-	14,900,000	838,000	-
Weekly food expenditure (kip)	82,700	132,000	93,200	128,000
Monthly non-food expenditure (kip)	465,600	264,500	198,700	42,300
Other non-food annual expenditure (kip)	1,217,100	2,205,500	2,344,500	440,000

Source: The National Statistical Centre

When examining changes in the trend of living standards of households over the past five years, the conclusion is unclear. In Sepone only 11 (out of 160) households thought that their living standards had become much better, of which six cross the border. Ninety-seven of the households had gained moderately better living standards, of which 67 percent do not cross the border. At the same time, the majority of households reporting that their living standards had not changed or had become worse do not cross the border (Table 3.43). The overall situation appears to be that households that cross the border are among both those having improved and those having worse living standards. Despite these complications, of those who cross the border, the majority appear to have improved their living standards. In HT there are more households that believe that their living standards are much better, but those in which the situation is the same or worse are in nearly the same proportion as in Sepone. Crossing the border is generally more common in HT regardless of trends in living standards.

The reasons for improved living standards appear to vary between urban and rural households in Sepone. Urban households think that better living standards have arisen from the fact that more members in the household have been able to work and generate income. Increased agricultural land and more job opportunities at the border are other reasons mentioned (Table 3.44). The fact that more household members are able to work may be related to the opening up of more employment opportunities in the border area. Improvements in household living standards thus appear to be related to cross border trade activities.

Improvements reported in HT are definitively not in terms of employment opportunities, since there is only one case in which a household member has obtained work as a result of border trade activities. The survey further reveals that improvements in the living standards of urban households are a result of the households owning a larger area of agricultural land than before and more family members generating income for the household. Rural households have a somewhat different opinion. Most rural households see that their living standards have improved because they now own more agricultural land and the yield has increased. In addition, some households (5 to 10 percent) think that the improvement in their living standards is a result of increased work opportunities at the border and along the main road to the border. These three major reasons may not be directly linked with the opening of border trade, but may be indirectly linked. For instance, the fact that rural households have a higher agricultural yield may result from better access to information, seeds and fertilisers, which are normally more advanced in Thailand.

Table 3.42: Trend of Living Standards in Past Five Years

	Sepone		HT	
	Number of households	% crossing border	Number of households	% crossing border
1. Much better off	11	55	28	75
2. Moderately better off	97	33	84	49
3. About the same	38	29	33	33
4. Moderately poorer	13	8	14	36
5. Much poorer	1	100	1	0
Total	160	32	160	49

Source: The National Statistical Centre

Table 3.43: Households' View of why Living Standards Improved, Sepone

View	Urban		Rural	
	First rank	Second rank	First rank	Second rank
Own more agricultural land	21.3	21.7	25.8	25.8
Higher agricultural yield	-	-	6.5	6.5
More job opportunities at the border and along main road to border	14.9	15.2	40.3	40.3
More hh members able to help generate income	48.9	47.8	16.1	16.1
Fewer hh members unable to help generate income	2.1	2.2	-	-
Other	12.8	13.0	11.3	11.3
Total	100.00	100.00	100.00	100.00

Source: The National Statistical Centre

Table 3.44: Households' View of why Living Standards Improved, HT

View	Urban		Rural	
	First rank	Second rank	First rank	Second rank
Own more agricultural land	25.6	35.7	37.5	39.4
Higher agricultural yield	2.6	-	29.2	30.3
More job opportunities at border and along main road to border	5.1	-	9.7	10.6
More hh members able to help generate income	33.3	42.9	6.9	7.6
Fewer hh members unable to help generate incomes	5.1	3.6	-	-
Other	28.2	17.9	16.7	12.1
Total	100.00	100.00	100.00	100.00

Source: The National Statistical Centre

The most visible benefits of cross border activities could be the increased supply of goods and the opening up of more employment activities in the border areas. This conclusion is confirmed by the overwhelming support for the opening up of the border checkpoint by households in the area and the better living standards many households have experienced. Especially in Sepone, households that do not cross the border may benefit from the fact that Vietnamese and local traders bring in various products to their distant villages. However, the poverty situation and social impacts of cross border activities are still major subjects of concern and have some implications for policy formulation. The government or the relevant authorities have to find ways to boost economic activities and employment opportunities in the border areas so that households will receive more benefits than at present. Households should be encouraged to become involved in cross border activities either by producing something to sell in the market or by providing services to people who use the border checkpoint. Only with much more effort can the benefits of cross border activities be maximised.

After examining various welfare aspects of households in HT, it appears that they do benefit from cross border activities to some extent. The most direct and clearest benefit appears to be access to markets in the neighbouring country, which adds to the variety of products households can purchase. Households may also get new knowledge and techniques from the neighbouring country to improve their farming practices and production capacity. Benefits from increased employment opportunities seem fewer than expected. These results may have some implications for policy makers in searching for ways to maximise the benefits of cross border activities for households.

3.5. CONCLUDING REMARKS AND POLICY RECOMMENDATIONS

3.5.1. CONCLUDING REMARKS

BORDER TRADE AND BORDER ECONOMY

Border economy development has been promoted under the Lao government's foreign trade policy and the framework of the government's land-linked development strategy within the context of regional integration and globalisation. The general objectives of border economy/border trade development are to promote economic growth and reduce poverty.

The specific policies related to border trade have generally been to support and ease border trade. The decree on the BTZ in Dansavanh, Savannakhet province, lists numerous incentives, in particular tax reductions, in order to attract domestic investments and FDI to develop that border area. However, the implementation of this policy is still not successful due to a lack of funds and an insufficient institutional framework. Great efforts need to be made to realise the objectives of this policy. Major work remains to be done on basic infrastructure construction (road networks, electricity, water supply, warehouses etc.), and the organisation of technical, administrative and managerial staff. This BTZ is still not well developed because it emerged only in the late 1990s as a "new economic area."

The level of business activity in the border trade area in Sepone is quite low because most local people have little or no interest in business activities. They have not yet developed the skills and traditions of production and trade to compete with Vietnamese producers and traders. There is a concern that Sepone district will not have the capacity to supply human resources (labour) for industrial work, because the local people are mostly untrained. This also represents a constraint on foreign investment, since it will be very costly to train a large number of unskilled employees. However, some believe that such concerns may not be a problem since another large industrial project in this province, gold mining, has not met with such difficulties. The large area of Sepone district still containing unexploded ordnance left from the war creates further hardship for local people and discourages foreign investment because of concern for safety. The cost of bomb removal is very high, creating financial difficulties for Sepone district and those responsible for this work.

In comparison, Bokeo province, which is not designated a free trade zone, has developed relatively well because it is a city sharing a border with the well-developed city of Chiang Kong in Thailand, with great market potential.

The border trade in Bokeo is conducted in a natural and traditional manner. Given the inadequate and expensive financial services in Bokeo, kinship links are very important, because Thai traders provide significant sources of credit and technical assistance to Lao farmers and share some of the production and commercial expenses. The creditor usually provides the main production inputs like seeds, fertiliser and insecticides without any written contract, and as a result the price is determined by the creditor rather than by negotiations. The credit provider is in a monopoly situation, which might be a problem for long-term development. Basic goods production in the province is just emerging; companies or businessmen who have business contacts with foreign partners are few, they lack experience and capital, and business activities cover very limited areas. Although reduced, import taxes on agricultural products are still high and affect the level of imports.

With a low level of development, local markets are considered small and limited in both areas. The markets in Thailand for agricultural products are also considered small and limited. The construction of the national highway, Route 9, is of great importance for business development in the border areas with Vietnam. In Bokeo, the condition of provincial roads is still bad: there are no paved roads, and most of them are inaccessible in the rainy season, which results in delays and a high cost of transportation and affects the income of both producers and traders.

The case study indicates that garlic imports from Vietnam, through the international checkpoint in Dansavanh, constitute one of the most important imports, contributing to more than 50 percent of the total imports at that checkpoint in 2002/03. Most imported garlic is re-exported to Thailand and some retained for domestic use. Garlic from Vietnam is imported both through formal channels by medium and large import-export companies and by individual small traders. Part of the garlic re-exported to Thailand goes through informal channels to avoid high import taxes, often in relatively small amounts carried by small traders.

Clothes are in general imported from Vietnam to Laos by individual traders and not by commercial companies, through both formal and informal channels. Imported clothes from Vietnam supply domestic market demands in Savannakhet and other cities in Laos. Large quantities are also re-exported to Thailand.

However, local people in the border area of Dansavanh receive little benefit from these flows of garlic and clothes, and they do not have any significant products to be exported to Vietnam. Only small amounts of a few agricultural products are sold in the local market at the border. Most local people in the border area still rely mainly on a subsistence economy. Only a minority, i.e. a small group of businesspeople (restaurant owners, shopkeepers, guesthouse owners) and some farmers benefit from the border trade.

In the case of Bokeo, a number of agricultural products and non-timber forest products are exported to Thailand through the international checkpoints. Local informal border gateways in Houaysai also contribute to more than 50 percent of total exports. This means that people in Bokeo province, and in particular local people in border areas, have market potentials in Thailand. In particular, farmers in border areas directly benefit from border trade, along with the middlemen and trading companies. The support to Lao farmers for commercial agricultural production in Bokeo province by Thai importers (who provide inputs, including credit) significantly increases yields and ensures market access for their products. However, there are insufficient technical skills to improve the quality of some of the agricultural products. In addition, Thai import tax on agricultural products is still high despite the implementation of AFTA-GSP, which tends to depress farm prices.

In exchange for exports of agricultural products to Thailand, the most important imports for the needs of local people in the HT border area are agricultural inputs and building materials. Goods imported through border areas in HT go to supply the market in Bokeo and other provinces, and are also re-exported to China through both formal and informal channels.

Due to the long border with Thailand along the Mekong River, there are many local cross border gateways. A significant amount of imports therefore flow through informal channels, which are difficult to control, having a significant effect on government tax revenues. In general, most local people in the border areas of HT benefit significantly from border trade, both exports and imports.

IMPACT ON PEOPLE'S LIVING STANDARDS

The findings of the study in the two selected areas indicate similarities as well as differences in terms of development policy frameworks, socio-economic activities and their impacts and the challenges/constraints faced.

Farming is the most important economic activity in the study areas. Most farm households are small and produce just enough to feed themselves. With little access to agricultural land, farmers need to rely on irrigation and use more fertilisers and pesticides to increase production. Farmers in Bokeo (Tonpheung, Houaysai districts) seem to operate their land more efficiently than farmers in Savannakhet (Sepone district). They also have better access to markets, partly through the system of contract farming that is in place there. Irrigation areas are relatively small, and use of fertilisers and pesticides is not very common. Increased agricultural production in the future will depend on whether or not farmers are willing to embark on more intensive agriculture. In interviews related to the most important means of improving living standards, owning more agricultural land was the measure most commonly mentioned, together with more employment opportunities.

Employed work is basically an urban phenomenon in Laos and a rare opportunity in rural areas. In the surveyed districts in Bokeo, the number of employees is larger than the average for the province, a factor that may be explained by closeness to the border and the activities there.

Non-farm activities are becoming more and more important, and although small-scale businesses are mainly urban activities, they are also important for rural households. When compared to the national average, business activities in the sampled districts are rather small in terms of revenues generated.

Differences between the selected districts relate to access to infrastructure and social services. Generally, access to services in the selected villages in Bokeo (electricity, marketplaces, education and health services) is better than in the border area in Savannakhet. However, education and health services are not well developed in either of the two areas. The nearest formal border post is quite far from Sepone, but the nearest informal border gates are close to both districts.

Much of the border trade between Laos and Thailand, legal or illegal, amounts to household to household trading or trade between family members. The Mekong frontier is far too long to police effectively, and smuggling is believed to be common. Trade by households is a small-scale operation; large-scale trade requires substantial capital and organisation and cannot be operated on a household level. However the opportunity to conduct small-scale cross border trade can be of great value for households, and the village and household surveys provide some evidence of this. Households can benefit directly from border trade by being active in that trade, by crossing the border to work (labour migration) or by engaging in production close to the border checkpoints.

Labour migration is quite small but somewhat more common among rural households in Bokeo than in other areas. The number of households engaged in trade is just below 10 percent and about the same in both surveyed districts. Household production activities in border areas are almost non-existent. It appears that an indirect impact of border trade is that services play an important role for households, particularly in Houaysai district in Bokeo.

The per capita consumption level in the selected border districts in Bokeo is higher than the provincial average. Savannakhet has a substantially lower consumption level than Bokeo. It is difficult to draw definite conclusions, but the long tradition of trading relations with Thailand and the remoteness of the rural areas in Sepone may explain some of these differences.

Households in both selected districts were generally found to hold positive views of border trade and activities related to border crossings. However, the surveys show that few household members actually cross the border, and that the purchase of consumption goods appears to be the most common purpose when they do. However, a few people may be heavily engaged in trading and cross the border points very frequently. A few households also have negative views on cross border activities, mostly being concerned about social impacts such as crime, drug trafficking and outside cultural influences.

POTENTIALS AND CHALLENGES FOR EXPANDED BORDER TRADE

People in the border areas, in particular those who live along or near the main roads, have access to good road infrastructure. In rural areas, however, the roads are still poor. Except for the main roads, most are not accessible in the rainy season, which causes delays and high transportation costs that affect the income of both producers and traders. Improving the road network is an important precondition for future border trade development.

Although border/international trade has been expanded in both study areas and has provided access to new markets, the impact on employment has been small. Most rural households are still engaged in their own farm activities. Business activities emerging in both border areas are still small, mostly at household level. Future developments must be based on non-farm and service activities such as small-scale manufacturing and handicrafts.

The majority of rural and urban border households still feel that they are poor (moderately poor and very poor). Few feel that they are rich. Despite living at the border, many poor households do not cross because they cannot afford to buy the goods available in neighbouring markets or lack knowledge of trade and related opportunities.

Provincial authorities have promoted border trade by encouraging joint investments with Thai traders along the border. Through this cooperation, Lao businesspeople can receive financial and technical assistance and find a market for their products. There is also encouragement for Lao companies to enter joint investments with Thai businesses in wood processing. Farmers may be able to increase their agricultural production by taking advantage of information, seeds and fertilisers, which are easily available across the border.

Some villagers felt that border trade and the opening up of international trade create social problems. Social impacts of border trade include crime, drug trafficking, human trafficking, prostitution, illegal immigration and emigration of labour and outside cultural influences. In addition, domestic enterprises face difficulties in competing with imported goods, which tend to be of higher quality or lower price.

3.5.2. POLICY RECOMMENDATIONS

1. There is an urgent need for the government to provide financial resources to develop basic infrastructure (land allocation, road and electricity networks and water supply) in the BTZ in Dansavanh, which can facilitate private trade and investment. The BTZ on the Lao side is clearly disadvantaged compared to the trade zone on the Vietnamese side.
2. The problem of unexploded ordnance has to be solved by the committee of the BTZ. The provincial/district authorities should discuss this with other relevant parties and make a serious attempt to remove such obstacles to investment.
3. It is necessary to take measures to put the Decree on the Free Trade Zone in Dansavanh Village into effect in order to provide incentives to attract domestic investment and FDI. In the case of the BTZ, there can be an incentive policy to attract and promote local traders and those from other provinces to open handicraft shops and other stores selling various Lao products such as coffee, tea etc. In addition, there could be campaigns that encourage tourists who may wish to transit this area to travel to other nearby provinces that have well-known tourist attractions, such as Champasak. These activities will prolong the stay of tourists in Laos and increase earnings.

4. As a next step, it is necessary to develop urban infrastructure (financial, social, transportation, security, tourism, hotels and restaurant services). In order for local people in the border areas to gain maximum benefits, they should be offered priority for employment. Necessary steps to facilitate this include the provision of appropriate education and training, in particular in services, construction, food processing, engineering etc. The administration committee of the BTZ must encourage local people to get involved in business.
5. A Board of Border Commerce should be established to advise and assist traders/investors, and in particular to organise exhibitions of local goods and commodities from other parts of the country in order to encourage local people to produce commercial goods and to participate actively in border trade.
6. Necessary measures should be taken to put the Decree on Trade Competition (2004) into effect so that all import-export trading companies have fair competition, to protect consumers in terms of fair price, to ensure the quality of goods and services and to increase government revenue.
7. It is necessary to revise and check the differences between the price assessment made by customs officers and the price invoices of traders at border checkpoints. In the case of garlic, the difference between the invoice price and the price fixed by customs officials was \$40 to \$55 per tonne. If the price fixed for tax collection is much higher than the actual price, the result will be higher prices in domestic markets.
8. Time-consuming trade procedures for both exports and imports need to be improved. In particular, there are many steps for documentation, resulting in delays and deterioration of quality, particularly for agricultural products.
9. There are presently many informal gateways across the border. It is necessary to improve border gateway management, in particular to control or to make them formal in order to avoid smuggling (especially of drugs).
10. Due to the insufficient investment capital of Lao farmers and insufficient financial services in the border areas, formal and informal contract farming arrangements between neighbouring importers and Lao farmers should be strongly promoted in order to encourage farmers to participate in border trade.
11. Import companies should actively respond to market demand and production potentials to increase exports to neighbouring countries. In this respect, one-stop services at border checkpoints to facilitate both imports and exports are essential, as well as visa facilities in border areas.
12. People and authorities in Sepone should learn from the experience of how the Vietnamese work and organise their businesses and institutions and how businesses and local and central authorities cooperate. People in Sepone may have geographical disadvantages compared to neighbouring districts in Vietnam (and to border districts in Thailand as well), but that should not discourage them. However, in order to boost development in the area, local authorities need to develop their capacity in business organisation and management. Experience from the other side of the border could be of great value in such a process.

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APPENDIX: DIAGRAMS 1-3

DIAGRAM 1:

Map of the Lao PDR showing the two border checkpoints where the studies were conducted

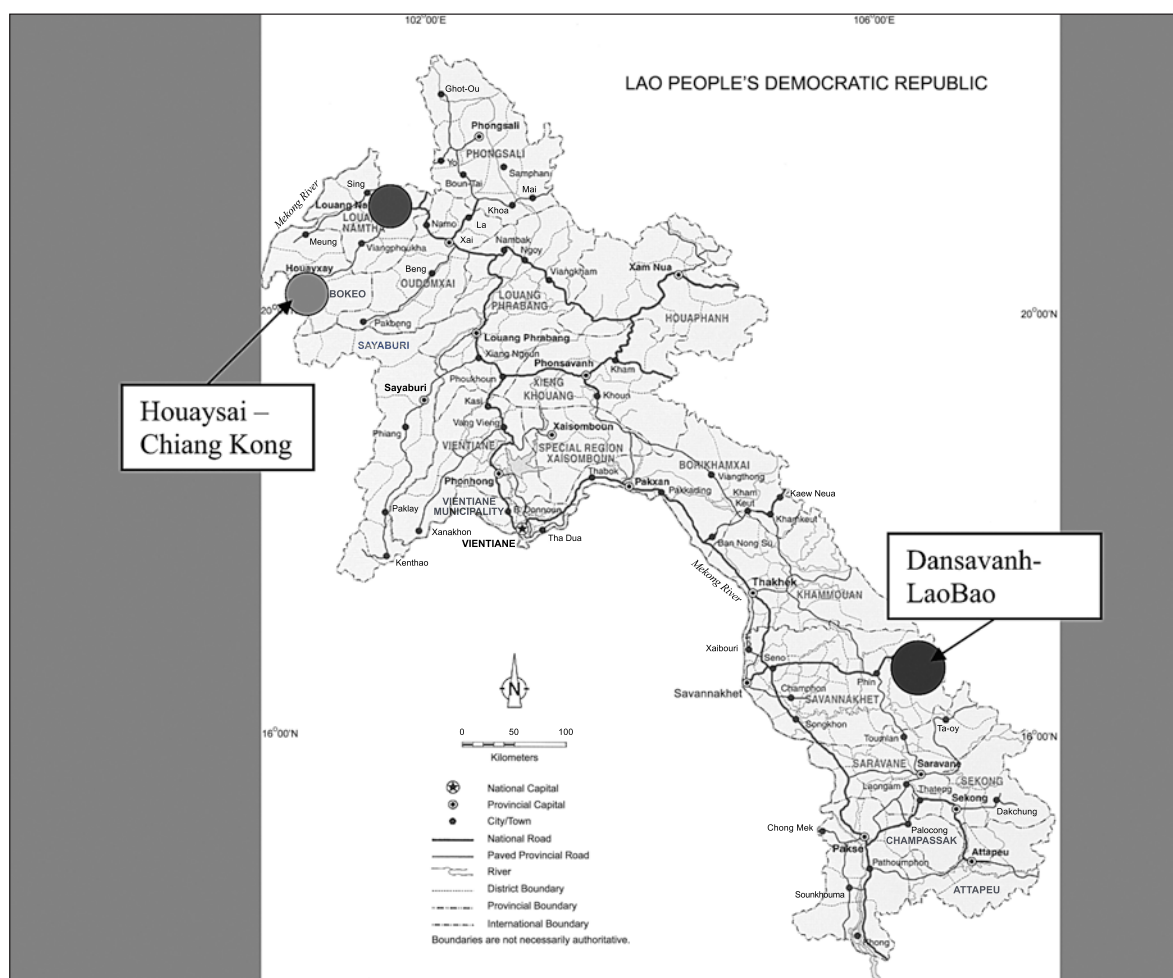


DIAGRAM 2:
 Map of Dansavanh village, part of the border trade zone

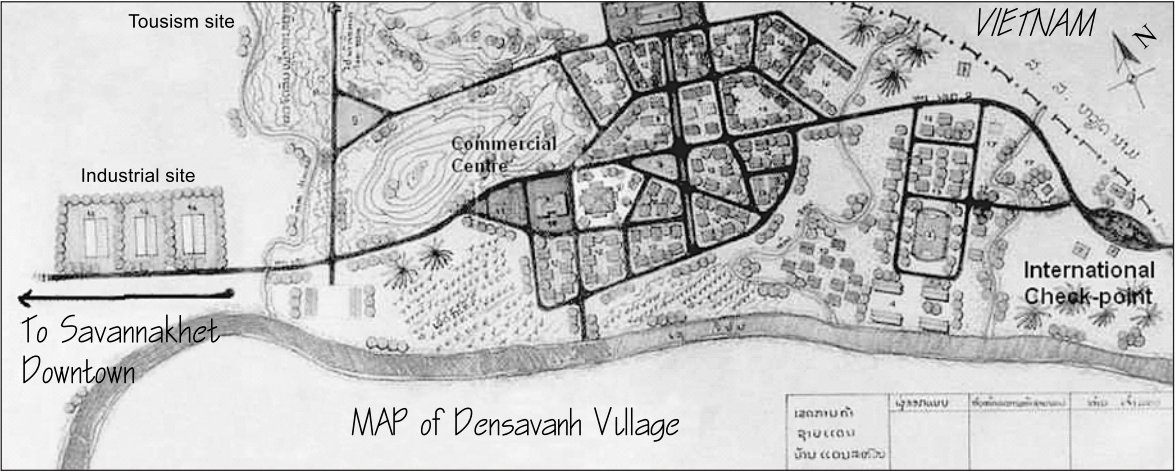
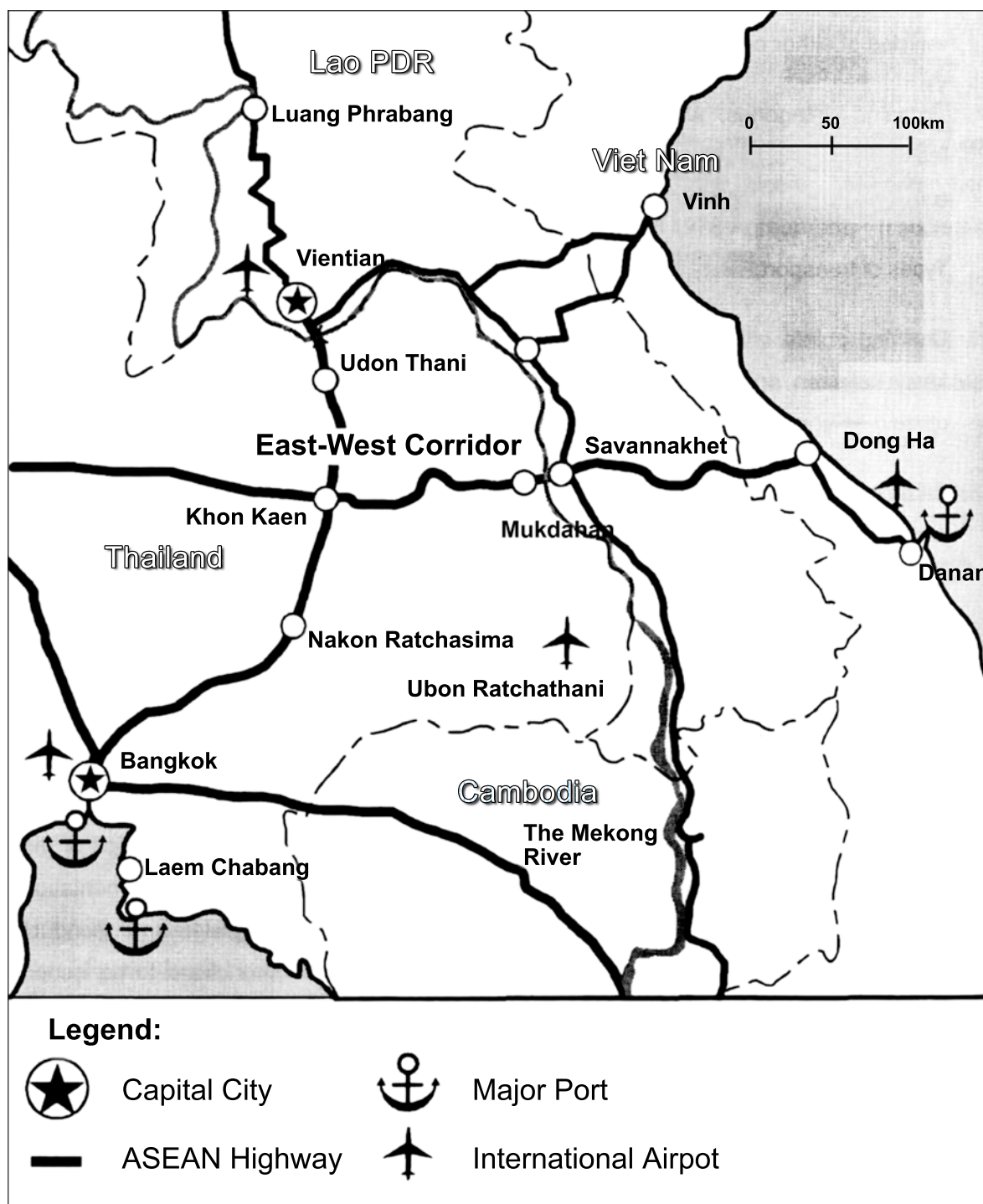


DIAGRAM 3:

Map showing the importance of national highway Route 9 as an east-west corridor²⁸



²⁸ JICA (2001), appendix 3-19.

Thailand's

CROSS BORDER ECONOMY

A Case Study of Sa Kaeo and Chiang Rai

Worawan Chandoevvit
Yongyuth Chalamwong
and Srawooth Paitoonpong

4.1. INTRODUCTION

4.1.1. BACKGROUND

Two major components of the cross border economy are cross border trade and cross border migration, occurring formally and informally. This economy is also a key indicator of the relationship between two or more neighbouring countries and the livelihoods of their people. That is, if people of neighbouring countries can live together, sharing resources and opportunities, there will be regional peace, security, economic prosperity and development. The cross border economy creates trade opportunities, based on the comparative advantage principle. Border trade in turn provides knowledge and information about demand for and supply of goods and services in the cross border economy of the neighbouring countries and serves as a stepping stone for further trade and investment relations. It also provides employment opportunities for the people of both countries. Thus, the cross border economy can play a big role in promoting economic development of border regions, improving the living standards of people, eradicating poverty, bringing about more equitable income distribution, fostering friendship and accelerating transnational economic cooperation in cross border regions.

With the increasing interest in sub-regional cooperation, international assistance and the spurt in tourism and services sector growth, the border zones of the countries in the Greater Mekong Sub-region appear to be undergoing rapid transformation through the development of infrastructure and communication. Nevertheless, the implications of the transformation on the lives of people in the cross border economy remain unclear. Some of these areas are still poor. Many cross border activities are not only informal—some are even illegal. What's more, economic growth does not ensure that the poor in the frontier will also benefit from development. Therefore, there is a need for systematic investigation of the subject, particularly the structure, composition and trends in the cross border economy and the implications for employment, mobility, poverty reduction, equity and growth as a consequence of more open borders.

Geographically, Thailand is situated in the centre of the south-east Asian mainland, covering an area of 513,115 square kilometres and extending about 1,620 kilometres from north to south and 775 kilometres from east to west at its widest point. Thailand borders the Lao PDR and the Union of Myanmar to the north, Cambodia and the Gulf of Thailand to the east, the Union of Myanmar and the Indian Ocean to the west and Malaysia to the south (NESDB 2003, 7). There have been close relationships between peoples on both sides of the borders such that border trade has been sustained despite occasional difficulties in political and trade policies.

Thailand has a long border of about 1,810 kilometres with the Lao PDR, from Chiang Rai in the farthest north to Ubonratchathani in the lower north-east. The Thai-Lao PDR borders cover 10 provinces: Chiang Rai, Payao, Nan, Uttaradit, Lei, Nongkhai, Nakorn Panom, Mukdaharn, Amnaj-charern, and Ubonratchathani. There are 36 crossing points, 13 of which are permanent, two temporary and 21 informal. Nongkhai is the most important province in Thailand's Lao PDR border trade and the largest exporter to the Lao PDR, followed by Mukdaharn, Nakhon Panom and Ubonratchathani. These provinces play an almost equal role for imports (TDRI 1997, 109). In 2002, the volume of Thailand's border trade with the Lao PDR was \$490.6 million. The trade volume increased to \$557.2 million in 2003.

The border with Cambodia is about 800 kilometres in length, less than half of the Thai-Lao PDR border. The Thai-Cambodian border covers seven provinces: Sa Kaeo, Trad, Surin, Chanthaburi, Srisaket, Buri Ram and Ubonratchathani. Border trade takes place mostly in the first four provinces. Sa Kaeo handles exports primarily, while Trad and Chanthaburi are the locations for imports. Thailand's border trade with Cambodia was worth \$527.4 in 2002. Border trade declined by 8 percent in 2003 due to an internal crisis in Cambodia.

4.1.2. OBJECTIVES

A principal objective of this study is to improve our understanding of the cross border economy, which has considerable implications for growth, equity and poverty reduction in relatively disadvantaged areas. The findings of the study will be useful for identifying constraints and any adverse trends in order to improve cross border flows and design better policies to benefit Thailand and its neighbours.

The specific objectives of the study are:

- to understand the structure and composition of the cross border economies of Thailand-Cambodia and Thailand-Lao PDR;
- to study the impact of the cross border economy on employment and poverty;
- to explore the factors affecting the economic and social well-being of people in the border areas.

4.1.3. METHODOLOGY

The study is based on a case study of Sa Kaeo and Chiang Rai. To begin with, extant studies on the structure, importance and role of the cross border economy in Thailand are reviewed. Existing national data of the two areas on GDP, trade, household income, employment and other available social indicators are utilised for the macro analysis, while primary data are collected in the two areas for the purpose of micro analysis of households and communities. The field or primary data consist of a sample survey of households and in-depth interviews of key informants, who include workers, traders, tourists and heads of villages in the border areas.

The issues investigated at the household level include:

- land ownership and distribution; tenure conditions;
- production conditions in agriculture;
- labour market conditions and labour mobility by gender;
- non-farm, off-farm employment and wages;
- consumption and savings;
- access to markets, trade finance and informal finance;
- currency use;
- food security and poverty status;
- market surpluses and prices.

The investigation at the community level is aimed at the cross border trade, including:

- the nature and flow of goods and services;
- exchange arrangements (formal-informal);
- facilitation needs;
- solution of problems related to long-distance trade across international boundaries (finding trade partners, ensuring smooth, timely delivery, quality problems, financial problems etc.).

4.1.4. REVIEW OF LITERATURE

Although there has been no study directly focussing on the impact of cross border economy on employment, poverty reduction, labour mobility, equity and growth, some extant studies provide some idea and background of cross border trade between Thailand and the Lao PDR and Cambodia.

In 1995, the National Economic and Social Development Board (NESDB), in collaboration with TIS Consultant Co. Ltd., prepared a strategic plan for economic cooperation in the Greater Mekong Sub-region (GMS), with the technical assistance of the Asian Development Bank (NESDB 1995). According to the plan, the objectives of economic cooperation include **(a)** promoting trade, investment and employment in agriculture, manufacturing and services to improve the standard of living of people in the GMS; **(b)** supporting technology transfer and international studies in the GMS; **(c)** using resources—i.e. labour, capital and raw materials—effectively; and **(d)** improving the GMS's international trade competitiveness.

The plan provides a good review of the situation of GMS countries, which include the Lao PDR and Cambodia. It also provides information on trade and investment and an analysis of the impact of economic cooperation on sectoral industry and labour mobilisation of GMS countries. For example, the plan indicates that Cambodia is still rich in natural resources and has low wages. There are ample opportunities for investment and economic expansion. The weaknesses of the country at the time of the review (1995) were political instability, a lack of clear and transparent laws and regulations, exchange rate instability and a lack of good international banking and financial systems, skilled labour and good infrastructure. It described the Lao PDR as a country with ample natural resources compared to a small population. About one-fifth of its land has been utilised for agriculture. The Lao PDR has excess electrical power available for export. Its major constraints are similar to those of Cambodia, including a lack of infrastructure and of skilled labour power, unstable laws and regulations and a lack of a good international banking system. The Lao PDR has relied on imports such as construction materials, food, medicine, fuel, transportation and electrical and electronic goods.

A number of impacts of GMS economic cooperation on Thailand were identified. For example, there would be labour immigration from neighbouring countries into Thailand because of wage differentials. There is an increasing tendency for trade between Thailand and neighbouring countries because of different comparative advantages. The plan also identifies the impact of economic cooperation by areas. For example, the possible impact of GMS economic cooperation, including border trade and cross border movement of people, would make Sa Kaeo and Prachinburi important areas for tourism as well as for promotion of certain industries. The impact on Chiang Rai is the possibility of becoming a hub for processing raw materials and food processing, and a gateway for investment and trade in the Lao PDR, China and Myanmar.

The plan suggested two strategies for economic cooperation: an active strategy and a restructuring for competitiveness strategy. These strategies were supported by 348 projects. The plan also recommended strategies for economic cooperation at the provincial level with GMS countries. According to the plan, Chiang Rai would be promoted as a gateway city of the upper northern provinces and a centre of basic industrial development. Sa Kaeo was intended to become a centre of heavy industry, in conjunction with eastern seaboard development.

In 1995, a study on *Development of Economic Cooperation Among the Three Countries Along Road No. 8* was undertaken by the Ministry of Industry's Office of Industrial Economics. The study focused on the cross border economy in the north-east of Thailand. It reviewed the economic potential of five provinces in the north-east, the economic situation of the Lao PDR and Vietnam and border trade and economic relationships among Thailand, the Lao PDR and Vietnam. The construction of Road No. 8 (linking north-east Thailand with the Lao PDR and Vietnam) would positively affect the three GMS countries. The trade volume among them would increase due to more convenient and cheaper transport. Consumers, i.e. the people of the three countries, would be better off by having more choice. These are the so-called "gains from trade". There are also "gains from specialisation," which arise when trading countries can choose to produce goods in which they have comparative advantage or can specialise, and buy from other countries goods in which they are not specialised.

Cross border economic development has been a subject of interest and concern of the Thai government. In 1996, the Ministry of Foreign Affairs initiated a study on “Development Cooperation in the Greater Mekong Sub-region and Thailand’s Development Strategy” and provided financial support for the Thailand Development Research Institute to undertake the study (Paitoonpong *et al.* 1997). The study consists of three parts. Part 1 is an analysis of development cooperation in the GMS in the context of Thailand’s development strategy, part 2 is a compendium of profiles of sub-regional development projects, and part 3 is a compendium of externally funded national projects of countries in the GMS. In essence, the study reviewed the frameworks of sub-regional development cooperation and the priority projects’ impact in the context of Thailand’s development strategy.

According to the study, Thailand has a long history of development cooperation. The beginning of the Thai International Cooperation Programme (TICP) dates from 1954, when the government organised education and training programs for fellows from developing countries who received fellowships from international organisations or donor countries. Development cooperation with Indochinese countries in the past, however, was on an informal basis as neighbours. The events of the mid-1970s, when communism and socialism took power in Indochinese countries, reduced Thailand’s economic relationship with these countries. With the end of Cold War, Thailand’s economic relationships were once again resumed.

The framework of Thailand’s economic cooperation with the GMS at the time of the study included: **(a)** the ADB’s Economic Cooperation in the Greater Mekong Sub-region (the GMS Programme or “Hok Lium Settakit”), **(b)** the Mekong River Commission, **(c)** the Forum for Comprehensive Development of Indochina (FCDI), **(d)** Economic Cooperation Among Four Countries in the Greater Mekong (the Quadripartite Economic Cooperation Programme or “Si Lium Settakit”), **(e)** the Working Group on Economic Cooperation in Indochina and Myanmar (WGEC-CLM) and **(f)** ASEAN-Mekong Basin Development Cooperation.

In 1997, under the initiative of ESCAP/UNDP, a study, “Thailand’s Border Trade with Cambodia, Lao PDR, Malaysia and Myanmar,” was undertaken by the Thailand Development Research Institute (TDRI). It reviewed the concept and evolution of Thailand’s border trade, agreements and regulations concerning it, patterns of border trade and relevant measures and regulations. Sa Kaeo was selected for a case study of border trade with Cambodia.

The most recent study in the context of cross border economy is *Economic Cooperation Strategy* by the Office of Area Development, NESDB (2003). The study points out negative impacts of the rapid growth of the cross border economy of Thailand that need immediate attention, such as the unpreparedness of the province to accommodate development and the resulting social and security problems, drug trafficking and degradation of the environment. The study recommends a strategy to develop the cross border economy. The problems identified include lack of good infrastructure, currency management, security at the border, different government policies and lack of a clear policy to protect foreign investments (NESDB 2003). The strategies recommended included a development strategy, production strategy, service sector strategy and area development strategy.

4.2. POLICY, AGREEMENTS AND REGULATIONS ON THAI BORDER TRADE WITH LAO PDR AND CAMBODIA

Thailand is an open country in terms of trade policy, development cooperation and investment. The government supports free trade and is committed to multilateral liberalisation, especially in agriculture. As an APEC member, Thailand is also committed to “open regionalism” as a means of achieving free and open trade and investment by 2020. It also engages in regional trade liberalisation and, in addition to the ASEAN Free Trade Area (AFTA), is now actively seeking to negotiate a network of bilateral preferential trading arrangements. Thailand is also pursuing greater regional trade links within ASEAN, including the establishment of an ASEAN-China Free Trade Area within 10 years, the formation of an East Asia Free Trade Area between ASEAN, China, Japan and Korea (“ASEAN plus Three”) and an ASEAN-Japan economic partnership.

Thailand has a long history of border trade with neighbouring countries, despite occasional difficulties. Development strategies to promote economic cooperation between Thailand and neighbouring countries that have been implemented since 1993 include three major programmes: the Greater Mekong Sub-region (GMS) Economic Cooperation; the Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT); and the Bangladesh-India-Myanmar-Sri Lanka-Thailand Economic Cooperation (BIMST-EC). Presently, the ninth National Economic and Social Development Plan (2002–2006) has a policy of promoting and strengthening economic cooperation with neighbouring countries in order to increase opportunities for trade, investment, tourism and joint sustainable utilisation of natural resources, which will lead to interdependence among these countries and to improved quality of life for the peoples of the sub-region.

4.2.1. BILATERAL TRADE BETWEEN THAILAND AND LAO PDR

4.2.1.1. TRADE RELATIONS

Thailand’s trade policy with the Lao PDR is similar to that of Thailand-Cambodia. Trade relations have been affected occasionally by political conflicts. In 1975, Thailand closed its entire border with the Lao PDR. There was an effort in 1976 to renew good relations and promote trade between the two countries, but it was disrupted again by political instability in Thailand in October 1976.²⁹ Trade relations have been re-established since 1978, when a trade agreement was signed, although with cautions and restrictions. In the late 1980s, several restrictions were relaxed, including removing many items from the list of prohibited military supplies, opening of additional trading posts and relaxing the daily limit on the value of border trade from 20,000 to 50,000 baht per person. Since 1989, there have been further reductions in trade restrictions and additional permanent crossings opened. More items were removed from the control list. The daily limit of the value of trade was raised to 100,000 baht per person. The most recent amendment of the trade agreement was made on 20 June 1991, and a Joint Trade Committee (JTC) was accordingly established at the ministerial level. On 19 February 1992, a trade agreement was signed between Thailand’s Board of Trade and Lao PDR Federation Industries. The first JTC meeting was held 16–17 July 1998 in Bangkok.

²⁹ During the 1970s Thailand suffered much political instability, such as frequent change of government, student uprisings and rural insurgencies. In 1975 the Khmer Rouge took over in Cambodia and in 1979 Vietnam invaded Cambodia.

4.2.1.2. THAILAND-LAO PDR TRADE VOLUME

During the past five years (1999–2003), the Lao PDR has ranked 26th among Thai trading partners and seventh among its ASEAN trading partners. Trade between the two countries was about \$495.6 million per year. Exports from Thailand to the Lao PDR average about \$412.2 million per year, with an average annual growth rate of 2.3 percent. Imports from the Lao PDR average only \$83.4 million per year, with an average growth rate of 13.4 percent. Both exports and imports increased significantly in 2003. Most exports are industrial products such as fuels, textile fabrics, iron and steel, motor vehicles and parts, chemical products, machinery and parts and construction materials. Imports from the Lao PDR are mostly raw materials or semi-raw materials such as logs, wood, mineral ores, coal, cereals and processed cereals, hides and products of animal origin, plus machinery and parts.³⁰

Table 4.1: Thailand's trade with Lao PDR, 1999-2003

	4.2. \$ million			Growth (%)	
	Exports	Imports	Total	Exports	Imports
1999	410.8	56.3	467.1		
2000	385.2	76.0	461.2	-6.2	35.0
2001	412.8	88.9	501.7	7.2	17.0
2002	397.7	92.9	490.6	-3.7	4.5
2003	454.5	102.7	557.2	14.3	10.6
Total	2061.0	416.8	2477.8	10.6	82.4
Average	412.2	83.36	495.6	2.6	16.2

Source: Ministry of Commerce, 2004

4.2.1.3. TRADE ISSUES

1) Cross Border Transit

The two governments agreed that their ministries of Transportation should sign an agreement on Thai-Lao road transportation as soon as possible. The Lao government requested that Thailand allow Lao cargo in transit to pass every Thai international checkpoint. The countries agreed to cooperate in taking action to solve the problem. Accordingly, an agreement on road transportation was signed on 17 August 2001. In addition, Thailand gave permission for transportation of goods in transit to and from a third country. However, Thailand needs to inspect cargo that goes through the checkpoint to prevent the smuggling of transit goods back into Thailand.

2) Imports of 23 Agricultural Products from Lao PDR

The Lao government asked Thailand to import its agricultural products and some processed agricultural products. The request was difficult to comply with due to a number of implementation problems. Thus there has been no progress in this regard. To alleviate the problem, on 20 February 1996, the Thai government declared an exemption and/or reduction of tariffs on 23 agricultural imports from the Lao PDR under the framework of the WTO.

However, the Lao PDR has not used the tariff privileges because they have been applied with reservations from the Thai side in order not to affect Thai farmers. For example, tariff privileges are not allowed during the season when Thai farm products are brought to market, and the permission for imports is limited to the Warehouse Organisation or a few importers (e.g. of soybeans). This makes border trade, which is trade among private traders, impossible under the WTO.

³⁰ It has been observed that the import figures and huge trade gap may be due to under-reporting of illegal, underground or informal imports from the Lao PDR.

To implement the prime minister's policy on importing agricultural products from neighbouring countries and to demonstrate Thailand's sincerity in relations with the Lao PDR, the Ministry of Commerce suggested that the import quota should vary with the quantity produced by the Lao PDR (to prevent the influx of Vietnamese farm products) and the imports should be unconditional. This is because the quantity of imports (such as maize and soybean) from the Lao PDR is small, for domestic consumption and usually smuggled. Therefore, imports from the Lao PDR should be brought into the open by changing the regulations.

3) Setting up Silos

The two governments agreed to cooperate on setting up silos. The Lao government proposed that the cooperation begin with joint investment in agricultural production and processing in the Lao PDR. The proposed silos can then be used for the collection of farm products for export.

The Thai delegate agreed to take the issue for consideration by the Thai government. For the joint investment in agricultural processing factories in the Lao PDR, the Thai government would provide technical assistance while the Lao government would supply raw materials.

4) Investment

The two governments agreed to increase their investment cooperation, particularly Thai investment in agriculture and processed farm products in the Lao PDR. Investment promotion zones for such production would be established.

The Lao side agreed to coordinate its relevant government agencies to facilitate Thai investors who have been granted investment permits but have delayed investment due to an unfavourable economic climate. Lately, the Thai government has taken actions to encourage its private sector to cooperate with Lao investors in the production of agricultural products and animal feed in the Lao PDR. The products will be exported to factories in Thailand for processing. The processed products will in turn be sent back to the Lao PDR, and part of the production may be used in Thailand for export to third countries. In addition, a feasibility study on setting up special economic zones is being undertaken by the ADB.

5) Account Trade

The Thai side proposed a system of account trade, which can be cleared through the use of accounts rather than cash or actual transfer of money. In this regard, the Exim Bank of Thailand, on 6 November 2002, sent details and conditions of the Bilateral Payment Arrangement (BPA) to the Bank of the Lao PDR for consideration. So far there has been no response.

Thailand has proposed that the two governments sign a memorandum of understanding (MOU) supporting account trade and barter trade as follows:

- (1) The Exim Bank will be responsible for negotiation of account trade.
- (2) The Ministry of Commerce will be responsible for the negotiation of barter trade.
- (3) The Lao government will assign the Bank of the Lao PDR to be responsible for negotiation of account trade.
- (4) The Lao Ministry of Commerce will be responsible for barter trade negotiation.
- (5) The Lao government is requested to expedite consideration of the BPA submitted by the Exim Bank.

The results of the negotiations would be submitted to the Committee on Thai-Lao Development Cooperation.

6) ASEAN Integration System of Preferences: AISP for Lao PDR

Thailand gave 26 AISP to the Lao PDR in 2002 and 2003, effective 1 January 2002, subject to annual review. In 2004, Thailand gave 152 more AISP out of the 170 requested by the Lao government. (Four of the AISP items had already been granted and the remaining 14 have been granted under WTO). The AISP include 137 granted tariff reductions to 0 percent and 15 to 5 percent, effective 1 January 2004.

The Department of International Trade Negotiation of the Ministry of Commerce has provided the Lao Ministry of Commerce with 1,000 copies of the AISP form free of charge. The form will be distributed to Lao exporters. The department has also provided training for Lao officials and businesspeople as well as Thai investors in the Lao PDR.

4.2.2. BILATERAL TRADE BETWEEN THAILAND AND CAMBODIA

4.2.2.1. TRADE RELATIONS

During the 1960s only informal border trade existed between Thailand and Cambodia. Diplomatic and trade relations were renewed in 1970 after a decade of no diplomatic relations. During the mid-1970s, when communism and socialism assumed power in Indochina, Thailand reduced its border trade. Thailand closed its border in 1975 (Notification of the Ministry of Interior, 17 April 1975) when the Khmer Rouge took over the country, and formal border trade was discontinued. From 1975 to 1981, informal border trade prospered, especially in Aranyaprathet. In 1981 Thailand placed a trade embargo against Cambodia, informal trade thus being prohibited. The Royal Ordinance on Control of Goods in Border Areas 1981 empowered the responsible minister to “control” specific products and border areas. The ordinance also empowered the official in charge to fix the maximum amount of specified products that could be possessed or sold by an individual, to prohibit the movement of such products into or out of specified areas and to search and seize specified products in any suspected place, person or vehicle. Violators were subject to a penalty ranging from three months’ imprisonment or a 3,000 baht fine or both, to three years’ imprisonment or a 30,000 baht fine or both. The purpose of this ordinance was to prevent goods from falling into insurgents’ hands and being used to threaten Thailand’s security.

The Thai Ministry of Defence also issued two notifications under this ordinance in November 1981. One specified Ta-Phraya, Aranyaprathet and Watthana Nakorn districts as controlled areas. The other notification specified equipment and goods for military use, food, medicines and pharmaceuticals and a number of miscellaneous products, totalling 59 items, on the controlled list. The controlled area was subsequently expanded to include certain districts in Buri Ram, Surin, Chanthaburi and Trad provinces. The controlled goods list was expanded to 62 and then 73 items in 1982. In 1985, the Act to Amend the Royal Ordinance on Control of Goods in Border Areas 1981 was passed by the parliament, increasing penalties for violations. In 1990, the controlled area was expanded to include more districts in Ubonratchathani, Srisaket, Surin and Buri Ram provinces, but the list was reduced to 12 items, mainly for military use.

The Ministry of Commerce issued Notification Number 16 on Exports of Goods in December 1981, imposing export licensing on specific goods for national security reasons. The goods coverage was similar to that specified in the Notification of the Ministry of Defence on the Control of Goods in Border Areas 1981. The goods coverage was subsequently revised by Notification Number 40 of the Ministry of Commerce of February 1987 and Number 48 of December 1988, which reduced the number of goods subject to licensing for national security purposes.

With the end of the Cold War, Thailand renewed its policy on border trade. In 1988 the prime minister announced a policy of turning the Indochina battlefield into a marketplace. Thai-Cambodian border trade restrictions were relaxed. After 1989, Thailand changed its policy to promote trade with Cambodia along with the Lao PDR and Vietnam. Thai-Cambodian border trade revived as restrictions were relaxed. The number of goods under military control was reduced from 73 to only 12 military items, while several new trading posts were opened. Following the withdrawal of foreign troops from Cambodia in 1989, Thailand lifted all trade controls and restrictions, except at a few temporary border crossings.

On 13 January 1994, an agreement was signed to set up a Thai-Cambodian Joint Committee on Cooperation (JC). The JC has convened three meetings, the last in Siem Reap, 31 January–2 February 2000. On 29 March 1995, an agreement was signed on promotion and protection of investment. On 20 June 1996, an agreement between Thailand and Cambodia on Trade and Economic and Technical Cooperation was signed. On 22 May 2000, an MOU to establish a Joint Trade Committee (JTC) was signed. Cambodia planned to host the first JTC meeting on 30 January 2003 in Phnom Penh, but the unrest in Phnom Penh on 29 January 2003 resulted in the postponement of the meeting.

4.2.2.2. THAILAND-CAMBODIA TRADE VOLUME

During the past five years (1999–2003), trade between Thailand and Cambodia was about \$486.9 million per year, compared to \$495.6 million between Thailand and the Lao PDR. Exports from Thailand to Cambodia average about \$475.2 million per year (to Lao PDR \$412.2 per year). The growth rate of exports to Cambodia was high, particularly during 2001–2003. The average growth rate in 1999–2003 was 17.9 percent per year, compounded. Imports from Cambodia are small, averaging only \$11.7 million per year (from the Lao PDR, \$83.4 million). Imports from Cambodia fluctuated greatly during 1999–2003, the average growth rate being 2.1 percent per year. Most exports are industrial products such as fuel, motorcycles and parts, cement, iron and steel, textile fabrics, rubber products, chemicals, beverages and sugar. Imports from Cambodia are such things as machinery and parts, mineral ores, hides and products of animal origin, garments, shoes and tractors.

Table 4.2: Thai-Cambodian trade, 1999-2003 (\$million)

	\$ million			Growth (%)	
	Exports	Imports	Total	Exports	Imports
1999	354.5	14.7	369.2		
2000	351.1	7.9	359.0	-1.0	-46.3
2001	469.0	12.3	481.3	33.6	55.7
2002	516.3	11.1	527.4	10.1	-9.8
2003	685.3	12.3	697.6	32.7	10.8
Total	2,376.2	58.3	2,434.5	93.3	-16.3
Average	475.2	11.7	486.9	17.9	-4.4

Source: Ministry of Commerce, 2004

4.2.2.3. TRADE ISSUES

1) Joint Trade Committee (JTC)

The ministers of commerce of the two countries on 22 May 2000 signed an MOU to set up the JTC. So far there has been one JTC meeting. At the joint meeting of the cabinets of Thailand and Cambodia in May 2003, both parties expressed the need to convene a JTC meeting. The Cambodian government was to host the meeting in Siem Reap as early as possible.

2) Account Trade

Thailand proposed that an MOU on account trade be signed. In this connection, at the fourth Thai-Cambodia Joint Committee meeting, 24–26 December 2002 in Chiangmai, the two governments agreed to promote bilateral trade and to consider account trade at the next JTC meeting.

3) ASEAN Integration System of Preferences: AISP

At the seventh AEM retreat in May 2001, the original members of ASEAN agreed to give AISP to the new ASEAN members in the manner of an offer without negotiation. In response to the agreement, Thailand has given AISP to new members. In the case of Cambodia, Thailand waived or reduced tariffs on 48 Cambodian exports out of the 346 requested items, effective January 2002. At the joint meeting of the cabinets of Thailand and Cambodia in May 2003, the Cambodian government requested that Thailand increase the number of AISP items to Cambodia. The Thai delegate agreed to consider the request and inform the Cambodian government accordingly.

4) Technical assistance to Cambodia

Thailand agreed to provide technical assistance to the new members of ASEAN in their transition to a market economy in a five-year project (1999–2003). The major aim was capacity building in these countries to fulfil the AFTA conditionalities as well as the development of efficient and fast transportation. In this regard, Thailand had provided technical assistance by training Cambodian officials in 2002. For 2003, Thailand planned to provide training to a number of Cambodian businesspeople as part of a project to promote trade and investment in ASEAN industrial products within the framework of its economic cooperation with Cambodia, the Lao PDR, Myanmar and Vietnam.

4.2.3. BAGAN DECLARATION

As a result of discussions among the leaders of the four countries during the extraordinary ASEAN summit meeting on SARS in April 2003 in Bangkok, an economic cooperation strategy was agreed among Cambodia, the Lao PDR, Myanmar and Thailand. The objective is to accelerate economic cooperation with a view to reducing the economic gap between Thailand and its neighbours. Subsequently, there was a senior officials' meeting (SOM) in Vientiane, a ministerial meeting in Bangkok and the second ministerial meeting on economic cooperation strategy in Rangoon, Myanmar. These meetings were in preparation for an ASEAN summit to be held in Bagan, Myanmar, at the end of 2003.

The Bagan Declaration encompasses economic cooperation in five areas:

1. Trade and investment facilitation
 - to exploit the comparative advantages of participating countries;
 - to facilitate the circulation of goods and investment in order to create employment;
 - to raise income and reduce socio-economic inequality.

2. Cooperation on agriculture and industry
 - to strengthen and promote agricultural and industrial cooperation by jointly constructing and developing infrastructure, product distribution, marketing and procurement, research and development and information sharing.
3. Transportation linkage
 - to develop and utilise the linking of transportation systems among participating countries;
 - to provide facilities for trade, investment, agriculture, industrial production and tourism.
4. Cooperation on tourism
 - to promote a joint strategy on tourism cooperation among participating countries;
 - to provide facilities for tourism in the four countries and other parts of the world.
5. Human resources development
 - to promote capacity building of people and institutions;
 - to initiate measures to form a human resources development strategy for competitiveness in the region.

The main objectives of the economic cooperation strategy (ECS) are:

1. to promote competitiveness and growth along the borders;
2. to facilitate the mobilisation of agro-industry and production to areas with comparative advantage;
3. to create employment opportunities and reduce income disparity among the four countries;
4. to promote peace, stability and security for every party in a sustainable manner.

Actions taken are:

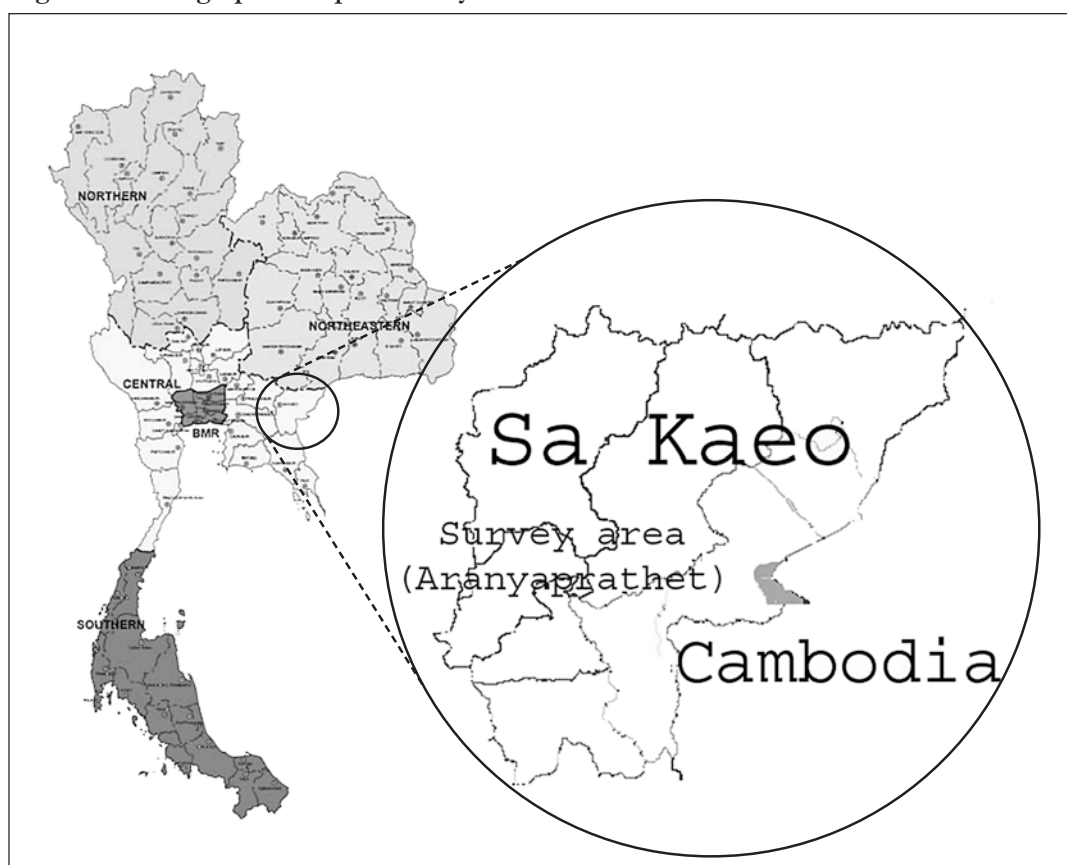
1. assigning responsible ministers to implement the action plan and joint and bilateral projects as soon as possible;
2. encouraging the private sector to participate fully to achieve the ECS objectives;
3. mobilising free assistance or soft loans to maximise investment along the borders;
4. organising summit meetings every two years and senior officials' meetings and ministerial meetings once a year. Myanmar was to host the next SOM and ministerial meeting in 2004 and Thailand was to host a summit in 2005. The meeting agreed with Thailand's suggestion to invite other interested countries to participate in the ECS framework. The countries expressing an interest in joining the cooperation were Japan, Australia, New Zealand, Canada and China.
5. recognising this agreement as the "Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy" (ACMECS).

4.3. SA KAEO

4.3.1. PROVINCE'S BACKGROUND AND BORDER TRADE

Sa Kaeo is a new province, 236 km from Bangkok, located in the eastern part of Thailand. It was separated from Prachinburi on 1 December 1993. Sa Kaeo is a medium-sized province with an area of 7,200 sq km ³¹ and a population of 274,000 males and 269,000 females. On its eastern side, Sa Kaeo has a 165 km border with Cambodia.

Figure 4.1: Geographic Scope of Study



The major economic activities in Sa Kaeo are agriculture and wholesale and retail trade (Table 4.3). In 2001, agriculture contributed 28 percent of gross provincial product (GPP), and wholesale and retail trade contributed 29 percent. The major agricultural products of Sa Kaeo are crops (i.e. paddy, cassava, bamboo shoots, maize, mango, tamarind) and livestock. The average compounded growth rate of real GPP in 1994–2001 was 3.5 percent per year, the electricity and water supply sector having the highest growth rate (14.2 percent per year). The average annual per capita income of the Sa Kaeo population was 38,471 baht or \$962 ³² in 2001.

³¹ Or 4.5 million rai (1 rai is 0.16 ha).

³² Using an exchange rate of 40 baht per dollar.

Table 4.3: Sa Kaeo: Gross Provincial Product at 1988 Prices (millions of baht)

	1994	1995	1996	1997	1998	1999	2000	2001
Agriculture	2,056	2,657	2,753	2,915	3,071	2,881	3,039	3,108
Crops	1,393	1,890	2,054	2,173	2,474	2,219	2,351	2,346
Livestock	407	450	341	391	271	333	349	399
Fisheries	4	9	38	29	43	44	40	42
Forestry	5	21	35	30	10	8	11	16
Agricultural services	145	167	165	168	149	158	164	165
Simple agricultural processing	103	121	120	124	123	119	123	141
Mining and quarrying	10	9	12	14	10	17	17	24
Manufacturing	350	354	555	548	502	576	618	603
Construction	373	655	990	549	332	355	324	201
Electricity and water supply	70	86	92	98	176	184	205	247
Transportation and communication	327	370	414	415	401	420	451	440
Wholesale and retail trade	2,671	2,931	3,009	2,876	2,482	2,665	2,554	2,561
Banking, insurance and real estate	180	252	308	271	339	201	185	186
Renting	737	773	819	820	859	887	905	914
Public administration and defence	252	460	490	518	555	554	573	590
Services	679	707	842	921	996	1,049	1,054	932
GPP	7,706	9,255	10,284	9,945	9,723	9,789	9,925	9,808

Source: National Economic and Social Development Board (NESDB).

According to labour force surveys in 2003, approximately 268,000 and 282,000 people participated in the labour force in quarters 1 and 3. On average, 35 and 22 percent of the labour force were self-employed and unpaid family workers (Table 4.4). Approximately 31 percent of the labour force worked as private employees. The unemployment rate in Sa Kaeo was quite low, only 2 percent in 2003. This could be due to the large numbers involved in agriculture and retail activities (Table 4.5). Almost half of the labour force are usually in agriculture in quarter 3 (the cultivation season).

Table 4.4: Labour Force, Employment and Unemployment in Sa Kaeo in 2003.

	Number (thousands)				Percent				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Avg.
Employed	262.6	266.8	277.2	271.9	98.0	96.7	98.2	98.2	97.8
- Employer	5.4	8.9	10.2	4.6	2.0	3.2	3.6	1.7	2.6
- Self-employed	86.5	98.7	103.1	97.3	32.3	35.8	36.5	35.1	34.9
- Unpaid family worker	51.2	51.7	69.2	65.6	19.1	18.7	24.5	23.7	21.5
- Government employee	21.1	17.1	16.2	18.6	7.9	6.2	5.8	6.7	6.6
- State enterprise employee	0.8	3.1	1.8	2.1	0.3	1.1	0.6	0.7	0.7
- Private employee	97.5	87.2	76.7	83.5	36.4	31.6	27.2	30.2	31.3
Unemployed	5.2	8.2	4.4	4.4	2.0	3.0	1.5	1.6	2.0
- Looking for work	0.4	0.4	0.5	0.5	0.1	0.2	0.2	0.2	0.2
- Not looking for work	4.8	7.8	3.9	4.0	1.8	2.8	1.4	1.4	1.9
Seasonal unemployed	0.0	0.8	0.7	0.6	0.0	0.3	0.3	0.2	0.2
Labour force	267.8	275.9	282.3	276.9	100	100	100	100	100

Source: National Statistics Office, Labour Force Surveys

Table 4.5: Employment by Occupation in Sa Kaeo in 2003

	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Average
1. Service official and manager	13,283	19,185	14,150	11,715	14,583
2. Professionals	9,504	8,631	12,522	9,599	10,064
3. Technicians	3,897	3,596	4,012	5,632	4,284
4. Clerks	6,778	3,505	3,483	4,231	4,499
5. Sales and service workers	27,167	29,194	30,743	28,823	28,982
6. Agricultural workers	91,104	64,111	134,198	117,299	101,678
7. Crafts and machine operators	45,606	60,640	44,356	43,717	48,580
8. Elementary occupation	65,225	33,711	33,710	50,882	45,882
Total	262,564	266,778	277,174	271,898	269,604

Source: National Statistics Office, Labour Force Surveys

Sa Kaeo is one of four provinces on the Thai-Cambodian border. As shown in Table 4.6, the value of trade between Thailand and Cambodia in Sa Kaeo is higher than in other provinces. The value of trade between Thailand and Cambodia was 17.8 billion baht in 2003, of which 10 billion baht was traded in Sa Kaeo. The major export products to Cambodia are motorcycles, sugar, tyres, cement and car parts, and the major imports to Thailand are scrap metal and salted bull skins.

Sa Kaeo has one international and four temporary checkpoints. The international checkpoint is located at Ban Khlong Luek (Thailand)-Poipet (Cambodia). The four temporary checkpoints are in Ban Kao Din-Ban Ki Low, Ban Nong Plua-Malai, Ban Ta Pa Ya-Boeng Ta Kuan, and Ban Nong Ya Kaeo-Ban Tam Bon Mui.

Table 4.6: Value of Trade between Thailand and Cambodia (millions of baht)

Province	2002			2003			2004 (January-March)		
	Export	Import	Total	Export	Import	Total	Export	Import	Total
Trat	8,122	51	8,173	5,622	41	5,663	1,379	4	1,384
Chantaburi	742	16	757	1,326	17	1,343	585	11	596
Sa Kaeo	9,225	379	9,604	9,570	795	10,365	3,027	371	3,398
Surin	283	20	303	240	94	334	52	21	72
Sisaket	12	1	12	37	41	78	11	26	37
Total	18,384	466	18,850	16,794	988	17,782	5,054	433	5,487

Source: Office of Commercial Affairs

The checkpoint at Ban Khlong Luek-Poipet was a temporary checkpoint prior to September 1997. Since it had gained a significant volume of trade, it was promoted to an international checkpoint. The Ban Khlong Luek-Poipet checkpoint is not only the main gateway between Thailand and Cambodia, connecting to Cambodia's National Road 5, which leads to Sisophon, Siem Reap and Phnom Penh; it is also a popular marketplace among Thai shoppers. The checkpoint is open daily from 7.30 am until 8.00 pm. Every day tourists and people living in the border areas cross the border. In 2003, approximately 10,000 people travelled each way each day (Table 4.7).

The high numbers are mainly due to the daily crossing of Cambodians to work in Talat Rong Kluea market (at the Ban Khlong Luek-Poipet crossing) or Mittaphab market. There are more than 700 shops, including second-hand shops, in the markets. The products in the market are from both Thailand and Cambodia, new and used products. A recent study found that more than 1,000 automobiles come to the markets during the weekend. More than 60 million baht is circulated on weekdays and 100 million baht on weekends.

Table 4.7: No. of People and Automobiles Inbound to and Outbound from Thailand

Year	Persons		Automobile	
	Inbound	Outbound	Inbound	Outbound
1999	77,353	79,141	19,832	19,832
2000	1,761,258	1,767,343	19,785	19,785
2001	2,198,743	2,192,025	21,842	21,482
2002	2,982,383	2,979,593	32,976	35,277
2003	3,794,562	3,796,326	63,390	64,284
2004 (Jan.-May)	2,133,757	2,134,087	22,938	23,730

Source: Aranyaprathet immigration checkpoint

Because border trade is an important economic activity in Sa Kaeo, the provincial government wants to develop the province as a gateway to Indochina and centre for trade, tourism and culture. The strategic planning for this includes logistical development, cooperation for competitiveness and border marketplace development. The province has established three development plans, including 10 projects to support the strategy of a gateway to Indochina.

- (1) The cooperation plan to improve logistics includes three projects:
 - road construction to link Thailand's road No. 33 with roads No. 5 and 6 of Cambodia;
 - railway renovation that will allow people to travel from Bangkok to Phnom Penh by rail;
 - a special economic zone.
- (2) The trade and investment promotion plan includes three projects:
 - cooperation for border demarcation;
 - cooperation for landmine clearing;
 - cooperation to eradicate human trafficking and illegal trade.
- (3) The capacity development plan includes seven projects:
 - border checkpoint development;
 - infrastructure development in the marketplace;
 - Aranyaprathet municipality development;
 - free trade zone;
 - improving agriculture productivity;
 - tourism development;
 - centre for trade and distribution.

In the past, the obstacle to the development of the border economy in Sa Kaeo was insecurity in the border area. However, after the armed conflict in Cambodia ended, cross border transactions increased significantly. The future development of the Sa Kaeo border economy, therefore, depends on how the provincial government achieves the development plans and how the Thai and Cambodian governments cooperate.

4.3.2. HOUSEHOLDS IN BORDER AREA

The study of households in the border areas and the impact of the border economy is based on the socio-economic survey conducted by the TDRI in March 2004. The survey covers the border area (the municipality of Aranyaprathet) and 13 villages in Takram and Pharai districts, approximately 10 km from the border area. The survey interviewed 106 households (containing 234 members aged 15 and above) and eight heads of villages.

The most common occupation of household members in the border area is self-employment in small businesses such as food and grocery stores (Table 4.8). Only 17 percent of household members are self-employed on their own farms. Approximately 28 percent of household members in the border area are employed in restaurant and hotel businesses, transportation and general business. Approximately 12 percent of household members work in Cambodia, and another 12 percent are vendors in the border marketplace.

Many households within 10 km of the border are self-employed in agriculture (approximately 40 percent). The other important occupations are general labour (16 percent) and self-employment in small businesses (11 percent).

Table 4.8: Sa Kaeo: Occupations of Household Members

Occupations	Municipal area	Percent	Tahkram and Pharai	Percent
1. Own farm work	10	17.24	70	39.77
2. Farm work for others	0	0.00	5	2.84
3. Work in a hotel/restaurant/shop along the main road to border	4	6.90	8	4.55
4. Transportation	2	3.45	7	3.98
5. Trade at the border market	7	12.07	1	0.57
6. Do small business	12	20.69	20	11.36
7. Work in Cambodia	7	12.07	0	0.00
8. Collect products from forest e.g., fishing, hunting	2	3.45	10	5.68
9. Full-time employee	7	12.07	29	16.48
10. Part-time employee	3	5.17	2	1.14
11. Others	4	6.90	24	13.64
Total	58	100.00	176	100.00

Note: Others include government officers and private employees.

Infrastructure in the border area is comparable to other areas of the country. All of the surveyed households in the border area have electricity, but only two villages out of eight surveyed have an organised water supply. Households in Tahkram and Pharai are not well connected to electricity and water supply compared to the border area. However, households in both areas have clean drinking water all year round because they usually save rain water in ceramic tanks. Houses in the surveyed areas are made of wood and roofed with tin (76 households) and tile sheets (30 households).

From the survey, we found that approximately 71 percent of agricultural households have their own land (Table 4.9). However, approximately 5 percent also rent more land for cultivation. Of the 13 households that rent land, nine pay their rent in cash. Those who pay rent in kind are rice growers, who pay one sack of rice for 0.16 ha (or one rai). The average cultivated land of the sample is 5 ha (or 31 rai). The largest cultivated land by one household in the sample is 19 ha.

Table 4.9: Sa Kaeo: Land Ownership

Land Ownership	Households with Agricultural Activity	Percent
Own	37	66.07
Rent (in kind)	4	7.14
Rent (money)	9	16.07
Own and rent	3	5.36
Others	3	5.36
Total	56	100.00

Note: Others use land owned by relatives or Agricultural Land Reform Office.

Approximately 96 percent of households in the surveyed area have television for family entertainment (Table 4.10). Other electrical appliances for the households are electric fans, refrigerators and mobile phones. The average value of all electrical appliances is 30,306 baht.

Table 4.10: Sa Kaeo: Household Assets

Asset Category	Assets	Quantity	Percent
Electric appliances	Television	102	96.23
	Radio/cassette player	21	19.81
	Electric fan	92	86.79
	Telephone	22	20.75
	Mobile phone	69	65.09
	Refrigerator/freezer	74	69.81
	Washing machine	5	4.72
	Other	48	45.28
Vehicles	Motorcycle	79	74.53
	Bicycle	58	54.72
	Car	23	21.70
	Other	2	1.89
Farm equipment	Hand tractor	31	29.25
	Other	4	3.77
Home appliances and decoration	Furniture	32	30.19
	Ceramic tank for rain water	23	21.70
	Other	8	7.55

Households in the surveyed areas use motorcycles as a major mode of transportation since they are affordable and convenient. Approximately 75 percent of households own motorcycles. Only 22 percent of households own automobiles. Farm equipment owned by households is mainly hand tractors (30 percent). The average value of farm equipment is 43,564 baht.

The main crops grown in the surveyed areas are rice, sugar cane and cassava. The cultivated land of the 56 households is divided into 68 plots. Approximately 93 percent (or 63 plots) are used to grow rice. There is no irrigation system in the area. Therefore, the farmers can grow rice only in the wet season and become seasonally unemployed in the dry season.

Most of the farmers in the surveyed areas use chemical fertiliser. There are only two surveyed households using organic fertiliser. The major costs of growing rice are wages and rent (Table 4.11). Labourers who work in the field are Cambodian. The average wage for working in a rice field is 100 baht per day and for general workers 50–80 baht per day. However, the statutory minimum wage rate in Sa Kaeo is 137 baht per day. The average cost of cultivation is 34,050 baht.

Table 4.11: Sa Kaeo: Costs of Cultivation

Category	No. of Households	Total Costs (baht)	Percent	Average Costs Per Household (baht)
1. Planting (seeds, seedlings, young plants)	43	158,093	8.93	3,677
2. Chemical fertilisers	49	280,835	15.86	5,731
3. Animal and plant manure	2	5,100	0.29	2,550
4. Pesticides, herbicides, fungicides	28	46,110	2.60	1,647
5. Electricity, oil, gas, diesel	15	37,010	2.09	2,467
6. Storage	5	19,400	1.10	3,880
7. Draught power (tractor/animal) and human labour (if any)	49	892,460	50.40	18,213
8. Irrigation charges	1	3,200	0.18	3,200
9. Transport of inputs and outputs	28	125,375	7.08	4,478
10. Services/technical support from government and other agencies	0	0	0.00	0
11. Repair and maintenance of farm house, animal sheds and equipment	3	10,000	0.56	3,333
12. Land rent (cash)	3	50,000	2.82	16,667
13. Land rent (in kind)	15	143,036	8.08	9,536
14. Rental for farm house, equipment, etc. (cash plus kind)	0	0	0.00	0
Total	52	1,770,619	100.00	34,050

Table 4.12: Sa Kaeo: Major Problems for Agriculture

Problems	No. of Households	Percent
Lack of water	25	56.82
Lack of money	6	13.64
Plant diseases and insects	4	9.09
Lack of land	5	11.36
Low selling prices	4	9.09
Total	44	100.00

Agricultural productivity in the surveyed areas is quite low. There is no irrigation, so cultivation depends on rain water. Farmers often faced severe problems and pests (Table 4.12). The average yield in 2003 was 1,555 kg per hectare.

In the surveyed areas, there are 46 households (44 percent) keeping livestock. Half of those households raise cattle (Table 4.13). Fifteen households operate small poultry farms. Animal raising in the areas is not for commercial purposes.

Table 4.13: Sa Kaeo: Livestock

Type	No. of Households	Average Number	Maximum Number	Minimum Number
Cows	23	11	56	2
Pigs	10	4	12	1
Ducks/chickens	15	19	60	3
Other	2	2	2	1

Some of the self-employed agriculturists who do not have farm work in the dry season work in the construction industry. They earn 130–170 baht per day for unskilled work and 200–250 baht for skilled. Unskilled workers from Cambodia earn 80–100 baht per day for construction work in Sa Kaeo.

Those who work in the non-agricultural sector earn a more regular income than agricultural workers. The self-employed who own food stores, small grocery stores, beauty salons or repair shops earn 26,000 baht per month. Their businesses are located on the main road to the border. Small shops further from the main road earn 8,000 baht per month. People who work in the casino in Cambodia earn 250 baht per day. Casino jobs are more secure than other daily paid jobs. To get the job, one needs to have good networking and information.

Table 4.14 shows expenditures of households in the surveyed areas. There are, on average, 3.76 household members who consume home-made food with other members. The average expenditure on food is 235 baht per person per week or 842 baht per household per week. The average monthly expenditure for utilities, transportation and other non-food items is 3,083 baht per household. Other transitory expenditures are approximately 14,138 baht per year. The surveyed household always buy their food and non-food products in Thailand.

Table 4.14: Sa Kaeo: Household Expenditure

Type	Unit	Average (baht)
1. Food	Per person per week	235
	Per household per week	842
2. Non-food	Per household per month	3,083
3. Others	Per household per year	14,138

About 75 percent of the surveyed household are in debt (Table 4.15). About 40 percent owe between 10,000 and 50,000 baht. There is one household that owes more than 500,000 baht. The major source of loans for these households is the Village Fund.³³ The average loan from the Village Fund is 17,863 baht and the interest 4.8 percent (Table 4.16). Households that owe the Bank for Agriculture and Agricultural Cooperatives (BAAC) (32 households) and commercial banks (five households) carry quite large loans. Interest charged by these sources is lower than from a loan shark. However, borrowers must have collateral such as a land title to obtain a commercial bank loan or must form a farmer group to obtain a BAAC loan. The term of most loans is not longer than one year (Table 4.17).

³³ The Village Fund is the government-sponsored programme initiated in 2001. The government allocated 1 million baht to each village nationwide to set up a revolving fund. Villagers can vary the loan regulations and interest rates.

Table 4.15: Sa Kaeo: Household Debt

	No. of Households	Percent
No debt	26	24.53
Debts less than 10,000 baht	8	7.55
Debts between 10,000 and 50,000 baht	42	39.62
Debts between 50,000 and 100,000 baht	21	19.81
Debts between 100,000 and 500,000 baht	8	7.55
Debts more than 500,000 baht	1	0.94
Total	106	100.00

Table 4.16: Sa Kaeo: Sources of Loans and Interest Rates

Creditors	No. of Households	Percent	Value of Loan	Average Loan per Household	Average Interest Rate (%/Year)
Relative/friend	7	5.88	192,500	27,500	0.00
Moneylenders	2	1.68	70,000	35,000	11.00
Saving group	9	7.56	328,000	36,444	8.80
BAAC	32	26.89	1,862,000	58,188	6.50
Commercial bank	5	4.20	700,000	140,000	5.70
Village fund/village bank	51	42.86	911,000	17,863	4.80
Other	13	10.92	1,095,000	84,231	2.30
Total	119	100.00	5,158,500	43,349	5.40

Table 4.17: Sa Kaeo: Terms of Loans

	No. of Households	Percent
Less than 1 year	84	70.59
1–7 years	21	17.65
7–10 years	5	4.20
Longer than 10 years	0	0.00
Don't know	9	7.56
Total	119	100.00

4.3.3. IMPACT OF CROSS BORDER ECONOMY

The promotion of Ban Khlong Luek-Poipet checkpoint to an international checkpoint has had differing impacts on villagers in the border areas. Villagers in Tahkram whose main occupations are farming, general labour and self-employment in small stores have not gained directly from the border economy. Villagers who live beside the main road to the checkpoint gain something. The border economy has stimulated more new businesses such as restaurants, guest houses and hotels.

In the survey, approximately 60 percent of households evaluate themselves as not poor, and 35 percent perceive that they earn enough for subsistence (Table 4.18). However, approximately 49 percent of households (Table 4.19) consider that their well-being has improved in the previous five years. Approximately 20 percent of households have not been affected by the border economy or any changes in the past five years. It is interesting that a high number of households (30 percent) think that their well-being has deteriorated compared with the five years ago.

Table 4.18: Sa Kaeo: Opinions on Economic Status

	No. of Households	Percent
Rich	0	0.00
Not rich, not poor	64	60.38
Poor	37	34.91
Very poor	4	3.77
No answer	1	0.94
Total	106	100.00

Table 4.19: Sa Kaeo: Comparison of Economic Status with 5 Years Earlier

	No. of Households	Percent
Significantly improved	14	13.21
Improved	38	35.85
No difference	21	19.81
Deteriorated	17	16.04
Significantly deteriorated	15	14.15
No answer	1	0.94
Total	106	100.00

The reasons for improved economic status are more job opportunities (31 percent) in the border and other areas (Table 4.20) and increases in the number of economically active members of households (45 percent). Job availability in the areas may actually not have increased. Those whose economic status has deteriorated cannot find jobs easily (Table 4.21). The border economy does not seem to create new jobs for villagers in the area.

Table 4.20: Sa Kaeo: Reasons for Improved Economic Status

	No. of Household	Percent
Own more agricultural land	1	1.56
Higher yield of agricultural production	8	12.50
More job opportunities due to opening of border	9	14.06
More members able to generate income	29	45.31
Fewer members unable to generate income	0	0.00
More opportunity to do other work	11	17.19
Others	6	9.38
Total	64	100.00

Table 4.21: Sa Kaeo: Reasons for Deteriorated Economic Status

	No. of Household	Percent
Own less agricultural land	0	0.00
Lower yield of agricultural production	3	8.33
Unable to sell produce	7	19.44
More members unable to generate income	8	22.22
Fewer members able to generate income	5	13.89
Less opportunity to do other work	12	33.33
Other	1	2.78
Total	36	100.00

At the village level, it is quite clear that overall well-being has been improved. There are many factors responsible. One of the most important is the end of the war in Cambodia. The war had an adverse effect on living conditions of Cambodians. Starvation might lead people to do anything to survive, which might affect security for people living close to the border. Interviewed heads of villages said that security has been significantly improved (Table 4.22).

Table 4.22: Sa Kaeo: Opinions of Village Heads

	No. of Village		
	Improved	Deteriorated	No change
Income	7		1
Food	7		1
Public health	8		
Communications	6		2
Social problems	8		
Security	8		
Total	8		

The improvement of villagers' overall condition can be credited to the country's development. The expansion of telecommunications, transportation and public health services has positive effects on all villagers. However, this development may or may not relate to the border economy since these services have been expanded nationwide.

Even though the surveyed villagers live near the border, they are not permanent customers of the border marketplace. Products sold in the border marketplace lack variety and quality, although they are low in price (Tables 4.23 and 4.24). More than half of the households think that the quality of products in the border marketplace is low or unreliable. These products include cloth, chillies and rice. Since transportation to the city of Aranyaprathet is convenient, the villagers are more likely go to its markets. Only 10 percent of surveyed households have crossed the border into Cambodia in the past year. However, approximately 50 percent of the households support the present situation of the checkpoint being regularly open. They think that the border economy promotes domestic tourism that has an indirect impact on the economy. Moreover, more than 10,000 Thais a day travel to the Ban Khlong Luek border.

Table 4.23: Sa Kaeo: Opinions on Import Prices

	No. of Households	Percent
Too high	4	6.06
High but reasonable relative to quality	2	3.03
Medium and affordable	28	42.42
Low	32	48.48
Total	66	100.00

Table 4.24: Sa Kaeo: Opinions on Quality of Imported Products

	No. of Households	Percent
High	1	1.52
Medium	21	31.82
Low	23	34.85
Variable	21	31.82
Total	66	100.00

Table 4.25: Sa Kaeo: No. of Households Whose Members Crossed Border in Previous Year

	No. of Households	Percent
Yes	11	10.38
No	95	89.62
Total	106	100.00

Table 4.26: Sa Kaeo: Comparison of Mean Incomes and Expenditures

	No. in sample	Income per household		Total expenditure per household	
		Mean	S.D.	Mean	S.D.
Sector t-test		-1.138		-1.434	
Agriculture	55	13,011	11,654	5,897	3,708
Non-agriculture	48	19,505	38,010	7,272	5,747
Area t-test		-1.424		-2.444*	
Rural	76	12,492	11,915	5,676	5,661
Urban	29	26,015	48,842	8,798	6,495
Distance from checkpoint t-test		-1.805*		-2.091*	
More than 5 km.	47	11,150	10,393	5,513	3,537
Less than 5 km.	58	20,139	35,492	7,369	5,503

* 5 percent level of significance.

Table 4.26 shows the income and expenditure differences between households in different sectors, areas and distances from the checkpoint. Households in rural areas have smaller expenditures than households in urban areas at the 5 percent level of significance. Households far from the checkpoint have lower incomes and expenditures than households close to the checkpoint.

4.3.4. CASE STUDIES OF IMPORTS AND EXPORTS

To understand economic activities in the border areas, case studies were conducted of informal imports and exports. Many products are traded in the Talat Rong Kluea market. Consumer products are brand name products produced in central Thailand, mostly transported from Bangkok. However, fruits and vegetables come from many provinces. Fruits and vegetables were selected as a case study of exports to Cambodia. For imports, we chose clothing because many Cambodians are involved in this industry. The study was conducted by interviewing vendors and analysing their responses.

Talat Rong Kluea is a unique border marketplace. There are two locations in the Talat Rong Kluea marketplace, one on the roadside and the other inside a row of buildings and organised shed area. From 2 to 5 am each day, the market for fruits and vegetables is open for business at the roadside. The customers are mostly Thai because the officials do not allow border crossings after 8 pm. Around seven in the morning, the marketplace is moved to the buildings. The market for fruits and vegetables is crowded in the morning and rather quiet after 11 am. By contrast, the market for clothing is quiet in the morning and becomes lively after 10 am. The baht is the major currency used in the border area.

4.3.4.1. EXPORTS: FRUITS AND VEGETABLES

Seven fruit and vegetable sellers were interviewed at Talat Rong Kluea. The following summarises the information.

Case 1: Tamarinds

The seller is female Cambodian who started her business last year. She is a widower from Phnom Penh. Her mother and her two children still live in Phnom Penh and rely on her income. On a weekday, she can sell 300–400 kg of tamarinds. On the weekend, sales increase by 20 percent to 500 kg. She needs a daily cash flow of at least 32,000 baht. The price of tamarinds is 65–80 baht per kilogram. Rent is 100 baht and electricity and umbrella 30 baht per day.

Case 2: Pineapples

The vendor started to trade in the border area two or three months ago. She buys pineapples from Trat province. She owns a pick-up truck that can carry 3,000 kg of pineapples. The cost of pineapples is 3,000 baht, parking at the sales spot is 50 baht per day, and electricity is 20 baht per day. She hires a Cambodian for 200 baht for general work until her pineapples are sold. The price of pineapples is 3–5 baht per kilogram.

Case 3: Oranges

The vendors are a couple from Si Muem Muang market, Bangkok, where their parents have been selling oranges for 30 years. The oranges, from Chiang Mai, cost , 23 baht per kg. They can sell oranges at 25 baht. The quality and price of oranges sold at the border are lower than in Bangkok. They can sell approximately 50 boxes a day at the border market compared to 200 boxes a day in Bangkok. Their customers are Cambodian wholesalers who sell oranges in Phnom Penh. Some of the customers sneak into Thailand after opening hours to order oranges for pick-up in the morning.

Case 4: Vegetables

The seller is a middle-aged widow. She takes care of four children. She used to grow vegetables in Nakhon Ratchasima, but changed to Talat Rong Kluea four or five years ago because vegetables were over-produced in her home town. At that time, she could make a good profit. But when the new row buildings were built and she had to move in, her sales dropped. She rents two small selling blocks for 260 baht per day and hires three Cambodians for 100 baht each per day. One of her sons helps her by buying vegetable from Nakhon Ratchasima in the afternoon and returning to the border market in the evening. She sells the vegetables on the roadside, where the rent is 100 baht, from midnight till morning. Then she moves her vegetables to the rented sales blocks and waits for customers (mostly Cambodians). Each day she spends about 20,000 baht to buy vegetables. She can make a profit of 700–1,000 baht per day. She said that four or five years ago, she could make a profit of 4,000–5,000 baht per day.

Case 5: Mangoes

The sellers are a group of relatives who conduct small business together. They started selling fruit at Talat Rong Kluea four or five years ago. They usually sell seasonal fruits such as sapodillas in November–December, mangoes in February–March and custard apples in April. They buy mangoes from the Thai Market, Bangkok. They make a profit of 1.80–2.00 baht per kg, or approximately 1,000–1,500 baht per day.

Case 6: Bananas

The vendor is a woman aged around 25. She entered the business two years ago. The bananas are from Rangsit, Patumthani. She bought them for 2 baht per kg. The transportation and labour costs are 0.4 baht per kg. She can sell the bananas at 4 baht per kg. However, additional costs arise while she ripens the bananas. Her rent is 150 baht per day. Half of her customers are Cambodians.

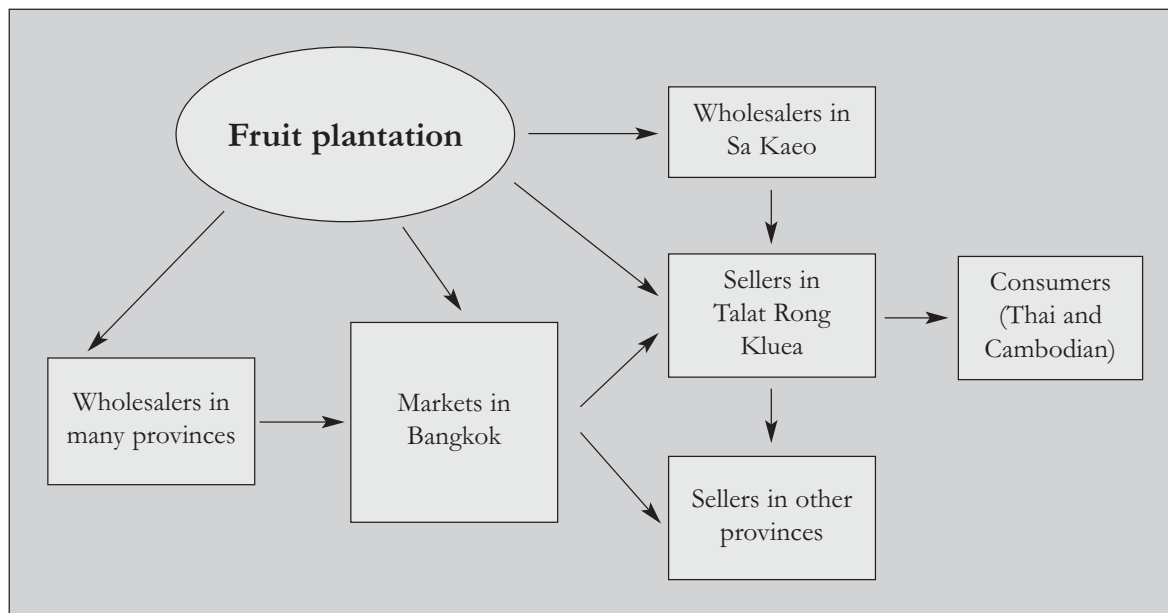
Case 7: Jackfruits

The sellers are women aged 25–50. The jackfruits are from Chonburi, Chachoensao, Rayong and Chantaburi. The sellers buy jackfruit for 3–4 baht per kg and they can sell at 6–7 baht per kg. The transport cost is 0.25 baht per kg and labour cost 100 baht per day. The sellers can make a profit of 2.75 baht per kg.

The market for fruits and vegetables in the border area is perfectly competitive. There is no barrier to entry. Any small investor with 10,000 baht can start a business. The border market or Talat Rong Kluea market is a huge market. Each day, many new sellers enter the business and many exit.

Fruits and vegetables sold in the market are seasonal products. They must be cheap, regardless of quality. They should not appear at the same time as Cambodian fruits. Fruits are transported from many provinces; however, vegetables are mainly from nearby provinces. The flow of fruits can be shown in the following figure.

Figure 4.2: Flow of Fruits to the Border



Sellers at the Talat Rong Kluea buy fruit directly from plantation owners, from markets in Bangkok or from wholesalers who come to Talat Rong Kluea. Fruits and vegetables are usually transported to Talat Rong Kluea at night or in the early morning. New sellers with small funds can buy products at night and sell them to final customers during the day. The only barrier to new entrants is language, since the majority of customers are Cambodians.

The costs of selling fruits and vegetables are not high compared to the quantity of sales. Normally, the costs include:

- Rent of sales space (plus electricity and shed) 130 baht per day;
- Labour 100 baht per day.

Small-scale sellers can make a profit of 300–500 baht per day. Sellers who have more capital, such as a pick-up truck, can earn 1,000–1,500 baht per day. The pick-up truck allows them to buy products in the provinces, where the price is lower.

The risks involved in selling fruits and vegetables in Talat Rong Kluea are low, unless there is some shock like a closure of the border without prior notification. The small dispute between Thais and Cambodians at the end of January 2003 caused huge losses to the fruit and vegetable sellers. The natural risk in this business is the rotting of fruits and vegetables. These products arrive at the same time and season. Prices are high at the beginning of the season, but keep dropping after a short time. This makes the margin smaller and smaller. Therefore, on average, the sellers can get only a normal profit.

4.3.4.2. IMPORTS: CLOTHING

The stores in Talat Rong Kluea are full of used and new clothes. This study focuses on the new clothes market. The sellers were interviewed in March. It was more difficult to interview clothes sellers than fruit and vegetable sellers, probably because they are busier during the interview time (9 am to 4 pm). The following summarises the interviews.

Case 1: Mr. Quanchaon

He is from Kompong Thom. He has a house in Poipet. He rents a small block (4 x 4 m). He has been in the clothing business for six years. He used to trade used clothes, but when more Cambodians entered the business, he lost money and therefore changed to selling new clothes. He hires Cambodians in Poipet to make shorts. Each of them can make three to five pairs of shorts a day, and they earn 17 baht per pair. The raw materials are from Thailand. Mr. Quanchaon can make a profit of 8 baht per pair.

Case 2: Ms. Bienjai

Ms. Bienjai and her husband live in Poipet. Five years ago, they entered the business on the suggestion of Bienjai's sister. Her husband designs the shorts and controls the quality. They buy raw materials in Thailand and hire Cambodians in Poipet to make shorts. The labour cost for sewing one pair of shorts is 20 baht. They hire two Cambodians at the shop and pay each of them 500 baht per month. They rent the shop for 3,000 baht per month and pay 100 baht for garbage collection and cleaning. Their store is open from 7 am to 5 pm every day.

Case 3: Mr. and Ms. Thom 1

They used to live in Kompong Thom, but now rent a house in Poipet (1,500 baht per month). They sold their rice field in Kompong Thom to invest in the clothing business. Their relatives introduced them to the business. They buy clothes from both Cambodia and Bangkok. Clothes from Cambodia are cheaper. The import duty for Cambodian clothes is 15 baht per kilogram. Most of the customers are Thais, who like to buy during the weekend. Some days they can take in up to 20,000 baht. Their rent is 4,500 baht and garbage collection and cleaning 50 baht per month. Their store opens daily from 6 am to 5 pm.

Case 4: Two sisters

The store is huge compared to others. At the researchers' estimation, the value of clothing in their store is more than 100,000 baht. They have been in the business for eight years. Unfortunately, they did not cooperate in giving an interview.

Case 5: Ms. Thom 2

She used to live in Sisophon. She has been in the business for three years. She orders shorts from Poipet and Phnom Penh (by phone). New shorts imported from Cambodia are subject to import duty of 16 baht per kilogram. Her customers are mostly wholesalers in other provinces of Thailand. On average, her customers buy 200–300 pairs of shorts. She rents the store for 7,000 baht per month and pays 100 baht per month for garbage collection and cleaning. She also pays tax to the local government (750 baht every six months). She bought a piece of land in Poipet for 20,000–30,000 baht and built a house on it. She lives with her four children and her mother.

Case 6: Mr. and Ms. Thom 3

They have been in the business for three years. They moved here from Kompong Thom. They have their own sewing machines in Poipet. Her sister takes care of the sewing. She buys raw materials from Thailand, 10–20 rolls of cloth at a time. The export tax is 20–30 baht per roll. Ms. Thom's sister hires Cambodians to make shorts in Poipet and then import them to Thailand. The import duty is 16 baht per kg. The couple rents the store for 4,000 baht and pays 100 baht per month for the garbage collection and cleaning. Their customers are from Bangkok and other provinces. Sometimes their customers buy 500 pairs of shorts. Each is sold at 95 baht.

The market for clothing is almost perfectly competitive. Clothes in the market look similar, but are differentiated by style. One of the most popular products right now is shorts because they are cheaper than Thai-made shorts and are more fashionable, with small pockets. Sellers try to differentiate their product by adding many small pockets.

Clothes sellers are more likely to be Cambodian. To be in the business, one needs to have more money than to sell fruits and vegetables. Most clothes sellers have their own sewing machines in Poipet. They hire Cambodians to make shorts and pay them by the piece. Raw materials are bought from Thailand.

The estimated costs and profit for making shorts are as follows (in Thai baht):

	<u>Soldier style fabric shorts</u>	<u>Plain fabric shorts</u>
Raw materials	50	69
Labour cost	20	20
Import tax	3	3
Total cost	73	92
Wholesale price	95	100

Clothes sellers can make a gross profit of 8–22 baht per pair of shorts. After rent and other transaction costs, the profit is smaller. As more and more Cambodians enter the clothing market, they will finally earn only a small profit.

4.3.5. CONCLUSIONS

This study investigated one main export, fruits and vegetables, and one main import, clothing. These imports and exports are informal trade in the sense that they do not go through official processes and records. People selling fruits and vegetable are more likely to be Thais, but people selling clothes are more likely to be Cambodians. This implies that Thais have better information on export products and know the supply sources. On the contrary, the Cambodian have better information on clothes produced in Cambodia. The market for fruits and vegetables at Talat Rong Kluea is very competitive. In the long run, sellers will only get normal profits. By contrast, vendors of clothes can still gain profit mainly because of low labour costs.

The promotion of the Ban Khlong Luek-Poipet checkpoint to an international checkpoint has had different impacts on villagers in the border areas. Villagers in Tahkram whose main occupations are farming, general labour and self-employment in small stores have not gained directly from the border economy. Villagers who live on the main road to the checkpoint gain something. The border economy has stimulated more new businesses such as restaurants, guest houses and hotels. This study shows that households close to the checkpoint earn significantly more and expend more than households more than 5 km from the checkpoint.

At the village level, it is quite clear that the overall well-being of people has improved. One of the most important causes is the end of the war in Cambodia.

The border economy also has a positive impact on middle-class or grassroots people from many regions of the country who are involved in economic activities in Talat Rong Kluea. The competitive market provides opportunities to people who have small to medium investment funds. Hard-working people and those who seize the right opportunity will be able to profit from their activities.

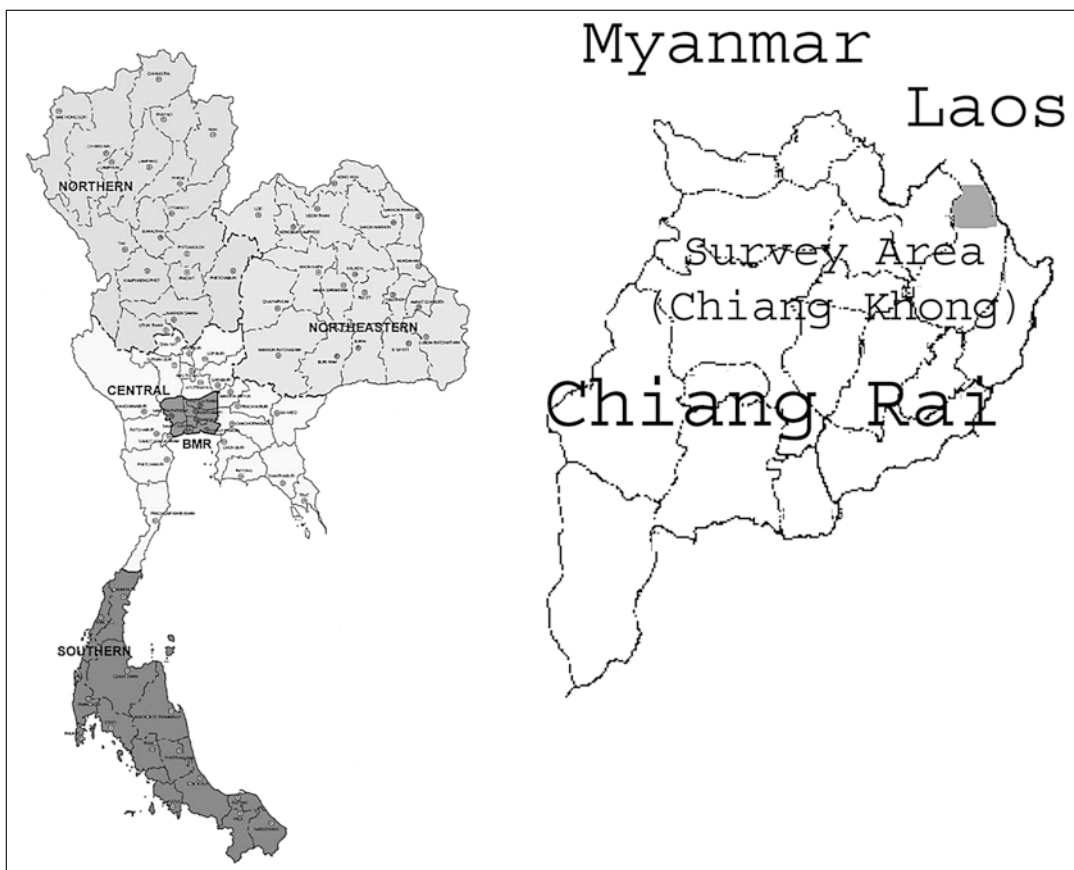
The bright side of Sa Kaeo's border economy is the equal opportunity for all people, Thais or Cambodians. However, the dark side seems to be exploitation through cheap labour and high store rentals. The economic rent from limited space should be reallocated so that more people benefit from the border economy.

4.4. CHIANG RAI

4.4.1. PROVINCE'S BACKGROUND AND BORDER TRADE

Chiang Rai, the northernmost province of Thailand, located about 785 km north of Bangkok, has a total area of 11,678.369 sq km or 7,298,981 rai.³⁴ The province borders Myanmar and the Lao PDR in the north, Lampang and Payao in the south, Laos and Payao in the east and Myanmar and Chiang Mai in the west. The population of Chiang Rai is 1,260,766 Thais, consisting of 669,453 men and 631,313 women, plus 221,196 tribal people. The length of the border between Thailand and the Lao PDR is about 1,810 km. It lies along the Hueng waterway, which is 1,108 kilometres long (see Figure 4.3).

Figure 4.3: Geographic Scope of Study



³⁴ 1 rai is 0.16 ha.

Along the Thai-Lao border are immigration checkpoints established by the Ministry of the Interior. Checkpoints allow persons and vehicles to enter and leave the kingdom. Two formal (or permanent) checkpoints in Chiang Rai are called Chiang Saen and Chiang Khong. In addition, there are four informal (temporary) crossing points. The six border points in Chiang Rai are:

Permanent checkpoints

Chiang Khong checkpoint: Located in Wiang district, Chiang Khong city, opposite Huay Sai border point in Bor Kaew district, Lao PDR, it was set up under the cabinet approval of 20 December 1988. It was recognised by the Lao PDR as an international checkpoint on 26 December 1989. It is open daily from 8 am to 6 pm.

Chiang Saen checkpoint: It is located at Wiang district, Chiang Saen city, opposite Ton Pueng border point in Por Kaew district, Lao PDR. Set up in accordance with the cabinet approval of 8 April 1989, it is also regarded as an international checkpoint by the Lao PDR. It is open daily from 8 am to 6 pm.

Temporary crossing points

Baan Jam Pong crossing point: Located in Lai Ngaw district, Wiang Kan city, it was officially opened on 28 August 1994. At present, it is open on Monday, Wednesday, Friday and holidays from 8 am to 6 pm.

Baan Rom Phothonng crossing point (Lau Jur): Located at Moo 9, Tub Tao district, Teung city, it was officially opened on 16 October 1998. Currently, it is open on the 20th of each month from 8 am to 6 pm.

Baan Suan Dok crossing point: It is located at Moo 8, Baan Saew district, Chiang Saen city, and was officially opened on 16 October 1998. It is open daily from 8 am to 6 pm.

Baan Sob Luak crossing point: Located at Moo 1, Wiang district, Chiang Saen city, it was officially opened on 27 October 1998. It is open daily from 8 am to 6 pm.

One can see that the permanent checkpoints between the two countries were opened about 15 years ago and all the temporary checkpoints within the last 10 years.

Chiang Rai's GPP at current prices in 2001 totalled 34,606 million baht, with the major contribution from agriculture (8,099 million baht or 23.40 percent), followed by services (7,767 million baht or 22.44 percent) and wholesale and retail trade (6,991 million baht or 20.20 percent), as shown in Table 4.27. Major agricultural products of Chiang Rai are rice, maize, cassava, ginger and longan. In 2001, GPP in current prices grew 2.44 percent. This slow growth mainly resulted from a slowdown in construction, transportation and communications.

Labour force surveys in the third quarter of 2003 report a total labour force in Chiang Rai of 646,529 people, of whom 635,567 were employed (98.30 percent) and 10,962 jobless, representing an unemployment rate of 1.70 percent (Table 4.28). Surprisingly, only 2.26 percent of unemployed people showed interest in looking for a job, while another 97.74 percent were indifferent to employment. Among employed people, 218,674 (34.41 percent) are self-employed, 177,970 (27.53 percent) are private sector employees and 156,882 (24.27 percent) are unpaid family workers. Approximately half of the employed work force (300,396 people) engages in agricultural production, comprising 172,316 people in cultivation and 101,033 in subsistence farming. The second most frequent employment is in sales and services, involving 89,029 people (Table 4.29).

Table 4.27: Chiang Rai: Gross Provincial Product at Constant 1988 Prices (millions of baht)

	1994	1995	1996	1997	1998	1999	2000	2001
Agriculture	3,631	3,353	3,832	3,622	3,986	4,016	4,483	4,630
Crops	2,724	2,495	2,972	2,675	3,055	3,058	3,485	3,616
Livestock	452	395	366	431	428	402	458	470
Fisheries	27	31	52	71	80	84	86	90
Forestry	7	12	16	17	13	33	21	27
Agricultural services	141	131	131	120	112	133	139	149
Simple agricultural processing	280	290	295	307	298	306	294	278
Mining and quarrying	117	134	172	163	110	156	139	145
Manufacturing	807	955	1,040	1,030	943	1,056	1,185	1,152
Construction	3,344	2,861	2,494	1,159	884	911	624	448
Electricity and water supply	350	408	429	448	453	467	533	535
Transportation and communication	1,539	1,924	2,027	1,988	1,675	1,650	1,787	1,719
Wholesale and retail trade	4,079	4,470	4,586	4,404	3,771	4,055	3,964	3,814
Banking, insurance and real estate	1,326	1,389	1,451	1,359	1,405	885	830	819
Renting	1,472	1,546	1,616	1,651	1,731	1,771	1,797	1,813
Public administration and defence	848	959	999	1,063	1,147	1,163	1,188	1,149
Services	2,441	2,485	2,720	2,905	2,941	3,194	3,370	3,589
Gross Provincial Product (GPP)	19,954	20,484	21,365	19,791	19,028	19,325	19,899	19,813

Source: National Economic and Social Development Board (NESDB)

Table 4.28: Labour Force, Employment and Unemployment in Chiang Rai, 2003

	Quarter 1	Percent	Quarter 3	Percent
Employed	616,914	98.3	635,567	98.30
- Employer	32,300	5.1	37,579	5.81
- Self-employed	196,700	31.4	218,674	33.82
- Unpaid family workers	114,900	18.3	156,882	24.27
- Government employees	52,100	8.3	41,799	6.47
- State enterprise employees	2,600	0.4	666	0.10
- Private employees	218,400	34.5	177,970	27.53
Unemployed	8,700	1.4	10,962	1.70
- Looking for work	1,900	0.3	248	0.04
- Not looking for work	6,800	1.1	10,714	1.66
Seasonal unemployed	1,800	0.3	0	0.00
Labour force	627,420	100.00	646,529	100.00

Source: National Statistics Office, Labour Force Surveys

Table 4.29: Employment by Occupation in Chiang Rai, 2003

Occupation	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Average
1. Administrators	49,797	49,075	52,991	40,908	48,193
2. Professionals	19,245	18,637	19,591	15,643	18,279
3. Technicians	10,996	19,199	11,771	10,975	13,235
4. Clerical	17,192	27,060	26,435	23,434	23,530
5. Sales and services	84,539	78,973	89,029	93,174	86,429
6. Agriculture	193,663	192,944	300,396	258,657	236,415
7. Skilled labour	116,396	85,748	81,652	103,354	96,788
8. Manual labour	125,086	92,327	53,702	95,682	91,699
Total	616,914	584,851	635,567	641,827	619,790

Source: National Statistics Office, Labour Force Surveys

Cross Border Trade

Chiang Rai was selected to be the first border economic zone in Thailand, covering three cities, namely Mae Sai, Chiang Saen and Chiang Khong. Cross border trade between Thailand and Laos in Chiang Rai involves a large amount of imports and exports (Table 4.30). Major exports in 2003 included food and beverages and construction materials, while major imports were sawn wood and live animals (Table 4.31). Imported forest products are, for instance, Job's tears,³⁵ palm seed, bark of paper mulberry and sesame seed, with import values ranging from 1.4 to 6.1 million baht. In 2003, Thailand's trade balance through Chiang Khong amounted to a surplus of 315.88 million baht.

The value of exports through Chiang Khong has been greater than through Chiang Saen every year since 1998. The import figures are not significantly different. However, it is obvious that Chiang Khong handles a much greater export volume and shows a trade surplus every year. On the other hand, the trade balance for Chiang Saen has been in deficit since 1998. Therefore, the main focus will be on Chiang Khong border crossing, since it contributes more to the country's cross border trade value as far as trade between the Lao PDR and Thailand is concerned.

Table 4.30: Value of Trade between Thailand and Lao PDR

(baht)

Year	Chiang Saen		Chiang Khong		Total	
	Import	Export	Import	Export	Import	Export
1998	35,854,852	1,002,106	85,779,854	447,796,689	121,634,705	48,798,795
1999	211,441,270	39,049,784	n.a.	n.a.	211,441,270	39,049,784
2000	292,133,363	20,154,775	166,207,571	934,487,004	458,340,933	954,641,779
2001	225,247,630	125,439,821	287,337,372	482,299,483	512,585,002	607,739,305
2002	212,129,600	82,139,740	205,234,251	502,438,341	417,363,851	584,578,081
2003	81,582,037	29,451,852	188,774,518	504,653,162	270,356,555	534,105,015
Total	1,058,388,752	297,238,079	933,333,565	2,871,674,680	1,991,722,316	3,168,912,759

Source: Chiang Rai Chamber of Commerce

³⁵ Job's tears is a south-east Asian grass which bears its seeds inside hollow pear-shaped receptacles, which are grey and shiny and sometimes used as beads.

Table 4.31: Major Exports and Imports between Thailand and Lao PDR at Chiang Rai Border in 2003

Rank	Export	Value (baht)	Import	Value (baht)
1	Food and beverages	147,748,830	Sawn wood	75,213,951
2	Construction materials	106,674,993	Live animals	69,557,100
3	Diesel oil	53,979,943	Lignite coal	66,075,397
4	Construction tools	35,083,301	Tractors	6,950,000
5	Ribbed smoked sheet ³⁶	33,438,405	Wood and wood products	6,296,277
6	Benzene	31,994,782	Job's tears (unmilled)	6,140,634
7	Consumer goods	29,519,730	Live cows	5,357,000
8	Fuel oil	25,982,943	Palm seed	5,321,087
9	Electrical appliances	13,778,460	Agricultural products	5,087,302
10	Automobiles and vehicles	12,366,876	Bong bark	4,357,510

Source: Chiang Rai Chamber of Commerce

In addition to its trade significance, Chiang Khong is also a gateway for tourism. According to the Chiang Khong immigration checkpoint (see Table 4.32), 133,516 people travelled through the gateway, including inbound and outbound, in 2003. Travellers are Thai and foreigners holding either passports or border passes. The number of vessel crossings through the border point totalled 10,921, comprising 9,943 boats and 978 motorboats.

Table 4.32: People and Vessels Travelling through Chiang Khong Checkpoint

Type	2002		2003	
	Inbound	Outbound	Inbound	Outbound
People				
Passport	26,173	46,986	18,913	39,775
- Thais (persons)	2,049	3,058	2,210	3,425
- Foreigners (persons)	24,124	43,928	16,703	36,350
Border pass	27,352	27,352	37,563	37,265
- Thais (persons)	8,021	8,021	8,931	9,063
- Foreigners (persons)	19,331	19,331	28,632	28,202
Total	53,525	74,338	56,476	77,040
Vessels				
- Boats (units)	11,028	14,821	9,943	13,453
- Motorboats (units)	1,087	1,234	978	1,086
Total	12,115	16,055	10,921	14,539

Source: Chiang Khong immigration checkpoint

³⁶ Ribbed smoked sheet (RSS) is a type of natural rubber used as raw material in production of products such as automobile tyres and rubber gloves.

Since there is a constant growth in demand for goods in border markets, especially at Chiang Khong, trade should be promoted to satisfy this demand. Also, Chiang Khong's location suits it to be a centre of logistics for Laos, Myanmar and southern China. In this respect, Chiang Rai has an excellent potential for:

- (1) trade expansion in border markets with Laos;
- (2) export expansion by improving agricultural production, emphasising both fresh and processed agricultural products;
- (3) being a centre of logistics and transportation by land, water and air.

To succeed in this, provincial transport networks and infrastructure should be developed. This will also contribute to the future private sector North-South Economic Corridor. Development of the border economic zone in Chiang Rai can bring about economic growth and link local and regional production with Greater Mekong Sub-regional economic cooperation. It corresponds with development strategies for the country's industrialisation by linking the border economic zone with the industrial zones in the northern region of Thailand.

Still, there are problems with the welfare of villagers living in the border area—unskilled labour, poor marketing and production management, inefficiently processed agricultural products and poor infrastructure, particularly main roads and bridges connecting to Laos, Myanmar and southern China. Since roads are crucial in the transport of goods across the border, road networks with neighbouring countries should be developed to boost trade volumes, especially of border goods. Enhanced agricultural production and agro-processing industry can be achieved through government policies such as agricultural development for export (Kitchen of the World), One Tambon One Product (OTOP), border economic zones and promotion of small and medium enterprises (SMEs), suppression of narcotics and sinister influences, and decentralising forms of local government. Free trade agreements with foreign countries should be pursued in accordance with the strategy that aims to link communications and transport in Thailand with neighbouring countries. Infrastructure development for Chiang Rai is as follows:

(1) Land

■ Links to neighbouring countries

Efforts are being made to establish links among three main cities: Bangkok, Chiang Rai and Kunming (northern corridor). There are two alternative routes. The first, currently open, starts from Thailand and passes through Myanmar to China (Mae Sai-Tar Kee Lek-Chiang Toong-Tar Lua-Chiang Roong). The second starts from Thailand, passing through the Lao PDR to China (Chiang Khong-Huay Sai-Luang Namta-Bor Ten-Chiang Roong-Kunming). It has been under construction since 2004 and is expected to be completed in 2007.

■ Domestic linkages

Road construction aims to link three cities situated in border areas (Mae Sai, Chiang Khong and Chiang Saen) with Mueng Chiang Rai and the upper area of northern Thailand (Chiang Mai and Lumphoon). Specifically, construction of four-lane highways connecting Mae Jun, Chiang Saen, Chiang Khong, Chiang Mai and Lumphoon are to be completed. At present, there is a four-lane highway (No. 1) in Mae Sai, connecting Chiang Rai and Chiang Mai provinces. In Chiang Saen, there is a two-lane highway (No. 1016), connecting to Mae Jun. There is a long-term plan to construct a railway connection between Denchai, Chiang Rai and Chiang Saen.

(2) Water

Water transportation in Chiang Rai uses the Mekong River, from Chiang Saen in Thailand towards Si Mao City and Chiang Roong City in China. At present, the waterway is under rehabilitation to enable a 500-ton vessel to sail through. Ten of eleven tasks have been completed in the first phase. However, due to boundary disputes, another task supposed to be completed in waters between Thailand and the Lao PDR has had to be postponed. It requires an environmental impact assessment, which is currently being carried out.

(3) Air

Chiang Rai international airport will be upgraded by the end of 2006 to cover air routes to neighbouring countries, especially main cities such as Bangkok, Yangan, Luang Prabang, Vientiane, Kunming and other cities in Yunnan to promote border trade and tourism.

The Chiang Khong border area is to be developed into a general industrial zone and industrial zone for agriculture. Main projects for the second phase include:

- 1) Establishment of Chiang Khong as an industrial zone for agriculture.
- 2) Construction of an inland container depot, initially using 200 rai to the east of Road No. 1020, 2.5 kilometres south of Chiang Khong. The first phase should take up to 100 rai to serve as a warehouse for the next 10 years. This project should be implemented during 2010–2011.
- 3) Construction of a bridge over the Mekong for border crossing between Thailand and the Lao PDR via Highway No. R3W should be carried out during 2007–2011.

4.4.2. HOUSEHOLDS IN BORDER AREA

A field survey was conducted in Chiang Rai during March 2004. Villagers living in the Chiang Khong checkpoint area and the surrounding Wiang district (12 villages) and Sathan district (one village) were personally interviewed using structured questionnaires. The aim was to examine the impacts of border trade on local people and communities. Two sets of questionnaires were used, one for villagers and the other for heads of villages. A total of 124 questionnaires were completed, 115 by villagers and nine by village heads. It was agreed that the geographical scope of the survey would be within 135 kilometres of Chiang Khong, but not further than 10 kilometres from Wiang district.

We found that the well-being of households varied across the survey areas. Villagers who live near Chiang Khong checkpoint in Wiang district are better off than those who live in other areas of the same district. In some distant villages, all of the villagers are hill tribespeople who have a problem of poverty. The survey reveals that the most frequent occupation of villagers in Wiang district is work on their own farms, representing 41.74 percent (Table 4.33). The second and third ranks are small business (13.04 percent) and part-time employment (11.30 percent). Only 2 percent of villagers engage in trade at Chiang Khong border market, while no villager was found to work in Laos. This indicates limited direct benefit to local villagers.

Three-quarters of the villagers interviewed in Sathan district, who live within eight kilometres of Chiang Khong, work on their own farms. The rest work in transportation and other jobs, e.g. as government officers and private employees. None of the villagers interviewed in Sathan district works in Laos. This indicates that villagers who live further from the checkpoint will experience no direct benefits from border trade.

Table 4.33: Chiang Rai: Occupations of Household Members

Occupation	Wiang District	Percent	Sathan District	Percent
1. Own farm work	96	41.74	6	75.00
2. Farm work for others	11	4.78	0	0.00
3. Work in hotel/restaurant/ shop along main road to border	0	0.00	0	0.00
4. Produce drinks and sugar	4	1.74	0	0.00
5. Transport	16	6.96	1	12.50
6. Trade at border market	2	0.87	0	0.00
7. Small business	30	13.04	0	0.00
8. Work in Lao PDR	0	0.00	0	0.00
9. Collect products from forest, e.g. fishing, hunting	8	3.48	0	0.00
10. Full-time employee	25	10.87	0	0.00
11. Part-time employee	26	11.30	0	0.00
12. Others	12	5.22	1	12.50
Total	230	100.00	8	100.00

Note: Others are defined as government officers and private employees.

Villagers in both districts have access to electricity and water supply. However, in some villages, the water supply is derived from natural sources i.e. mountains and streams. There is a lack of water for agricultural production, especially in the dry season. Even so, drinking water is sufficient for villagers throughout the year. Ninety-nine households, accounting for 86.08 percent, drink fresh water from a pipe in the dwelling while the rest drink fresh water from underground wells or ponds. Only seven of 115 households, or 6.08 percent, drink boiled water. One hundred and thirteen households, constituting 98.26 percent, have their own toilet with septic tank, while only one household has no toilet.

Firewood and gas ovens are used for cooking, accounting for 49.56 percent (57 households) and 47.83 percent (55 households) respectively. The main reason households use firewood is that it is so easy to find, and villagers can collect it themselves and do not have to buy. On the other hand, households that use a gas oven consider it more convenient and time-saving. Only three households use charcoal as fuel.

All households have their own wooden houses, which can be classified as corrugated tin-roofed (20 households), tile-roofed (84 households) and thatch-roofed (11 households). As shown in Table 4.34, 77.63 percent of households engaged in agriculture have their own land, whereas 11.84 percent rent it, paying in kind. Another 6.58 percent of households both own and rent land because their own land is insufficient. The average agricultural household cultivates 8.73 rai of land in the rainy season and 4.50 rai in the dry season. The household farming the most land has 40 rai. The household owning the least land has a plot of only one rai. In the dry season, the largest plot of land cultivated is only 10 rai.

Table 4.34: Chiang Rai: Land Ownership

Land Ownership	Households Engaged in Agriculture	Percent
Own	59	77.63
Rent (in kind)	9	11.84
Rent (money)	2	2.63
Own and rent	5	6.58
Others	1	1.32
Total	76	100.00

Note: Others are defined as land owned by relatives or Agricultural Land Reform Office.

Electrical appliances possessed by almost every household are televisions (91.30 percent), electric fans (82.61 percent) and refrigerators/freezers (79.13 percent) (Table 4.35). Fifty-two of 115 households (45.22 percent) own mobile phones. The average value of electrical appliances owned is 23,671 baht per household. As for vehicles, motorcycles are mostly used, by 82 households (71.3 percent), followed by bicycles, 57 households (49.57 percent). Among 76 households engaged in agriculture, the average value of farm vehicles and equipment owned is 228,393 baht. There are 24 households that use hand tractors in farming. In addition to the assets mentioned in Table 4.35, other assets such as a washing machine and satellite receiver, which have the estimated value of 16,184 baht per household, were also found. The average value of all household assets is 23,671 baht.

Fifty-six cultivated plots were covered by the survey. We discovered that major agricultural products in Chiang Khong are rice and maize, accounting for 51.79 and 30.36 percent of plots, respectively (Table 4.36). On average, villagers grow rice seven months a year. Crop cultivation is possible in the dry season only in some areas. During the off season, some villagers have part-time jobs while the rest are unemployed and waiting for the next growing season.

Villagers' rice cultivation is mostly for family consumption rather than commercial purposes. Some households that have an excess over their own consumption will sell it. Households also keep seeds or seedlings for cultivation in the next season. According to the survey, rice growers suffer some crop loss almost every year. In contrast, maize cultivation is wholly for commercial purposes. Since maize is more resistant to heat and drought than rice, it can be grown in the dry season. Usually it takes three to four months for maize to be ready for harvesting. Therefore, it can be grown twice a year, and maize growers rarely have problems with loss as rice growers do. This explains why maize is the most popular crop among the villagers after rice.

In 2003, households in both districts produced 521.90 kg of rice per rai. As shown in Table 4.37, villagers mostly use chemical fertilisers, while a few use natural fertilisers from animal dung and compost. Chemical fertilisers are the largest item in crop cultivation costs, constituting 34.95 percent of the total. Thus, an increase in fertiliser prices can cause a sharp increase in total crop cultivation costs. Labour costs (including human labour cost and rent for animals/equipment) rank second, representing 22.81 percent of total costs. Labour in Chiang Rai is mostly in the form of mutual help among neighbours, called *long khaek*. Sometimes labourers are temporarily hired, but no labour from Laos was found in the survey.

Table 4.35: Chiang Rai: Assets

Asset Category	Asset	Quantity	Percent
Electrical appliances	Television	105	91.30
	Radio/cassette player	28	24.35
	Electric fan	95	82.61
	Telephone	26	22.61
	Mobile phone	52	45.22
	Refrigerator/freezer	91	79.13
	Washing machine	9	7.83
	Other	47	40.87
Vehicles	Motorcycle	82	71.30
	Bicycle	57	49.57
	Car	14	12.17
	Other	12	10.43
Farm equipment	Hand tractor	24	20.87
	Other	9	7.83
Home appliances and decorations	Furniture	34	29.57
	Water jar	0	0.00
	Other	3	2.61

Table 4.36: Chiang Rai: Crops Cultivated

Crop	No. of Plots	Percent
Rice	29	51.79
Maize	17	30.36
Nuts/beans	1	1.79
Vegetables	2	3.57
Sugar cane	0	0.00
Others	7	12.50
Total	56	100.00

Note: Others are tobacco and fruit such as oranges and lychees.

Table 4.37: Chiang Rai: Costs of Cultivation (in baht)

Category	Households	Total Cost	%	Average Costs	Max. Costs	Min. Costs
Planting (seeds, seedlings, young plants)	47	45,323	7.67	964	3,600	8
Chemical fertilisers	56	206,585	34.95	3,689	42,000	70
Animal and plant manure	4	3,050	0.52	763	2,400	100
Pesticides, herbicides, fungicides	26	109,125	18.46	4,197	40,000	40
Electricity, oil, gas, diesel	30	49,720	8.41	1,657	10,000	50
Storage	11	21,000	3.55	1,909	6,000	150
Draught power (tractor/animal) and labour	30	134,820	22.81	4,494	30,000	100
Irrigation	1	100	0.02	100	100	100
Transportation of inputs and outputs	12	5,800	0.98	483	1,700	100
Services/technical support from government and other agencies	0	0	0.00	0	0	0
Repair and maintenance of farm house, animal shed and equipment	6	8,050	1.36	1,342	2,500	250
Rental of land (cash)	3	7,500	1.27	2,500	3,000	2,000
Rental of land (in kind)	1	3	0.00	3	3	3
Rental of farm house, equipment, etc. (cash and kind)	0	0	0.00	0	0	0
Total	63	591,076	100.00	9,382	88,300	240

A major problem faced by the households is the lack of irrigation (Table 4.38). The second most frequent problem is a shortage of agricultural land. Other problems include the high costs of fertilisers, pesticides and seed. Twenty-four households (21 percent of the sample) raise some kind of animal (Table 4.39). Eleven households raise cows and 11 raise chickens; two households raise pigs for family consumption. According to the survey, the key problem in raising animals is expensive feed.

The survey found an average weekly expenditure on food of 206 baht per person or 729 baht per household. Family size averages 3.54 members. All households buy consumer goods (both food and non-food items) from local markets in Thailand. The main non-food expenditures include utility expenses such as telephones, electricity and water supply. Other expenses are travel (private and public transport), education, medical treatment and health care, donations for merit-making, weddings and funerals, life insurance, car insurance and vehicle registration (cars and motorcycles). These expenses are estimated to be about 10,470 baht per household per year.

Villagers also engage in non-farm work, mostly small businesses, such as grocery and food shops. They have an average non-farm income of 5,468 baht per month. Some villagers have part-time jobs, earning about 132 baht per day. The survey also found that some villagers are government officers, who are paid an average of 7,825 baht a month.

Table 4.38: Chiang Rai: Major Problems in Agriculture

Problem	No. of Households	Percent
Lack of water	25	69.44
Lack of money	1	2.78
Plant diseases and insects	2	5.56
Lack of land	3	8.33
Low selling prices	1	2.78
Others	4	11.11
Total	36	100.00

Note: Others are combinations of the listed problems and expensive fertiliser or insecticides.

Table 4.39: Chiang Rai: Livestock

Type	No. of Households	Average	Maximum No.	Minimum No.
Cows	11	5	13	2
Pigs	2	5	5	4
Chickens/ducks	11	33	100	10

The survey found that 45.22 percent of households (52 of 115) have no debt (Table 4.40), while 33.04 percent owe between 10,000 and 50,000 baht. None owe more than 500,000 baht.

Table 4.40: Chiang Rai: Household Debt

	No. of Households	Percent
No Debt	52	45.22
Debts less than 10,000 baht	13	11.30
Debts between 10,000 and 50,000 baht	38	33.04
Debts between 50,000 and 100,000 baht	8	6.96
Debts between 100,000 and 500,000 baht	4	3.48
Debts more than 500,000 baht	0	0.00
Total	115	100.00

Most debtors (47.14 percent) borrowed from the Village Fund or Village Bank at 4.8 percent per annum interest, followed by 37.14 percent who borrowed from the Bank for Agriculture and Agricultural Cooperatives (BAAC), which charges an annual rate of 5.8 percent (Table 4.41). The Village Fund gives the smallest loans, 15,567 baht per household. Informal lenders charge the highest interest rate, 11 percent, followed by the general moneylenders, charging 8.9 percent.

Table 4.41: Chiang Rai: Sources of Loans and Interest Rates

Creditors	No. of Household Members	Percent	Value of Loan	Average Loan	Average Interest Rate (Percent per Year)
Moneylenders	3	4.29	123,000	41,000	8.90
Saving group	6	8.57	486,000	81,000	4.60
BAAC	26	37.14	1,550,000	59,615	5.80
Village Fund/ Village Bank	33	47.14	513,700	15,567	4.80
Others	2	2.86	60,000	30,000	11.00
Total	70	100.00	2,732,700	39,039	5.40

The majority of debts (44 households or 62.86 percent) are short term, with repayment periods of less than one year (Table 4.42). Debts with repayment periods between one and seven years are the second most frequent. There is only one household with a debt term of more than 10 years.

Villagers in Wiang Districts and Sathan districts use the baht as their main currency in both Thai territory and the cross border area.

Table 4.42: Chiang Rai: Terms of Loans

	No. of Household Members	Percent
Less than 1 year	44	62.86
1-7 years	17	24.29
7-10 years	5	7.14
Longer than 10 years	1	1.43
Don't Know	3	4.29
Total	70	100.00

4.4.3. IMPACT OF CROSS BORDER ECONOMY

According to the survey, 21.74 percent of households think they are poor, 69.57 percent consider themselves middle class, and only 3.48 percent think they are rich (Table 4.43). When asked to compare their economic status now with five years ago, 33.04 percent say they are moderately better off and 8.70 percent think they are much better off (Table 4.44). They give two main reasons for these opinions: **(1)** there are more family members able to generate income (46.88 percent); and **(2)** they gain a higher yield from agricultural production (23.44 percent-see Table 4.45). On the other hand, some households think their economic status has worsened: 24.35 percent say they are moderately poorer and another 4.35 percent say they are much poorer. Table 4.46 reveals two key explanations for this: **(1)** they obtain a lower yield from agricultural production (25 percent); and **(2)** there are more family members unable to generate income (21.15 percent). The remaining households, 29.57 percent, feel they are neither richer nor poorer than five years earlier. However, the nine village chiefs interviewed agree that the overall standard of living in the border area is higher.

Table 4.43: Chiang Rai: Opinions on Economic Status

	No. of Households	Percent
Rich	4	3.48
Not rich, not poor	80	69.57
Poor	25	21.74
Very poor	6	5.22
Total	115	100.00

Table 4.44: Chiang Rai: Comparison of Economic Status with 5 Years Earlier

	No. of Households	Percent
Significantly improved	10	8.70
Improved	38	33.04
No difference	34	29.57
Deteriorated	28	24.35
Significantly deteriorated	5	4.35
Total	115	100.00

Table 4.45: Chiang Rai: Reasons for Improved Economic Status

Reasons	No. of Households	Percent
Own more agricultural land	1	1.56
Higher yield of agricultural production	15	23.44
More job opportunities due to opening of border	3	4.69
More members able to generate income	30	46.88
Fewer members unable to generate income	6	9.38
More opportunity to do other work	3	4.69
Others	6	9.38
Total	64	100.00

Note: Respondents were allowed to choose more than one answer.

Table 4.46: Chiang Rai: Reasons for Deteriorated Economic Status

Reasons	No. of Households	Percent
Own less agricultural land	1	1.92
Lower yield of agricultural production	13	25.00
Unable to sell the produce	8	15.38
More members unable to generate income	11	21.15
Fewer members able to generate income	9	17.31
Less opportunity to do other work	4	7.69
Others	6	11.54
Total	52	100.00

Note: Respondents were allowed to choose more than one answer.

Two important markets in the border area are located in Chiang Khong and Wiang district. However, the market in Chiang Khong offers a larger variety of goods, so villagers are likely to buy things there. Markets in Laos do not attract villagers much because most goods in them are from Thailand. Moreover, villagers perceive Lao goods as of lower quality than Thai goods. The only kinds of Lao goods that villagers tend to buy are forest products because they are rare and may not exist in Thailand.

Based on their experience of buying Lao goods at the border market, 16.67 percent of villagers think that the prices are too high while 18.52 percent think they are low. The largest number (35.19 percent) agree that the price is fair and affordable. Some 37.33 percent say that Lao goods are of low quality, while only 9.33 percent think they are of high quality. Of villagers who buy Lao goods, 59.38 percent do so because they are cheap, whereas 40.62 percent buy them for reasons other than price. Villagers consider that important Lao goods are forest products, including wild animals. About 41.67 percent say that they would buy Thai goods instead of Lao goods if they could no longer buy them from Lao markets.

The survey on cross border activity of the villagers in 2003 reveals that 15.65 percent of villagers travelled across the border at least once a year. Travel can be categorised as part time, full time and seasonal, which constitute 62.50 percent, 6.25 percent and 18.75 percent respectively. The other 12.5% are trips that occur randomly. Most villagers who cross the border do so to visit their relatives or friends or to buy goods, 33.33 percent each. About 11.11 percent travel because they work at the border. The remaining 22.22 percent travel for business purposes (e.g. selling goods and contacting suppliers) and for pleasure.

A total of 110 respondents gave their opinions on the opening of the border. Eighty villagers (72.72 percent) support the opening of the border, while only eight (7.27 percent) do not. The remaining 22 are indifferent. Major reasons for support are the easier transportation across the border, improved trade and improved local economy.

The sector t-test informs that households in the non-agricultural sector spend more than households in the agricultural sector (Table 4.47). The relationship between household distance from the border and expenditure is also found to be positive. This means households living less than five kilometres from the checkpoint spend significantly more than households living further away.

Table 4.47: Chiang Rai: Comparison of Mean Incomes and Expenditures

	No. in sample	Income per household		Total expenditure per household	
		Mean	S.D.	Mean	S.D.
Sector t-test		-1.294		-1.868*	
Agriculture	65	5,714	6,492	4,303	2,951
Non agriculture	50	11,748	28,619	6,610	8,338
Area t-test		0.636		-0.470	
Rural	4	10,525	6,484	4,531	3,218
Urban	111	8,088	19,474	5,335	6,090
Distance from checkpoint t-test		-0.534		-1.694*	
More than 5 km	20	7,027	5,592	4,166	2,079
Less than 5 km	95	8,502	21,325	5,547	6,524

* 5 percent level of significance.

4.4.4. CASE STUDIES OF IMPORTS AND EXPORTS

Chiang Khong is an important centre for trade between Thailand and Laos since it has its own dock. Merchants can load trucks at Chiang Khong dock to transport goods directly to Bor Kaew district or unload goods at Chiang Khong to transport them to Huay Sai and Luang Prabang in Laos with low transport costs.

After two years of construction, Chiang Khong dock was opened on 1 December 2003. Construction expenditure, totalling 85 million baht, came from the funds of the Marine Department. Initially, Chiang Khong dock was under the supervision of the Treasury Department. Later, the Treasury Department leased it to the Port Authority of Thailand, which is responsible for management at present.

When Chiang Khong dock opened for commercial use, it appeared that there were not many goods-carrying vessels at the dock. According to data collected by the Chiang Khong dock, it handled 34 vessels during February 2004 (Table 4.48). Expenses charged at the dock include freight and dockage fees. Freight is charged on load weight at the rate of 10 baht per ton. Dockage fees vary with type of vessel: a motorboat is charged 100 baht per day, a vessel weighing not more than 100 tons is charged 200 baht per day, and a vessel weighing more than 100 tons is charged 300 baht per day. After 4 pm, an additional overtime fee is charged at the checkpoint.

The numbers of vehicles loading and unloading goods at Chiang Khong dock in February is shown in Table 4.49. It appears that the most popular vehicle is a six-wheel truck. Imports and exports are expressed in tons,³⁷ in Table 4.50.

Table 4.48: Vessels at Chiang Khong Dock in February 2004

Date	Type of Vessels			
	Vessels weighing 100 tons or less	Vessels weighing > 100 tons	Motorboats	Total
1–15 February	12	1	5	18
16–29 February	14	2	0	16
Total	26	3	5	34

Table 4.49: Vehicles Loading/Unloading at Chiang Khong Dock in February 2004

Date	Type of Vehicles					
	4-Wheel Car	6-Wheel Truck	8-10 Wheel ruck	10-Wheel Articulated Truck	Crane	Total
1-15 February	25	26	47	18	7	123
16-29 February	60	179	38	11	9	297
Total	85	205	85	29	16	421

³⁷ The ton used is the long or British ton, equal to 2,240 pounds or 1,016.05 kilograms.

Table 4.50: Goods Transported through Chiang Khong Dock in February 2004 (Tons)

Date	Imports	Exports
1–15 February	452	620
16–29 February	1,172	683
Total	1,624	1,303

Source: Chiang Khong dock, 2004

4.4.4.1. EXPORT: CONSTRUCTION MATERIALS

One of the major export items in the border trade is construction materials. According to the survey, there are many retailers and wholesalers of construction materials in Chiang Khong. Interviews with the owners of medium and large enterprises disclose that trade in construction materials between Thailand and Laos has been long established. Before the economic crisis in 1997, Lao middlemen or contractors travelled to Thailand by themselves to buy products. However, after 1997, Thai entrepreneurs tended to find more customers by marketing in Laos on their own. Some entrepreneurs set up a new entity for trade with Lao customers in particular.

The top four construction materials that Laos buys from Thailand are **(1)** Portland cement, **(2)** corrugated zinc, **(3)** iron and **(4)** tiles. Portland cement makes up about half of the total value of construction material exports. Nevertheless, the Portland cement trade does not make much profit. In the interviews, Thai traders stated that Portland cement is usually sold to Lao customers for less than the list price. For instance, if the price tag is 120 baht per sack, the actual selling price tends to be 100 baht. However, after submitting the export invoice to their agent, traders will be paid 20 baht to make up for the difference. Lao customers are likely to purchase the cheapest brand of Portland cement. Thai traders estimate that the net profit for Portland cement is only one to two baht per sack. Formerly, 20 percent of Portland cement was sold in Bor Kaew and 80 percent in Luang Prabang. Then Lao Portland cement factories emerged and competed for market share, resulting in a sharp drop in the sales of Thai traders.

Twenty percent of the iron is sold in Bor Kaew and 80 percent in Luang Prabang. It is shipped via water because of convenience and the cost saving. Forty percent of tiles are sold in Luang Prabang, 40 percent in Udomchai and 20 percent in Bor Kaew. Mostly, tiles are shipped by water because they are easily broken. Laos is now constructing tile or ceramic factories. It is therefore predicted that sales of Thai traders will fall. Eighty percent of zinc is sold in Udomchai and 10 percent each in Bor Kaew and Luang Prabang. Laos not only purchases corrugated zinc for its own use but also resells it to Vietnam.

Trade between Thailand and Laos is conducted with cash and on credit. In the past, the credit payment system was very time-consuming due to poor financial infrastructure. Although it has improved substantially, money still can not be transferred between Lao banks and Thai commercial banks. Therefore, Lao customers have to transfer money from banks in Laos to the Lao bank nearest to Chiang Khong, which is Bor Kaew branch and which charges a high transfer fee. Thai traders have to travel across the border to cash cheques by themselves. As a result, they have to bear the following costs: border-crossing fee from Thailand to Laos, 35 baht; return boat fare, 40 baht; fee to enter Laos, 50 baht (originally 90 baht); return bus fare to Lao bank, 40 baht: total 165 baht.

It is interesting to note that the cost of daily border crossing to Thailand at permanent checkpoints is relatively high for Lao people in merchandise trade. Some of the small border traders choose to cross at temporary checkpoints to avoid paying such high costs. Therefore, if all checkpoints are upgraded to permanent checkpoints while the income or standard of living of people in Laos does not improve, it will affect daily crossings.

4.4.4.2. IMPORT: AGRICULTURAL PRODUCTS AND FOREST PRODUCTS

The main imports from Laos are agricultural products and forest products such as maize, palmyra, snap beans, paper mulberry and dry grass for brooms. According to the interviews, imports from Laos differ from season to season:

- (1) *summer*: palm seed in January, dry grass in March, paper mulberry, resin, rattan and Job's tears in April;
- (2) *rainy season*: bamboo shoots and tinned bamboo shoots;
- (3) *winter*: sesame.

Trade is carried out in baht. Importers have to place orders months in advance. The average price of imports per kilogram is: maize 2.60 baht, snap beans 9 baht, grass for brooms, 14 baht and palm seed 12 baht. Importers are subject to the following expenses:

- fee for food registration number by Food and Drug Administration, Ministry of Public Health, 15,000 baht (valid for three years);
- labour cost for unloading goods (approximately 4 baht per sack). Normally, workers in Wiang district and from Laos are used. In case of a shortage of labourers at the dock, importers must have their own workers.
- import duty of 5 percent if in possession of form D from Vientiane. Import duties differ from one good to another. For instance, the duty on both white sesame, sold at 23 baht per kg, and ginger, sold at 12 baht per kg, is 2 baht per kg. For palm seed, a certificate of origin must also be provided.

Imports are not only sold in Chiang Khong but are also distributed and resold all over Thailand. For instance, sesame is resold in Samut Prakarn province, paper mulberry is resold in Chiang Mai, Phrae and Nan provinces to be used to produce mulberry paper, and palm seed is resold in Uttaradit and Nakhon Pathom provinces.

The case study indicates that cross border trade, especially around temporary crossings, mostly involves under the counter (or illegal) transactions. This is due to the fact that Lao government officials, who have low incomes, are fully authorised to determine export and import duties. This sometimes results in informal transactions and imports without regular customs clearance procedures.

4.4.4.3. CONCLUSIONS

From the results of the study, it is clear that a certain degree of direct benefits from border trade is experienced by both trading partners. Thailand has enjoyed a trade surplus with Laos for a number of years because Thailand largely exports high-value manufactured products to Laos and imports primary products from it. The benefits of border town trade very much depend on population density on both sides of the border and the types of merchandise traded in the border market. Of course, the Lao people will buy all the consumer and non-consumer products necessary for development while the country can not produce such products on its own. Thailand can be a large importer of raw materials from Laos, while at the same time providing technology to improve agricultural productivity.

Both countries should also promote economic cooperation via the ECS as soon as possible for their mutual benefit. At the meeting in Bangkok in 1 August 2003, the member countries agreed to reduce trade barriers and facilitate flows of goods, improve transport linkages, upgrade major border checkpoints and promote cooperation in five strategic areas: trade and investment, agriculture and industry, transport, tourism and human resource development.

At present, the limited incomes of Lao people make it difficult for them to bear the cost of daily border crossings through permanent checkpoints. As an alternative, the temporary checkpoints become very popular among traders because crossing there costs one-half or one-third as much. As long as incomes do not improve, upgrading temporary checkpoints may lower the number of daily crossings and the trade volume.

Another problem emerged during the last dry season, when the very low water level in the Mekong obstructed transport by cargo boats between Luang Prabang and Chiang Khong dock. Normally, it takes a cargo boat two or three days to travel from Laos to Chiang Khong, but during the past dry season, it took at least 15 days. This problem can not be resolved by the two trading partners. It depends very much on upstream countries, especially China.

There has been concern about policies that might become an obstacle to trade. This includes excessive delegation of power to Lao officers. This can lead to non-transparency and corruption as local officials have been known to impose arbitrary fees without previous warning.

Last but not least, the financial and banking systems are poorly developed in the Lao PDR. This can become a major bottleneck to trade if it is not quickly solved. The value of the Lao currency (kip) is not stable and is sometimes unpredictable. The exchange rate in the black market is different from the official rate by a wide margin. Branches of reliable banks are still few, especially in border towns. Bank transaction fees are still unusually high. A quick solution would be to allow Thai banks to expand into Laos by establishing many branches, especially in border towns.

4.5. SUMMARY AND CONCLUSIONS

The study was conducted with a view to understanding the structure and composition of cross border economy of Thailand-Cambodia and Thailand-Lao PDR, studying the impact of cross border economy on employment and poverty and exploring the factors affecting the economic and social well-being of people in the border areas.

The study was based on a case study of two border provinces of Thailand, Sa Kaeo and Chiang Rai. It included a review of extant studies on the structure, importance and role of the cross border economy in Thailand as well as policy, agreements and regulations on Thailand's border trade with the Lao PDR and Cambodia. The case studies were conducted at macro and micro levels. The macro analysis was based on secondary data of the two areas on GDP, trade, household incomes, employment and other available social indicators. The micro analysis was based on primary data collected in the two areas. The field or primary data consist of a sample survey of households and in-depth interviews of key informants, who included workers, tourists and heads of villages in the border areas.

Thailand has a long history of border trade with the Lao PDR and Cambodia despite occasional difficulties in political and trade policies. During the 1960s only informal border trade existed with Cambodia. Thailand renewed diplomatic and trade relations with Cambodia in 1970 after a decade of no diplomatic relations. During the mid-1970s, when communism and socialism assumed power in Indochina, Thailand reduced its role in border trade. Thailand closed its border and formal trade was interrupted in 1975, when Cambodia changed government. From 1978 to 1981, there was armed conflict in Cambodia, and Thailand placed a trade embargo against it. With the end of the Cold War, Thailand's policy on border trade resumed. In 1988 the Thai government announced a policy of turning "Indochina battlefields into a marketplace." Thai-Cambodian border trade restrictions were relaxed; Thailand lifted all trade controls and restrictions, except at a few temporary border checkpoints, in 1989.

Thailand's trade policy with the Lao PDR is similar to the policy with Cambodia. Trade relations have been affected by occasional political conflicts. In 1975, Thailand closed its entire border. There was an effort in 1976 to renew good relations and promote trade between the two countries, but it was disrupted again by political instability in Thailand in October 1976. Trade relations have been re-established since 1978, when a trade agreement was signed.

During the past five years (1999–2003), trade between Thailand and Cambodia was about \$486.9 million per year, compared to \$495.6 million with the Lao PDR. Exports from Thailand to Cambodia average about \$475.2 million per year and to the Lao PDR \$412.2 million. Imports from Cambodia are small, on average only \$11.7 million per year, compared to \$83.4 million from the Lao PDR. The huge trade gaps between Thailand and Cambodia and Thailand and Laos could be due to the underreporting of informal or underground imports from these countries. The Thai and Cambodian governments agreed to promote bilateral trade and consider the account trade issue at the forthcoming JTC. In response to the resolution at the Seventh AEM Retreat in May 201, Thailand has given AISP to Cambodia. The AISP includes exemptions and reductions of tariff rates on 48 items exported from Cambodia.

With the Lao PDR, Thailand has entered into agreements on many trade and investment issues. In June 1978, a trade agreement was signed and trade relations were re-established, although with cautions and restrictions. In the late 1980s, several restrictions were relaxed, including removing many items from the list of prohibited military supplies, opening of additional trading posts and relaxing the daily limit on the value of border trade from 20,000 to 50,000 baht per person. Since 1989, there have been further reductions in trade restrictions, and additional permanent crossings have been opened. More items have been removed from the control list. The daily limit on the value of trade was raised to 100,000 baht per person. In 1992, a trade agreement was signed between the Board of Trade of Thailand and the Lao PDR Federation of Industries. A Joint Trade Committee was established in 2000. Exports from Thailand to the Lao PDR have an average growth rate of 2.3 percent per year.

Sa Kaeo Case Study

Sa Kaeo is a new province, 236 km. from Bangkok, located in the eastern part of Thailand. The major economic activities in Sa Kaeo are agriculture and wholesale and retail trade. In 2001, the agriculture sector contributed 28 percent of gross provincial product, and wholesale and retail trade contributed 29 percent. The major agricultural products of Sa Kaeo are crops (paddy, cassava, bamboo shoots, maize, mangoes, tamarind) and livestock. The per capita income of Sa Kaeo was 38,471 baht in 2001. Sa Kaeo's household income ranked 44th among 76 provinces in Thailand in 2003.

Sa Kaeo is one of four provinces on the Thai-Cambodia border. The value of trade between Thailand and Cambodia in Sa Kaeo is higher than in other provinces. The value of trade between Thailand and Cambodia was 17.8 billion baht in 2003, of which 10 billion baht was traded in Sa Kaeo. Sa Kaeo has one international and four temporary checkpoints. The international checkpoint is located in Ban Khlong Luek (Thailand)-Poipet (Cambodia). The marketplace at Ban Khlong Luek-Poipet checkpoint, called Talat Rong Kluea, is full of inbound-outbound tourists, Cambodian workers and Thai shoppers. At Talat Rong Kluea, there are more than 700 shops, selling new and second-hand products.

According to the findings from the household and village surveys, the main occupation of household members in the border area is small businesses such as food and grocery shops. Only 17 percent of household members are self-employed on their own farms. However, households 10 km from the border are mainly self-employed in agriculture (approximately 40 percent). The other important occupations are general labour (16 percent) and self-employed in small businesses (11 percent). Only a small proportion of household members in the border areas work in Cambodia or at Talat Rong Kluea.

With regard to trade, this study focused on one major export, fruits and vegetables, and one major import, clothing. These are informal trade activities in the sense that they do not go through the official channels. People selling fruits and vegetable are more likely to be Thai, but people selling clothes are more likely to be Cambodian. Thais have better information on export products and know the supply sources, and the Cambodians are better informed regarding the imports. The market for fruits and vegetables at Talat Rong Kluea is very competitive. The clothing trade is also increasingly competitive, although profit margins here seem to be higher than for fruits and vegetables.

The promotion of Ban Khlong Luek-Poipet checkpoint to become an international checkpoint has different impacts on villagers in the border area. Villagers in Tahkram who are mainly farmers, general workers and self-employed in small shops have not gained directly from the border economy. Villagers who live beside the main road to the checkpoint explicitly gain something. The border economy has stimulated more new businesses, such as restaurants, guest houses and hotels. This study shows that households which live close to the checkpoint earn significantly more and spend more than households living more than five kilometres from the checkpoint.

At the village level, it is quite clear that the overall well-being of people has improved. There are many factors responsible for this situation. One of the most important is the end of the war, which had led to widespread insecurity along the border and occasional raids on Thai villages by armed Cambodians.

On the bright side, Sa Kaeo's border economy provides an opportunity for all, Thais or Cambodians. However, the dark side seems to be exploitation of cheap labour and exorbitant shop rentals.

Chiang Rai Case Study

The findings from this case study indicate that there is a direct benefit from border trade for both trading partners. Both countries should promote economic cooperation to increase these benefits, e.g., via the Economic Cooperation Strategy.

At present, the limited incomes of Lao people make it difficult for them to participate actively in CBT. The cost of daily border crossings through permanent checkpoints is high. As an alternative, temporary checkpoints, which are substantially cheaper, have become very popular among traders and merchants. Upgrading temporary checkpoints may not increase trade but could instead spread existing trade more thinly over many checkpoints.

The study also reveals a problem emerging during the last dry season, when the level of water in the Mekong River was very low, obstructing transport by cargo boats between Luang Prabang and Chiang Khong dock in Chiang Rai. Normally, it takes cargo boats two or three days to travel from the Lao PDR to Chiang Khong, but during the past dry season it took at least 15 days. This problem is attributed to upstream activities on the Mekong, especially in China.

The study also points to the problem of excessive discretionary power given to local border authorities on the Lao side, especially with regard to interpretation of rules and imposition of arbitrary charges. This is viewed as a serious obstacle to trade.

Last but not least, the financial and banking systems are poorly developed in the Lao PDR. This can become a major bottleneck to trade if it is not quickly solved. The value of the currency (kip) is not stable, and is sometimes unpredictable. It is noteworthy that the exchange rate on the black market is different from the official rate by a wide margin. The branches of reliable banks are still limited, especially in border towns. Bank transaction fees are unusually high. A possible quick solution is to allow Thai banks to expand services into Laos by establishing as many branches as possible, especially in border towns.

In conclusion, this study has revealed the structure and composition of cross border economy of Thailand-Cambodia and Thailand-Lao PDR. The impact of cross border economy on employment and poverty has been observed to some extent. Indeed, the complexity of the issues requires additional efforts to answer many more questions not fully addressed by the present study. It is hoped that through continued effort and discussion of these issues, progress will be made toward sensible cooperative agreements that benefit all parties.

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Vietnam's

CROSS BORDER ECONOMY

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5.1. INTRODUCTION

5.1.1. BACKGROUND AND RATIONALE

The government of Vietnam has decided that open door and economic integration policies aiming at a diversification of international relations are important prerequisites to the economic development of the country. Given the geographical conditions of Vietnam, with long borders connecting a number of its underdeveloped and remote rural areas to neighbouring countries, strengthening cross border economic exchanges to improve the economic activities and living standards of people in these areas has long been considered one of the most critical issues.

Since the early 1990s, the government of Vietnam, together with the authorities of its neighbouring countries, has made great efforts to restore bilateral economic relations, which had stagnated as a result of the border war in 1979. Consequently, a number of land border gates have recovered their functions and operations, leading to increased trade and other economic activities between people living along the borders. A number of border provinces have sought to improve their administration to foster border trade. This has resulted in an increase of both exports and imports. However, those improvements were mostly of an experimental and spontaneous nature rather than comprehensively designed for effective and sustainable implementation.

In addition, while economic relations with distant partners such as the European Union, Japan and the United States have received great attention from both policy makers and researchers in Vietnam, the large potential markets in neighbouring countries have been ignored. Discussions of the effects of cross border trade and economic transactions have recently increased, leading to a recognition that cross border market penetration can be an important channel to influence people's living standards in general and the livelihood of ethnic minority groups in particular. However, so far no comprehensive study has been undertaken to analyse the impact of these economic exchanges on people whose living conditions and social infrastructure are commonly perceived to be very poor.

This study, therefore, aims to raise awareness of the nature, main characteristics, current structure and trends of economic transactions in border areas, as well as identifying the effects of these activities on the people living and working there. Special attention is paid to the impacts of these transactions on economic growth, poverty reduction, job creation, income generation and improvement of living standards of the working population. Due to the limited scope of the overall study,³⁹ the paper focuses mainly on the current status and trends of cross border economic transactions of Vietnam with Laos and Cambodia.

In this introduction, the general concept, role and legal framework for cross border economic transactions in Vietnam are presented. Three sections follow. Section 5.2 describes national experiences drawn from the design and implementation of public policies and support specifically applied to cross border economic areas. This section also presents an analysis of the current status of economic exchanges made through Vietnam's border gates with the three neighbouring countries. Section 5.3 is devoted to analysing the results of empirical research on the likely impact of strengthened cross border economic activity at the border gate areas of Lao Bao (Quang Tri province) and Moc Bai (Tay Ninh province)

³⁹ This study is carried out within the DAN network, analysing issues of socioeconomic development of the Indochinese countries and Thailand. Hence the research scope is normally limited to issues directly related to these countries.

on living and working conditions of the people in these areas. Finally, Section 5.4 presents a preliminary assessment and conclusions on the implementation of specific policies and mechanisms for boosting border trade and other economic activities. Section 5.4 also provides some policy recommendations intended to contribute to energising the border areas, improving the livelihoods of the border inhabitants and meeting the requirements of an open-door policy and the policy of economic liberalisation recently promulgated by the government.

5.1.2. GENERAL CONCEPTS AND DEFINITIONS

In Vietnam, “cross border economy” has often been understood by some economists and policy makers only in a narrow sense. Very often, the term is interpreted to include only trade between two countries sharing a border. The focus therefore has been limited to the exchange of consumer goods and raw materials between local inhabitants on the two sides of frontiers. This definition is too narrow to encompass many other activities, such as economic and technical services produced by local people and/or small and medium enterprises, which can have a significant impact on employment and income generation.

Thus it is appropriate to distinguish between definitions of the subject in order to provide a better understanding of the terms “cross boundary economy” and “cross border economic transactions,” which may consist of a large number of diversified activities that may not be carried out within border areas as those are usually understood.

In the narrow sense, cross border economic transactions are defined merely as barter trade and/or consumer goods exchange between inhabitants of border areas or between small enterprises located in frontier areas in localities with border gates.

In fact, in Vietnam cross border trade has long been carried out in the form of barter between local inhabitants or in the form of exchange of goods and production materials between small enterprises in the border areas. More specifically, at some border gates or checkpoints, local inhabitants buy and sell goods and services within the limits permitted by state regulations. Authorities of the two countries together decide where these markets should be located. Meanwhile, border commercial activities are also implemented in the form exchanges between local small-scale enterprises and their counterparts on the other side of the border. However, these are very often activities of insignificant size and value.

In its broader sense, cross border economy includes a number of different economic and technical exchanges, in which trade plays the most important role.

Cross border economic activities within the region have changed significantly over the last decade, becoming a more effective and comprehensive form of economic, technological and cultural cooperation. These activities encompass not only exchanges of goods, but also exchanges of technical equipment and machinery, the import and export of services, cross border joint ventures, enterprises with 100 percent foreign capital etc. Technical equipment supply, infrastructure development and cross border travel as a specific form of local tourism are also included in this enriched type of regional economic cooperation.

Cross border economic exchanges have gradually evolved from a simple form of (mainly) consumer goods transactions to production and business cooperation at a much higher level. In some countries (China, for example) this trend has grown rapidly and become one of the main thrusts of regional economic integration policy, leading to the establishment of “free trade border areas” or the so-called “sub-regional economic cooperation zones,” which are considered a step toward a more comprehensive regional and international economic integration.

In Vietnam since the late 1990s, these cross border economic transactions have become increasingly ebullient and have drawn enhanced attention of both planners and policy makers. Gradually, these activities have been officially recognised as an important part of the national economy. Some of these activities have been organised in a “cross border economic area.” Moreover, with the aim of supporting these activities, a number of policy measures and instruments have been promulgated and implemented by the Vietnamese government during the recent past. In the rest of this paper, the terms “cross border economy” and “economic activities in frontier economic areas” are used interchangeably and are understood in their broader sense.

5.1.3. WHY IS CROSS BORDER ECONOMY NECESSARY FOR VIETNAM?

5.1.3.1. TO EXPLOIT FULLY THE COMPARATIVE ADVANTAGES OF BORDER PROVINCES AND BORDER AREAS

As seen from international experience, forms of regional economic cooperation can vary from a very high level of integration to something much more simple, depending mainly on the specific conditions and levels of socio-economic development of the countries or localities in the regions.⁴⁰ The experiences in cross border economic and commercial activities between China and neighbouring countries like India, Vietnam and some of the former Soviet republics in the last two decades can serve as a good example.⁴¹ Another practical example of the variety of forms of regional economic cooperation can be seen in the establishment of “growth triangles” or “free trade areas.”⁴² Each of these forms, with its specific properties, enables the different regions to make full use of their economic, natural and social advantages.

All of this leads to suggesting that in a region with a much lower economic development, like the border areas of Vietnam, one may think of additional forms of trade to foster economic collaboration. Benefits from increasing exploitation of economies of scale and from removing the barriers created by markets constrained within a single country are considered the first objective. As a result of geographical proximity, members can reduce transportation and communication costs. In addition, border provinces are often richly endowed with natural resources and rare forest and valuable water products, which could be a favourable basis for increasing trade and tourism with other regions and countries. Another advantage possessed by the frontier localities is that they do not yet face the high degree of competition that coastal areas have recently experienced. Likewise, because of traditional and cultural similarities, economic interchanges may take more varied forms, allowing greater flexibility than economic transactions in other areas.

5.1.3.2. TO FUNCTION AS A NEW CHANNEL FOR PROMOTING FOREIGN TRADE AND A STEP TOWARD ACCESSION TO THE WTO

International experience shows that in many cases trade accounts for the most important part of cross border economic exchanges, and that taking part in liberalised trade activities can bring about remarkable achievements.⁴³ In Vietnam, it is commonly recognised that in both the short and the long term, cross border economic transactions have had positive influences. For example, consumers can replace high-cost domestic products with cheaper foreign ones, and in the long term the increase in cross border economic transactions can help to expand markets, trade and investment.

⁴⁰ For example, so far we know of at least four types of regional economic cooperation: (i) free trade area: the form at the lowest level of integration, the main purpose of which is to remove customs barriers between member countries while still maintaining differentiated treatment towards countries which are not members of the organisation; (ii) customs unions: a higher level of economic cooperation in which barriers between members are removed; a common tariff is retained for imports from non-members; (iii) common market: a higher form of economic cooperation, in which labour, capital, goods, services etc. are allowed to move freely; (iv) economic union: the highest level of cooperation, with a united market, which in turn can lead to unification of economic, technological, national security and political policies of all members.

⁴¹ See ESCAP (1997).

⁴² For example: Singapore-Johor-Batam of Singapore, Malaysia and Indonesia, or growth triangle between Indonesia, Malaysia and Thailand.

⁴³ See Viner (1950), Meade (1955), Lipsey (1957).

Cross border economic transactions can also improve productivity and increase the competitiveness of Vietnam's economy. An expanded market will encourage investment and increase opportunities to exploit economies of scale. As time passes, exports tend gradually to focus on more efficient industries. So the expansion of exports helps to focus investment in highly efficient industries, and in this manner helps increase the total productivity of the economy. Meanwhile, the increased competitive pressures induce producers and businesspeople in the area to find methods to improve the efficiency of their operations. Thanks to market forces, more efficient businesspeople can make savings by operating with cheaper and better goods. Increased trade also has positive influences on the allocation of resources, and therefore improves the competitiveness of the economy.

Moreover, Vietnam is now preparing to join the WTO. Clearly, this can bring about not only opportunities but also unpredictable challenges. Therefore, experiments with free trade measures like reducing taxes and implementing different forms of trade cooperation might be required. During such experiments, as well as the new opportunities, the price the country may have to pay should be also taken into account and should be a lesson for the whole country when full integration with the rest of the world starts to take place.

5.1.3.3. TO IMPROVE LIVING STANDARDS OF THE LOCAL POPULATION

Circulating goods and services across borders may help solve problems of urgent production and consumption needs, and raise the living standards of people in the area. Through various forms of exchange, inhabitants in border areas can import machines, materials and manufactured goods for production and consumption. Also, the demand of partners on the other side of the border encourages people to exploit their potentials more efficiently. Some goods or products that may not have a strong domestic market may find significant markets in partner countries.

Cross border economic transactions can also create jobs for labourers both within and outside the area. Poverty can be reduced by the increase in income generated from non-agricultural activities. Infrastructure, roads and bridges that may be repaired or newly built can contribute greatly to the lives of local inhabitants.

Furthermore, cross border economic transactions may help border inhabitants to become acquainted with market relations. Thanks to the increase of cross border economic transactions with domestic and foreign partners, border residents can escape subsistence economic relations, which have long been the tradition of these areas, and become acquainted with market relations. Through the development of cross border economic transactions, ethnic minorities in border areas will produce not only for their own needs but also to have surplus goods to exchange in the marketplace.

At the same time, encouraging cross border economic transactions is also considered an effective method to enhance the economic management abilities of local authorities at all levels in order to meet the demands of decentralisation of economic management. The duty of "heightening responsibilities of provincial and local authorities, and of enterprises in developing export markets, negotiating and signing bilateral and multilateral agreements" has been officially adopted.⁴⁴

Of course, encouraging cross border transactions may also bring unexpected or undesirable effects, such as an increase of smuggling and commercial fraud or social evils like prostitution, drug addiction, trafficking of women etc. However, such negative effects are so far almost unnoticeable in the lives of inhabitants of border areas.

⁴⁴ *Documents of the Fourth Conference of the Eighth Session of the Central Executive Committee* (Hanoi: National Politics Publishing House) pp. 58–61.

5.1.3.4. TO TAKE A STEP TOWARD REALISATION OF THE GOVERNMENT’S OPEN-DOOR AND “FRIENDSHIP WITH OTHER COUNTRIES AND NATIONS” POLICY

An open door economy is important in the search for ways to cooperate and integrate into the international economy, as clearly expressed in party and state documents since the introduction of the *doi moi* (“renovation”) policy. Most important is the affirmation that the decisive viewpoint of foreign economic policy is: “Continue an independent and autonomous foreign policy and diversify foreign relations that allows Vietnam to be friends with all countries in the world... striving for peace, independence and economic development.”⁴⁵

Furthermore, border trade is expected to figure prominently in sub-regional economic cooperation. In particular, it is expected that the border economy, together with the opening of coastal areas, can contribute to further development of markets in neighbouring countries, which will in turn create material conditions for the development of sub-regional economic cooperation and trade and investment. Border provinces, and especially border gate areas, will play a substantial role in ensuring a healthy expansion of regional economic organisation.

5.1.3.5. TO FOSTER THE ECONOMY OF BORDER PROVINCES AND THE BORDER GATE AREAS

Because of geography, history and natural conditions, economic growth in Vietnam’s border areas was slow before the mid-1990s, a majority of ordinary people there living in poverty. Of all the poverty-stricken districts and communes given a high priority for government support, more than half are located in border areas.

Economic interchange between Vietnam’s border areas and neighbouring countries by border residents has greatly increased economic growth of the region and achieved the target of resource complementarity of the two countries/regions. Meanwhile, this business activity fuelled the development of local farming, processing industries, tourism and services. Adjustment in the economic structure in turn fostered the overall economic growth of the region.

5.1.3.6. TO ACHIEVE UNITY OF ETHNIC GROUPS AND SOCIAL STABILITY, ENSURING SAFETY IN BORDER REGIONS

Most of Vietnam’s border regions are inhabited by ethnic minorities. Border trade not only stimulates the local economy but also generates considerable job opportunities for local residents. As a result of border trade, the income of local governments and residents is expected to increase, and the working and living conditions of border regions to improve.

All these considerations have led the Vietnamese government to expand the scope and scale of cross border exchanges. In order to implement the decision effectively, the government and local authorities have made great efforts to find specific approaches and methodologies to best exploit the advantages of particular areas or locations.

⁴⁵ Vietnam Communist Party (1996), *Resolutions of the Eighth Party Congress* (Hanoi: National Politics Publishing House) p. 120.

5.2. PUBLIC POLICY AND SUPPORT TO CROSS BORDER ECONOMY

5.2.1. OVERVIEW OF VIETNAM'S BORDER AREA

Vietnam has a border of 4512 km with three neighbouring countries: China, Laos and Cambodia. The border regions include 24 provinces, 89 districts and 385 communes and many international, national and local border gates or checkpoints.

Border provinces are often characterised by complex terrain, inadequate infrastructure and transport and shortages of electricity and clean water. The majority of people living in these areas are members of ethnic minorities. Although they enjoy almost the same traditions, customs and consumption patterns, differences are observed in their spoken and written languages.

The northern border with China, running from Quang Ninh to Lai Chau provinces, is characterised by high mountains, which limit efforts to build and/or improve local transportation and communication. The same picture can be seen in the frontier areas connecting north-west provinces from Lai Chau to Dak Lak with some localities of the Lao PDR. The south-west frontier with Cambodia, from Tay Ninh to Kien Giang provinces, frequently faces flooding in rainy seasons. This explains why, even though they are endowed with a variety of rich natural resources such as forests, minerals, energy sources and marvellous landscapes with high tourism potential, these areas are “left behind” in comparison with other provinces.

Over the last decade, through targeted socio-economic development programmes (for example: Programme No. 135, Programme for Reforesting 5 Million Hectares, Programme for Poverty Reduction and Hunger Eradication), the government has invested large resources in these localities with the aim of “vitalising border areas” and helping them “catch up with other provinces and regions.” As a result, the economies of these provinces have grown fairly well. The provinces have also achieved remarkable progress in other respects, including culture, health care, education and infrastructure development. However, despite these efforts, border areas still have a very low level of development. In 2002, the poverty rates in these provinces were 43.9 percent in northern mountainous provinces and 51.6 percent in highland border provinces, much higher than the national average rate of 29 percent (GSO, 2002). Lai Chau province is the extreme, with a poverty rate of 76 percent. Illiteracy in the border provinces is over 20 percent, while the average rate in Vietnam is less than 4 percent. In some mountainous communes inhabited by ethnic minorities, more than 80 percent of the population is illiterate (UN in Vietnam, 2003). Not surprisingly, the economy in these areas is primarily one of self-sufficiency, with poor access to markets.

5.2.2. CHANGES IN THE LEGAL AND REGULATORY FRAMEWORK FOR CROSS BORDER ECONOMIC TRANSACTIONS

5.2.2.1. THE CONSTITUTION OF THE SOCIALIST REPUBLIC OF VIETNAM (AMENDED 1992)

The year 1992 brought a significant change in the legal framework governing the country's open-door policy and the policy on international economic cooperation. A new amendment to the constitution was adopted by the National Assembly. This finally removed a prominent characteristic of the former centrally planned and bureaucratic economic regime—discrimination in economic relationships against non-socialist countries. This reform was expressed in a number of provisions of the constitution. For example, if in the past foreign economic cooperation basically meant implementation of the duties stipulated in the multilateral and/or bilateral economic cooperation agreements between Vietnam and some countries of COMECON, then today the constitution clearly states, “The Vietnamese people ... consistently follow a foreign policy of independent, peaceful, friendly and cooperative relations with all other countries.”⁴⁶ The constitution also affirms a state goal “to expand foreign economic activities, to develop diversified forms of economic cooperation with *all other nations and international organisations* on the basis of respect for independence, sovereignty and mutual benefit” (emphasis added). Likewise, if in the previous period the state sector played a dominant role in comparison with other economic sectors, especially in foreign economic relations, then today this policy has substantially changed. For example, it is formally admitted in the constitution that the main objective of the new economic policy is to satisfy better the material and spiritual needs and requirements of the people, and that the objective can be reached by “liberalising all production capabilities, bringing into full play the potentials of all economic sectors ... *in different forms*, encouraging the construction of material and technical bases, *expanding economic, scientific and technical cooperation and increasing access to the world market*” (emphasis added).⁴⁷ Moreover, if in the past the state had an investment monopoly, then today private investment is also formally acknowledged in the constitution. Non-state enterprises have full freedom in “making decisions on the form and the scope of their production or business, as well as on the creation of new enterprises without limitation in fields that benefit the people's welfare and national economy” (Article 21); “All economic sectors ... are treated equally by law; their investment capital and other properties are legally protected by the state” (Article 22).

These changes to the constitution have created a legal basis that has encouraged non-state enterprises and other economic entities to increase production and investment and paved the way for attracting foreign direct investors and economic transactions through the mainland border gates.

5.2.2.2. OTHERS LAWS AND REGULATORY DOCUMENTS

Apart from the amendments to the constitution, other laws and regulations promulgated after the introduction of *doi moi* have also contributed to creating favourable conditions for cross border economic transactions. Since the Sixth Congress of the ruling party (1986), a number of new laws have been enacted and promulgated, among them a tariff law, a domestic investment law, a foreign investment law, a banking law, a state budget law, a business law and a state ordinance on natural resources tax. These and a series of other decisions have contributed significantly to increased cross border economic activities. On the one hand, these laws and regulations serve as a guarantee of people's rights of property ownership, the freedom to carry out many types of business and fair competition with all economic sectors. On the other hand, the laws clarify the rights and duties of state agencies, their functions and mandate to regulate economic processes, which in turn is of great help in preventing abuse of state powers and protects the interests of both investors and workers.

⁴⁶ *The Constitution of the Socialist Republic of Vietnam* (1992), p. 13.

⁴⁷ *Ibid.*, pp. 19 and 21.

In parallel with the legal framework for economic cooperation, cooperation in cross border economy with Laos and Cambodia is also supported by regulations that have been promulgated especially for the purpose of promoting cross border transactions with these neighbours. For example, Decision No. 219/1998/QĐ-TTg on establishment of the “Lao Bao economic and commercial development zone” and Decision No.53/2001/QĐ-TTg on “Cross-frontier economic areas” were recently signed by the primer minister. These documents contain new regulations on preferential treatment especially designed to apply to the frontier economic areas and are considered the two main pillars for the promotion of trade and other economic exchanges between Vietnam and the two neighbouring countries.

5.2.3. POLICY SUPPORT TO CROSS BORDER ECONOMIC EXCHANGES

5.2.3.1. BEFORE DOI MOI (BEFORE 1986)

Border trade and other economic transactions are a part of Vietnam’s foreign trade, and thus policies on cross border economic exchanges are closely related to the overall economic and trade policy of the nation. However, the policy stance is designed to meet a number of specific requirements of socio-economic development of these specifically determined border regions.

Vietnam historically has experienced a number of ups and downs in economic and trade relations with neighbouring countries; CBE exchanges are no exception. Indeed, since feudal times, people living on both sides of the Vietnam-China, Vietnam-Laos and Vietnam-Cambodia borders have undertaken economic and trade activities. These activities were officially acknowledged by feudal authorities through the issuing of permits to local authorities to open marketplaces where people could exchange their products, goods and services. Some regulations on taxation and commodities permitted to be exchanged across the borders are still operative.

According to the Centre for Chinese Studies in Hanoi, during the French colonial period, official agreements pertaining to cross border transactions were signed by the Man Qing court of China and the Vietnamese colonial government, which explicitly identified the places for customs checkpoints, trade and other transactions between the inhabitants of China and the Indochinese countries (Nguyen, 1997).

Since the founding of the Democratic Republic of Vietnam (1945), and especially since the liberation of the country from the French colonial regime (1954), Vietnam’s border trade and other economic transactions have undergone various phases of stagnation, recovery and further development. The establishment of official relations between Vietnam and its neighbours in the early 1950s marked an important step in the development of the country’s foreign affairs. Particularly to boost Vietnamese-Chinese cross border economic exchanges, a trade memorandum (1952) and other commercial protocols were formally signed by the two governments. Under the provisions of these documents, a number of border markets and goods exchange points have been opened. In the mid-1970s, 28 border gates (four international, 10 national and 14 local) were established along the Vietnamese-Chinese border. At that time, these frontier gates not only played a very important role for local inhabitants buying and selling goods and bartering their products, but also played an extremely critical role in transferring war provisions, weapons and other assistance provided by the Chinese people to support Vietnam during the years of hardship in its war against external aggressors.

It should be noted, however, that cross border economic activities were then not so significant. This was partly due to the fact that during those times, the war became very fierce in Vietnam and in the other two countries of Indochina. As a result, every kind of human and material resource was mobilised “for the front.” On the other hand, foreign trade activities were implemented under centralised mechanisms by the state trade monopoly. Cross border trade took the form of only traditional transactions or barter exchange, which had not much economic impact or value. Some time later, the border war (1979) led to the total termination of economic exchanges between Vietnam and China and Vietnam and Cambodia.

5.2.3.2. SUPPORT FOR CROSS BORDER ECONOMIC EXCHANGE SINCE DOI MOI

Since 1986, two factors have directly affected the character of economic transactions across the nation's borders. First, Vietnam began implementing its new course of economic reforms (*doi moi*). Second, relations amongst the regional countries have gradually been stabilised and harmonised. These important factors have contributed substantially to the reopening of border gates.

At first, the reopening of border gates was mainly initiated by inhabitants of some local areas, based on informal agreements between authorities from the two sides of the border. These activities were limited to some local border gates or tracks through forests. The primary objective of opening these gates and tracks was to allow inhabitants of these frontier areas (many of them having family connections with people living on the other side of the border) to visit their family members and/or exchange products necessary for their survival. These transactions could not have much economic impact and did not draw significant attention or investment from the state and the population.

Box 5.1: Preferential policies to promote cross border economic exchange experimented with at some border gates of Vietnam (1996-2000)*

1. Trade

- Pilot border economic areas were given preferential treatment: temporary imports for re-export, transit of goods, warehouses, duty-free shops, exhibitions, showrooms, export processing, domestic and foreign branches and representatives, frontier markets.

2. Tourism

- Free entry and exit for residents of border economic areas (with ID card or residence permit);
- Issuance of entry visas at checkpoints;
- Residents of neighbouring countries are allowed to enter Vietnam through border gates with a popular passport or to receive a visa at border checkpoints.

3. Infrastructure

- For a specific period (normally four to five years), provinces with cross border economic areas are allowed to retain at least 50 percent of the total budget revenues collected in the locality for the purpose of investment in infrastructure development.

4. Incentives to invest in border areas

- Reduced land and water surface rental fees in border gate areas (normally up to 50 percent);
- Reduced profit tax for investors in the areas (for five years);
- Exemption from or reduction of profit tax for investors in industries identified as a priority in the development plan of border gate areas;
- Lowest profit remittance tax rate on foreign investors in the areas;
- Refund of profit tax to investors re-investing in the areas.

* This experiment was carried out in the provinces of Quang Ninh, Lang Son, Lao Cai (northern Vietnam), Ha Tinh (central Vietnam), Tay Ninh and Kon Tum (central highlands).

Some years later, to encourage the revitalisation of border areas and meet the demands of regional integration, the government issued Decision No. 675/TTg (dated 18 September 1996) on piloting some new mechanisms for promoting trade through the Mong Cai border gate to China. After this experiment, some other provinces were also granted a permit for pilot programmes: Lang Son (1997), Cao Bang, Lao Cai, Kien Giang, Ha Tinh, Tay Ninh and Kon Tum (1998). The key of the pilot policies was granting greater autonomy to local authorities in managing cross border economic activities, especially in trade, immigration, tourism and foreign and domestic investment.

The main objective of this experiment 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 favourable 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. It was expected that lessons from these pilot programmes could then be used to design and replicate such programmes in other localities.

Due to the policies, economic growth increased noticeably: in some border areas, growth indicators were higher than the national average. For example, average export growth of the whole country in 1999 was 22.3 percent, while export growth through the border economic zones in Ha Tinh province reached 81 percent. Revenue collected from border economic zones in 1999 was VND 1,420 billion (almost nine times that in 1995) and accounted for a dominant part of the revenues collected in the province. Although there were no reliable statistics on the total number of entrances and exits through all border gates under the pilot scheme, it was observed at some border gates that the number had sharply increased. For instance, the number of people entering and exiting through the Lang Son, Lao Cai and Ha Tinh border gates approximately doubled between 1998 and 1999 (CIEM, 2000). The experiment also brought about some remarkable and positive cultural and social changes. Before implementation of the policies, many border areas were isolated, with few inhabitants and very poor infrastructure. After only two or three years of the experiment, these areas had rapidly changed to become dynamic economic areas. Social order, security and living standards increased significantly.

The border area in Mong Cai (Quang Ninh province) was the first to participate in the pilot programme (the programme started in early 1996). This locality has reported the most success in reaching programme targets and outcomes. Specifically, in terms of trade development, a number of commercial and other service establishments have been set up in the area; the central market of Mong Cai has expanded in size and in types of goods exchanged. At the same time, new duty-free shops, warehouses for export, banks, post offices and other services have opened.

It is reported that over the pilot period, the total of imports and exports increased at an average annual rate of 27 percent. Transit goods, imports for re-export and outside warehouse turnover increased by 129 percent (see Table 5.1). The number of Chinese coming to Mong Cai for business purposes has increased significantly, as has the number of companies, private enterprises and household business (33 percent per year). Many enterprises within and outside the country have set up branches and representative offices in the area.

Table 5.1: Imports and exports through Mong Cai border gate over the pilot period

US\$ million

Period Turnover	1994–1996	Average 1994–1996	1996–1998	Average 1996–1998	As compared with previous period
Total import-export:	288,182	114,091	290,628	145,314	+ 27 percent
<i>Exports</i>	174,364	87,182	234,496	117,248	+ 34 percent
<i>Imports</i>	53,819	29,906	56,131	28,066	+ 6 percent
Transit, temporary import for re-export	153,362	76,681	351,399	175,699	+ 129 percent

Source: Report on “Results of two years’ implementation of Decision 675/TTg” by the Provincial People’s Committee of Quang Ninh, 1999.

The number of Chinese tourists to Quang Ninh reached 73,000 up to November 1998, an increase of 479 percent over the period 1994–1995. Revenue from tourism in 1998 was three times the level of 1996. Mong Cai has also become attractive to both domestic and foreign investment: in the year 2000 alone, five projects were licensed to be set up within the area, with a total capital of \$18 million, and two more projects were awaiting the completion of administrative procedures. Domestic enterprises from Ho Chi Minh City, Hanoi and other cities and provinces have actively invested within the zone. Under the pilot programme, infrastructure investment within and outside the Mong Cai border area has significantly increased: up to the year 2000, 56 development projects were financed from the state budget, with a total investment capital of VND 201 billion,⁴⁸ mainly in transportation, electricity, water supply and drainage and other public welfare construction (see Table 5.2).

Table 5.2: Main Infrastructure Investment in Mong Cai Border Economic Area during Pilot Period
VND billion

Area of Investment	Value	in percent
Transportation	88.50	44.0
Electricity	33.20	16.5
Water supply and drainage	14.60	7.3
Education, health care	12	6.0
Public utilities	20	10.0
State management	28.60	14.0

Source: Report on “Results of two years’ implementation of Decision 675/TTg” by the Provincial People’s Committee of Quang Ninh, 1999.

As a result, 10 bridges along National Road 18, two seaports, one bus station, 55 km of standardised road, 173 km of 0.4 kV cable and 125 electricity distribution stations and 83 km of 22 kV electrical distribution lines have been opened. Construction of a water supply factory with a capacity of 5,400 m³ per day and of a water supply network and a water drainage system of 24 km was completed. In addition, 60 classrooms and a kindergarten were newly built, and a hospital has been upgraded. More importantly, Mong Cai used to be a poor, agriculture-based border district, but after two years, the economic structure had changed substantially: trade and services accounted for 78 percent of the area’s gross product in 1998 (it was only 48 percent in 1989). Mong Cai has become an urban area with a high economic growth rate and an improved infrastructure. After only two years of the pilot project, annual per capita income in Mong Cai increased from \$360 to \$420, and the poverty rate was reduced from 17 percent to 14 percent. Social order and security have been kept under control.

These encouraging experiences and positive results from the policy experiment led to a government decision for its replication nationwide.

5.2.3.3. DECISION NO. 53/2001/QD-TTg ON PROMOTING CROSS BORDER ECONOMY AND ITS IMPLEMENTATION

Based on the experience of the pilot project, the government decided to replicate the model nationwide. To this end, Decision No. 53/2001/QD-TTg, dated 19 April 2001, was signed by the prime minister. The decision contains preferential policies on investment, trade, tourism, services and other production and business activities that are specifically applied to border economic areas (Box 5.2).

⁴⁸ US\$1 = VND 14,500 approximately.

**Box 5.2: Preferential Policies Applicable to Cross Border Economic Zones
(Decision No. 53/2001/QĐ-TTg)**

1. Formal replication of the pilot experiences

- New border economic areas are established.
- Preferential policies are formally replicated to all border economic areas.

2. New policy incentives

Investment in infrastructure

- Provinces are allowed to retain more than 50 percent of total tax revenue collected in the border economic areas, if the total amount is less than VND 100 billion per year, and up to 50 percent of the amount if total revenue is more than VND 100 billion per year.
- Use of local state budget and preferential credit is allowed to develop infrastructure within the locality.

Trade and tourism

- Duty-free areas are allowed to be set up.
- Issuance of tourist visas or permits is permitted at border checkpoints.

Land rental

- Reduced land and water surface rent of up to 50 percent for both domestic and foreign investors in border economic areas.

Immigration procedures

- All immigration formalities are simplified to become “one door” procedures at border checkpoints.

Banking

- Exchange counters are allowed to be set up.

Types of businesses enjoying preferential treatment at border economic areas

- Import-export
- Temporary import for re-export
- Transit of goods
- Duty-free shops
- Trade fairs or exhibitions
- Show rooms
- Export-processing industries
- Domestic and foreign branches and representative offices
- Border markets
- Tourism and other services.

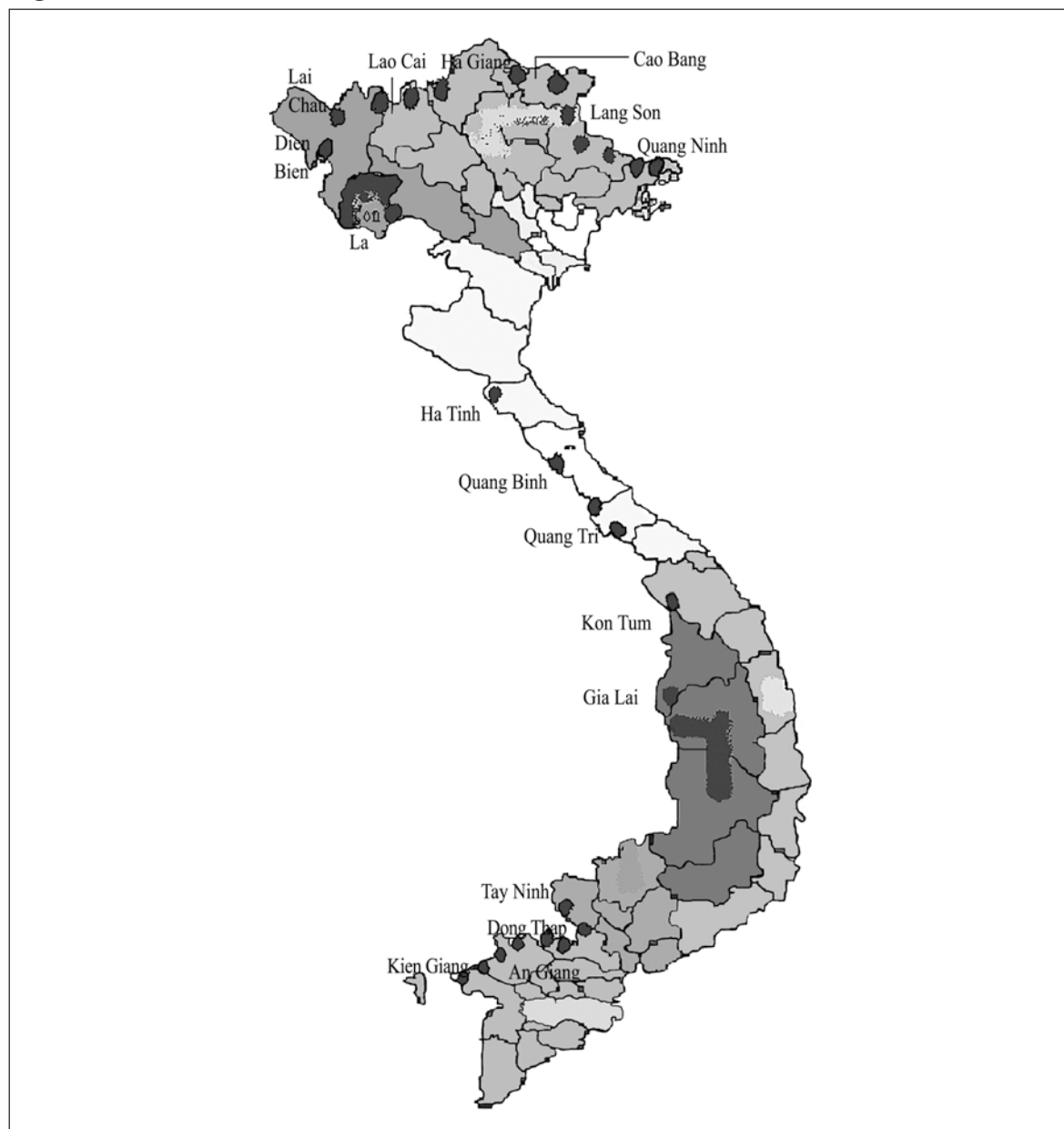
The main objectives of Decision No. 53/2001/QĐ-TTg are: **(i)** to foster development of border economic zones by granting the actors policy support, incentives and better business conditions, thus increasing the restructuring of the economy to accelerate trade, tourism, other services and industry; **(ii)** 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 **(iii)** to increase efficiency, effectiveness and operational coordination among state agencies at the local level.

Shortly after promulgation of the decision, many provinces with border gates began to study and formulate projects establishing or extending cross border economic areas in their territories. As a result, the number of such zones that have been granted a formal permit for operation has increased to 27 in 17 provinces (see Figure 5.1).

5.2.4. CURRENT FUNCTIONAL STATUS OF CROSS BORDER ECONOMIC AREAS

At present, cross border economic activities can be classified according to the connection with the three neighbouring countries: **(i)** Vietnam-China border areas include the areas in Quang Ninh, Lang Son, Cao Bang, Ha Giang, Lao Cai and Lai Chau provinces; **(ii)** the Vietnam- Laos frontier includes Son La, Dien Bien, Ha Tinh, Quang Binh, Quang Tri and Kon Tum provinces; **(iii)** the Vietnam-Cambodia border encompasses the areas in Gia Lai, Tay Ninh, Dong Thap, An Giang and Kien Giang provinces .

Figure 5.1: Cross border Economic Areas in Vietnam



5.2.4.1. CROSS BORDER ECONOMIC EXCHANGES BETWEEN VIETNAM AND CHINA

As mentioned above, economic exchanges across the frontier between Vietnam and China have a long history. Today, most of these activities are formally organised within the border economic areas in the eight northern provinces. Some of the areas (e.g. Mong Cai in Quang Ninh and Tan Thanh in Lang Son) have been involved in the pilot programmes.

As expected, these activities are directly affected by economic and trade relations between China and Vietnam in general, or between Vietnam and the southern provinces of China (such as Guangxi and Yunnan) in particular. Since the early 1990s, the Chinese government has created a package of preferential policies for border trade in the southern regions of the country. The scale and scope of cross border trade of these provinces steadily expanded. On the Vietnamese side, these activities built up momentum a bit later: Over the 1998–2000 period, cross border trade with China reached \$1,777 million, and in 2001–2003 reached \$2,827 million, an increase of 59 percent. Vietnam's main exports to China were raw materials (ore, coal, rubber, molasses), agricultural products (peanuts, dried manioc, cashew nuts, dried lychees, logan, maize, bananas, fresh fruits), aquatic products (cuttlefish, dried fish, frozen fish) and consumer goods (vegetable oil, coconut oil, sugar, green cake, elastic string, plastic tables and chairs, detergents, fine arts and handicrafts). The main commodities imported from China through the border economic zones include machinery and accessories (motorcycles, electronics, automobile accessories, ball bearings, sewing machines), chemical products (coal, clinker, fertiliser, different types of chemicals, iron, plaster) and consumer goods (wheat flour, toys, tobacco, cloth, plastic sandals).

A lack of consistent statistics prevents a comprehensive picture of the activities conducted at all cross border economic areas with China. A summary of some of the activities undertaken in Lao Cai province, however, may provide some evidence (Table 5.3).

Table 5.3: Cross Border Economic Exchange in Lao Cai Province

No.	Items	Unit	2001	2002	2003	2004 (est.)
I	Traffic through border gates	People	1,044,183	1,249,179	1,045,700	1,200,000
	Exits	People	522,570	624,242	522,800	600,000
	Entrance	People	521,613	624,937	522,900	600,000
II	Trade	\$	161,800,000	245,642,710	290,000,000	300,000,000
	Exports	\$	70,000,000	55,782,601	80,000,000	100,000,000
	Imports	\$	91,800,000	198,860,649	210,000,000	200,000,000
III	State revenue collected from CBE activities	VND million	185,425	263,890	356,814	342,500
	Import-export tax	VND million	74,629	112,707	112,944	100,000
	Value added tax	VND million	72,390	100,447	119,655	105,000
	Other fees and taxes	VND million	38,406	50,763	124,215	137,000
IV	Amount retained for local investment	VND million	79,526	144,296	185,609	137,000

Source: Report on cross border activities by Lao Cai Provincial People's Committee, 25 May 2004

Increased investment in entertainment facilities and tourism areas, the creation and upgrading of transportation infrastructure and the simplification of entry and exit procedures have made Vietnam's border economic zones with China much more attractive to both businesspeople and tourists. The number of people exiting or entering Vietnam through the border gates increased from 1,904,721 over the 1998–2000 period to 2,528,317 in 2001–2003, despite the outbreak of severe acute respiratory syndrome (SARS) in 2003. Revenues collected

from these activities have become an important source for financing the local state budget. As a result, a number of schools, hospitals, health care centres and radio and television stations have been upgraded or newly built in Mong Cai, Tan Thanh or Lai Chau town.

5.2.4.2. CROSS BORDER ECONOMIC EXCHANGES BETWEEN VIETNAM AND LAO PDR

Since the promulgation of the decision, activities in the border economic zones between Laos and Vietnam have been revitalised. In the six provinces implementing Decision 53/2001/QD-TTg on cross border economic exchanges (Dien Bien, Son La, Ha Tinh, Quang Binh, Quang Tri and Kon Tum), the number of people entering and exiting border gates has increased sharply (Table 5.4). The proportion of barter trade has declined due to the increase of formal transactions. The main commodities exported from Vietnam to Laos through border gates include: machinery and equipment, production materials and chemicals, consumer goods (confectionery, detergents, sugar, salt, tobacco, raincoats, silk, silk cloth, home appliances) and aquatic products. The main commodities imported from Laos through border gates include agricultural and forest products (wood, rattan, flour, bastard cardamom), equipment and production materials (spare parts of two-wheeled vehicles, waste iron, home appliances) and consumer goods (dried bamboo shoots, egg cakes, sesame).

Table 5.4: Economic Exchanges across Vietnamese-Lao borders

	Items	Unit	2001	2002*	2003	2004 (est.)
I	Number of entrances and exits	People	235,890	236,987	249,574	282,036
	Exits	People	107,033	118,064	117,167	131,844
	Entrances	People	128,857	118,923	132,407	150,192
II	Trade	\$	202,225,447	109,374,886	82,898,585	103,001,774
	Export	\$	75,831,692	39,222,191	26,020,772	34,896,413
	Import	\$	126,393,755	70,152,695	56,877,813	68,105,361
III	State revenue collected from cross- border economic zones *	VND million	288,168	115,515	184,788	297,140
	Import-export tax	VND million	132,188	34,013	28,121	33,271
	Value added tax	VND million	117,499	50,616	99,831	112,331
	Other fees and taxes	VND million	38,481	30,886	56,836	151,538
IV	Amount retained for local investment	VND million	110,744	39,725	52,540	52,000

* Lack of data in 2002 for Quang Binh province.

Source: Summary of reports on "Performance of implementation of policies in cross border economic zones" submitted to Ministry of Planning and Investment by the six provinces having a border with Laos (September 2004).

As seen in Table 5.4, trade turnover through the Vietnam-Laos border gates has been small in value and fell from 2002 to 2003. This can be explained by changes in economic policies on both sides of the border. In particular, a large number of Vietnamese enterprises could not sign contracts to purchase wood products from Laos or import spare parts for motorbikes through the Cau Treo border gate. However, total state revenue remained almost stable over the years. This suggests that activities other than trade at these border areas have significantly increased.

5.2.4.3. ECONOMIC EXCHANGE ACROSS VIETNAMESE-CAMBODIAN BORDER

Along Vietnam's border with Cambodia, cross border economic areas have recently been established (in Gia Lai, Tay Ninh, Dong Thap, An Giang and Kien Giang provinces). Although these activities are still very modest in scope and impact, there have been positive trends, especially since political stability returned to Cambodia.

Indeed, although the contribution to overall trade of the border economic zones on the frontier with Cambodia has been very small, some activities have steadily increased and now generate millions of dollars compared to a few thousands dollars before 2000.⁴⁹ Main commodities exported through the border economic zones include: raw materials, fuel and equipment (petroleum, zinc-plated iron sheet, steel, construction materials, wood products, fertiliser, silk, machinery and mechanical tools), consumer goods (rice, salt, food, garments, plastic products, shoes, instant noodles, ceramic and porcelain products, detergents) and agricultural products (fruits, garlic, vegetables). The main commodities imported through the border zones include: raw materials and equipment (latex, fibre for making matches, paint, air conditioners, portable cutting machines, ore), agricultural products (fruit, soy beans, sesame, sticky rice, maize, manioc flour), aquatic products (eels, fish) and consumer goods (bottled oil, bottles for gas, garments).

Table 5.5: Economic Exchange across Vietnamese-Cambodian Border

	Items	Unit	2001	2002	2003
I	Number of exits/entrances through border gates	People	595,980	594,741	890,039
	Exits	People	297,132	287,109	437,517
	Entrances	People	298,184	307,289	452,218
II	Trade	\$	125,373,423	135,588,128	192,583,931
	Exports	\$	108,316,226	122,408,305	172,807,375
	Imports	\$	17,057,197	13,179,823	19,776,556
III	State revenue collected at the border economic zones	VND mil.	10,497	10,300	16,134
	Import-export tax	VND mil.	1,642	1,359	976
	Value added tax	VND mil.	1,267	995	5,040
	Other fees and taxes	VND mil.	4,576	3,537	3,485
IV	Revenue retained for local investment	VND mil.	8,184	17,154	21,222

Source: Reports from the four provinces having borders with Cambodia on implementation of policies on cross border economic zones (lack of data from Kien Giang province).

It is reported that trade has increased in recent years along the borders with Cambodia, with exports accounting for 89 percent of the total turnover. Exports from Vietnam have been distributed not only within the border areas, but have also penetrated deeply into a number of Cambodian domestic markets.

The number of people crossing through Vietnamese-Cambodian border gates has increased from 305,000 in 1998–2000 to around 1.5 million in 2002–2003. However, most border economic zones with Cambodia still face important constraints, especially an acute lack of necessary infrastructure. This prevents localities from attracting domestic and foreign investors.

⁴⁹ According to the report of Gia Lai province, trade through the province's border gates in 2003 was 4.5 times that in 1999.

Along with the good practices, numerous constraints on exchanges have been noted in almost all border economic areas. In particular, a weakness in management and coordination of activities and a lack of specific mechanisms for the implementation of CBE exchanges have made it very difficult to bring fully into practice the political course of decentralisation and delegation of power to local governments in the border areas. Ineffective management of cross border economic activities can be noted from the obstacles and bottlenecks created in the administration of trade and other economic activities in the areas, especially the inadequate capacity of government agencies to undertake the functions of state governance over new forms of business such as duty-free shops, warehouses and showrooms. As a consequence, these forms of business can not be implemented in many border economic areas (e.g. at the border gates of Kien Giang).

Furthermore, a failure to specify policy incentives and mechanisms for effective implementation of the policy on CBE has also added to the difficulties of implementing Decision 53/TTg. While trade, tourism transactions and other economic activities have been spurred, the absence of specific regulations on these operations has often led to chaos and market disorder. This explains why the implementation of industrial sector policies in the border economic areas remains inadequate, even though Decision No. 53/QĐ-TTg has granted many incentives to industrial investors with the aim of attracting them to the border economic zones. Likewise, a number of district authorities still fail to understand their role in functions of state management of the activities. At the same time, local authorities at commune levels have not been given incentives and opportunities to carry out these functions.

The threat of increased smuggling, trade fraud and social evils is another concern related to increased cross border exchanges. Illegal trade, fraud and clandestine activities are often reported to take increasingly sophisticated forms. One of the most noticeable examples is the illegal and uncontrolled transport of banned goods and products (e.g. foreign cigarettes and wildlife, endangered animals) by hiring local farmers to carry such goods on their shoulders through forest paths. These illegal operations have continued at a number of localities on the Vietnamese-Lao and Vietnamese-Cambodian borders.

Furthermore, as the number of people and workers coming from other provinces has rapidly increased in the border areas, many of them are unemployed, with no or very low education and training, increasing the threat of crime and social evils (drug addiction, prostitution). These factors all point to the necessity of reconsidering some policy implications of CBE in Vietnam.

In short, implementation of Decision No. 53/2001/QĐ-TTg, dated 19 April 2001, by the prime minister on the promotion of CBE has achieved remarkable success in creating favourable conditions for localities to make fuller use of their potential for trade, tourism and other economic transactions. However, the implementation of CBE has also created a number of negative impacts and problems.

In order to give a more comprehensive picture on the impact of these activities, the next section provides an empirical analysis of the impact of this policy, as well as a more detailed description of its impact on the life of the people in these areas.

5.3. CROSS BORDER ECONOMY: EMPIRICAL EVIDENCE

Due to the limited secondary data for analysing the cross border economy and its impacts, a field survey was conducted in two cross border economic areas in Lao Bao (Quang Tri province) and Moc Bai (Tay Ninh province—see the map on p. 223). The main questions the survey explored were: **(i)** How important are cross border economic activities for the local areas? **(ii)** What percentage of local households are involved in these economic activities? **(iii)** Do cross border economic activities significantly improve the livelihoods of local people? **(iv)** What are the main obstacles encountered by local people in carrying out cross border transactions? To answer these questions, two surveys were conducted simultaneously in the two border economic areas (for more details, see Annex). In this section, descriptive information and findings are presented with the aim of answering the above questions.

5.3.1. LAO BAO AND MOC BAI CROSS BORDER ECONOMIC AREAS: TWO CASE STUDIES

5.3.1.1. LAO BAO PREFERENTIAL ECONOMIC AND COMMERCIAL DEVELOPMENT AREA

5.3.1.1.1. *General introduction*

Lao Bao preferential commercial and investment area is located in Huong Hoa district, Quang Tri province, at the border between Vietnam and Savanakheth province of the Lao People's Democratic Republic, along National Road 9. This road is currently undergoing an intensive repair programme because it is planned to become part of a Cross-Asian Highway connecting north-eastern provinces of Thailand and the Lao PDR with the provinces of central Vietnam.

In order to gain the full advantages of economic development in the area and to promote the friendly relations between Vietnam and Laos, the two governments agreed to establish Lao Bao-Densavan as a new preferential commercial and investment area. On the Vietnamese side, after a period of intensive preparation, the government on 12 November 1998 issued Decision No. 219/1998/QĐ-TTg setting up the “Lao Bao Preferential Economic and Commercial Development Area” (hereafter referred to as Lao Bao Commercial Area).⁵⁰

The Lao Bao Commercial Area covers nearly 16,000 hectares. At present, there are about 33,000 inhabitants, among them about 4,000 people from ethnic minority groups, living in two townships (Lao Bao and Khe Sanh) and five communes (Tan Thanh, Tan Long, Tan Lap, Tan Lien and Tan Hop). The area stretches 25 kilometres long along National Road 9, which leads to Laos, Thailand and Myanmar through the Lao Bao international gate. In this area, a new industrial, commercial and service centre covering 100 hectares was built to facilitate business activities including wholesale and retail trade, showrooms, trade exhibitions, representative offices or branches, frontier markets, warehouses along with facilitation of trade transactions, transit of goods, food processing and reprocessing, packing, assembling and production for export and related services.

⁵⁰ The regulations on “Lao Bao Preferential Economic and Commercial Development Area” were issued together with this decision.

The Lao Bao international frontier area is also designed to cover the Lao Bao international frontier pass, national border gates, duty-free stores, warehouses, immigration offices, parking, buildings for the frontier management departments etc. to meet the requirements of economic and cultural exchange of people living on both sides of the border.

According to the regulations on the Lao Bao Commercial Area, enterprises that invest there enjoy benefits of the policy on *most preferred investment* stipulated in the laws and regulations of Vietnam, and in international conventions or agreements formally ratified or signed by the Vietnamese government, such as the preferential policy that applies to *extremely difficult areas* as stipulated in the Law on Promotion of Domestic Investment and the Law on Foreign Investment. Apart from economic and tax incentives given to all cross border areas, economic entities within the area are granted much greater preferences, such as:

- The production and consumption of goods and services and import of goods and services into the Lao Bao Commercial Area are not subject to VAT. Goods and services from other areas of Vietnam going into the area pay a 0 percent VAT rate.
- The production and consumption of goods and services produced inside the area and/or imported from both domestic and overseas sources are not be subject to excise tax.
- Goods independently produced in Vietnam or imported from abroad going to the area are exempt from import tax. Goods produced in the area are exempt from export tax when exported.
- Enterprises investing in the Lao Bao Commercial Area are exempt from land rent in the first 11 years and pay only 30 percent of the rental currently applied in mountainous districts of Quang Tri province from the 12th year. The state is responsible for providing all necessary infrastructure for enterprises.

As a result, the Lao Bao Commercial Area is in fact a type of “*free trade area*,” which is the first such experiment in Vietnam.

5.3.1.1.2. Current Socio-economic Development of Lao Bao Commercial Area

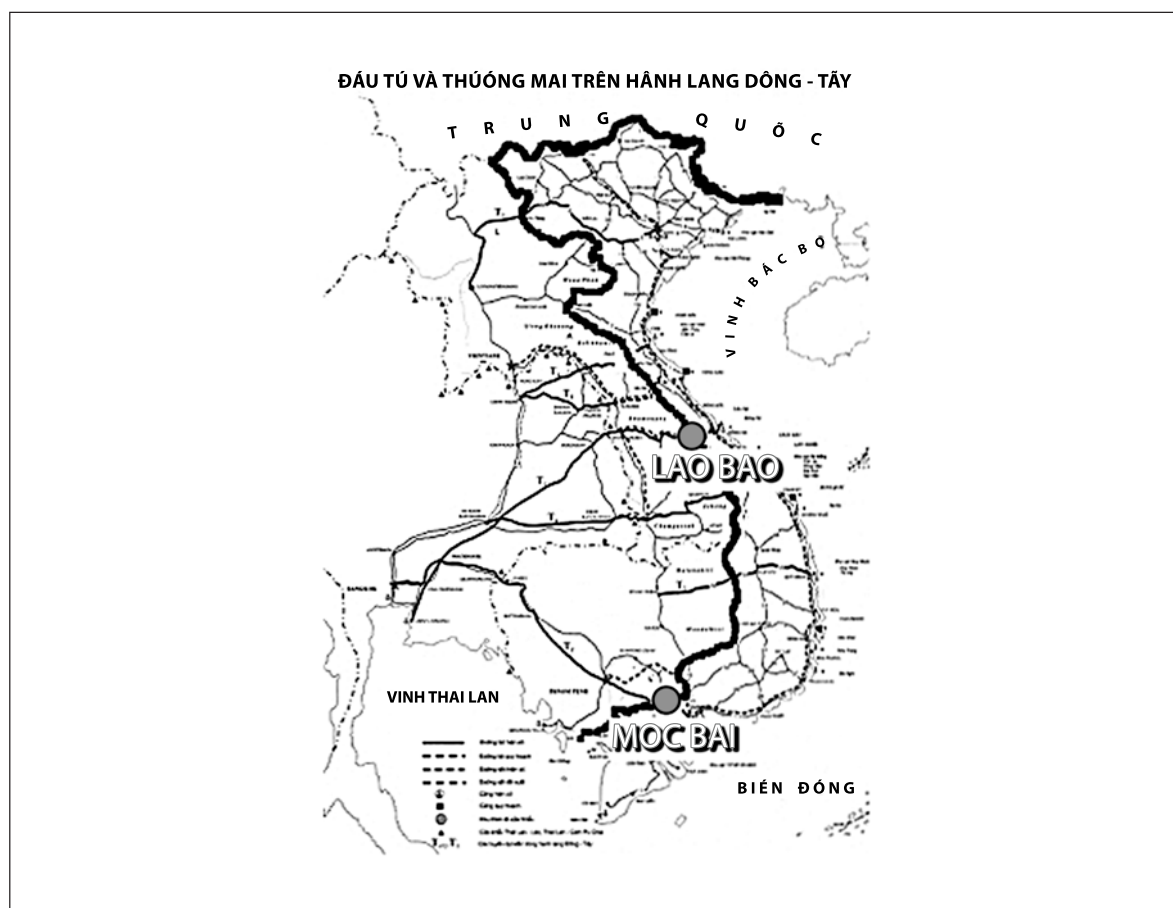
After the socio-economic development master plan of the Lao Bao Commercial Area was prepared, a construction plan was formulated and implemented. Infrastructure such as transportation, electricity, clean water and telecommunications has been developed and is ready to provide services to enterprises.

The Lao Bao Commercial Area has attracted a number of investors. At the end of 2003, there were 40 investment projects registered and 20 projects licensed, with a total capital of approximately VND 360 billion. Four new foreign investment projects have been put into operation in addition to seven projects already in existence, with a total labour force of approximately 1,000 workers. The total number of enterprises has increased remarkably, from 12 in 1998 to 53 at the end of 2003.⁵¹

Previously, enterprises in the area were mainly household businesses trading in consumer goods. At present, there are 38 import-export enterprises (accounting for 72 percent of the total). Import-export businesses have achieved a remarkable performance, with a total trade volume of \$277.8 million for the period 1999–2000, an increase of 50 percent over the period 1995–1998. The number of people passing the Lao Bao frontier gate is 48 percent higher than before 1998.

⁵¹ The data on development of the Lao Bao Commercial Area are drawn from “Report Summing up Results of Five Years’ Implementation of the Decision of the Prime Minister on Lao Bao Commercial Area” by the Provincial People’s Committee of Quang Tri.

The development of the Lao Bao Commercial Area has also had a good impact on social development in the area. From 2001 to 2002, gross product per capita increased 15.4 percent. For the first time, people in the area have clean water, and 100 percent of households have access to electricity. The improvement of business and living conditions has attracted a larger population. In 2003, the population of Lao Bao reached 33,000, a 14 percent increase over 1998.



5.3.1.2. MOC BAI CROSS BORDER ECONOMIC AREA

5.3.1.2.1. Moc Bai Border Gate

Moc Bai international border gate (or checkpoint) is located at the border between Vietnam and Cambodia, in Tay Ninh province, next to Svay Rieng province in Cambodia. Moc Bai checkpoint is about 70 km from the largest economic and business centre of Vietnam—Ho Chi Minh City—and on the Cross-Asia Highway connecting Ho Chi Minh City and Phnom Penh. Thus, Moc Bai is considered one of the key channels for the exchange of goods and services between Vietnam, Cambodia and Thailand. Before the establishment of the economic area, about 10 percent of total exports to Cambodia and about 25 percent of Vietnam's imports from Cambodia passed through the Moc Bai border gate. The trade volume has recently declined as a result of the intensive construction and upgrading of the Cross-Asia Highway. Trade is expected to resume very strongly once the construction is completed.⁵²

⁵² The data in this section are mainly taken from "Report on Implementation of the Policy on Promotion of Cross Border Trade" submitted to the Ministry of Planning and Investment by the Tay Ninh Provincial People's Committee in 2004.

Table 5.6: Trade through Moc Bai Border Gate

	1999	2000	2001	2002
Exports				
Total exports to Cambodia (\$ mil.)	90.2	141.6	146	n.a.
Exports through Moc Bai checkpoint (\$ mil.)	7	5	5.90	4.80
Moc Bai's share (percent)	7.8	3.5	4.0	
Imports				
Total imports from Cambodia (\$ mil.)	12.7	37.3	37.9	
Imports through Moc Bai checkpoint (\$ mil.)	3.260	2.27	1.49	0.43
Moc Bai's share (percent)	25.7	6.1	3.9	

Source: *Statistical Yearbook 2001*; Tay Ninh Provincial People's Committee, 2002.

Goods traded through the Moc Bai checkpoint are not produced by local enterprises, but rather by firms in Ho Chi Minh City and Go Dau town. Go Dau town is an important transit point of goods for export and import. The population of Go Dau town is about 10,000 people. Most of them earn a living from non-agricultural businesses and participate actively in cross border trade. Go Dau functions not only as a storage place for import and export goods, but also as a marketplace where small traders (both Vietnamese and Cambodian) can conduct cross border exchanges and transactions.

Although the volume of trade has been declining in recent years, the number of tourists travelling through the Moc Bai border gate is steadily increasing, accounting for about 75 percent of the total number of crossings, which increased from 42,300 in 1998 to 109,700 in 2001.

5.3.1.2.2. Moc Bai as a Cross Border Economic Area

Moc Bai was selected to be developed as a cross border economic zone in 1998 under the prime minister's Decision No. 210/QD-TTg 27/10/1998. The Moc Bai CBE area is about 21,000 hectares located next to Ben Cau district, Tay Ninh province in the north, extending to An Giang province in the south, to the Vam Co Dong River in the east and to Cambodia in the west. According to the master plan, the Moc Bai economic zone is expected to develop into multipurpose areas, the core of which is a commercial centre that includes: **(i)** an international commercial centre with an area of about 25 ha including an international exhibition and fair centre, service offices, representative offices, banks, showrooms, hotels, restaurants and warehouses; **(ii)** a bonded warehouse and border market of 10 ha to be built in the vicinity of the frontier checkpoint; **(iii)** a domestic commercial centre of 15 ha located at the crossroads of National Road 22 and Provincial Road 786, which includes service offices, trade and representative offices, hotels and restaurants; and **(iv)** a 25 ha industrial park with warehouses to be built midway between Ben Cau town and National Road 22, which includes transit warehouses, recycling and packing warehouses and enterprises processing agro-forestry products.

As in many other cross border economic zones, investments in the Moc Bai area can enjoy a number of tax incentives and preferential conditions for land acquisition. In particular, Decision No. 144/2004/QD-TTg grants enterprises in Moc Bai preferential treatment including:

- Imports and exports into and from the Moc Bai commercial and industrial areas are exempted from import/export tax and enjoy a 0 percent VAT rate.
- Goods and services from other parts of the Moc Bai area and from domestic markets exported into the Moc Bai trading and industrial area are subject to 0 percent VAT.

- Goods normally subject to special sales tax produced and sold in the area and services normally subject to special sales tax imported from abroad into the area are not subject to special sales tax.
- Investment projects in the area are exempt from corporate taxes for four years, and taxes are reduced by 50 percent for the following nine years.

Moc Bai checkpoint plays an important role for socio-economic development of the southern provinces of Vietnam, because it is a gate through which economic relations between Vietnam and neighbouring countries can be strengthened and further developed. Accordingly, the area was selected to be developed as a special economic zone, with many concessions offered to investors. However, to achieve the targets, very significant investment is needed. So far, the number of enterprises operating in the area is still limited. It is expected, however, that investment will increase once construction of infrastructure is completed.

5.3.2. EMPIRICAL EVIDENCE FROM THE TWO CASE STUDIES

5.3.2.1. MAIN CHARACTERISTICS OF HOUSEHOLDS IN SURVEYED AREAS

5.3.2.1.1. *Land, Human Resources and Employment*

Located in different geographic regions, Moc Bai and Lao Bao differ greatly in terms of natural resources endowment. In general, land, including agricultural land, is more abundant in Lao Bao than in Moc Bai. The average person in Moc Bai owns only 0.16 ha of agricultural land, while the average person in Lao Bao owns about 0.27 ha. In both areas, the per capita land is not enough for a person to rely completely on agriculture. Furthermore, irrigation systems in the surveyed areas are poor, only 50 percent of households benefiting from them. This obviously limits crop yield.

Land distribution is also an issue in the surveyed areas. The number of households that do not have agricultural land or own only a very small plot is quite large (about 45 percent of households in Moc Bai and 15 percent in Lao Bao). The large number of landless households in the Moc Bai area is due to the inclusion of a ward of Go Dau town in the sample. But a main cause of the increased number of landless households is said to be the upgrading of the Cross-Asia Highway through the Moc Bai checkpoints, which has increased the use of land for other than agricultural purposes and as a speculative asset. The land along the road has been subdivided into small pieces to be sold to outsiders. In some cases, farmers are working land that no longer belongs to them.

Table 5.7: Agricultural Land Distribution among Households in Moc Bai and Lao Bao

Agricultural land per capita (ha)	Moc Bai		Lao Bao	
	Share in total land area (%)	Share in total households (%)	Share in total land area (%)	Share in total households (%)
0	0.0	46.4	0.0	15.8
0.1	16.7	22.7	13.1	22.8
0.2	16.1	11.8	15.1	19.3
0.3	14.3	7.3	21.2	17.5
0.4	9.3	3.6	12.0	7.9
>0.5	43.6	8.2	38.6	16.7
Total	100.0	100.0	100.0	100.0

Table 5.7 indicates a clear disparity in land distribution within the two survey sites. Although the number of households holding more than 0.5 ha of agricultural land per capita is not large, this group of households owns a quite large share of total agricultural land in the areas.

On average, there are about five members per household (4.5 in Moc Bai and 5.5 Lao Bao). As the population in Lao Bao include many ethnic minorities, the population control policy is less effectively implemented there than in Moc Bai. As a result, the number of households with seven or eight members is larger (30 percent of the total number of sampled families). The large size of families has a strong influence on living conditions and education of children.

Generally, the level of education of the labour force in the surveyed sites is quite good: a high rate of enrolment of children and of literacy (over 90 percent) is observed. However, as in Vietnam generally, the number of people with technical training or labour skills is rather low, a large percentage of the people having no training or skills.

Table 5.8: Education of People over 10 Years Old

	Lao Bao		Moc Bai		Total	
	Number of people	Share (%)	Number of people	Share (%)	Number of people	Share (%)
Incomplete primary school	82	17.3	83	19.1	165	18.4
Primary school	140	29.6	179	41.2	319	35.6
Secondary school	130	27.5	106	24.4	236	26.3
High school	94	19.9	47	10.8	141	15.7
Technical school	13	2.7	10	2.3	13	1.4
University and higher	14	3.0	9	2.1	23	2.6
Total	473	100.0	434	100.0	897	100.0

Given the low income of people in the area, the high literacy rate is encouraging, but schooling facilities in both locations are very poor. Moreover, the low income of households is an important contribution to the small number of children achieving higher level schooling. The survey data indicate that, generally, people in the bottom income groups reach only primary school level, while people in middle income groups reach secondary school, and people in higher income groups reach high school and tertiary education. Allowing for the weights 1 = incomplete primary school, 2 = primary school, 3 = lower secondary school, 4 = high school, 5 = job training school, 6 = technical school, and 7 = university, then it is found that for the bottom income quintile, the education level is 2.6, the second quintile is 3.2, the third quintile is 3.3, the fourth quintile is 3.2, and the top quintile is 4.1.

Regarding employment, it is noted that the sample in Moc Bai includes one ward in Go Dau town. As a result, the number of households without agricultural land and not participating in agricultural work is high, and the share of households involved in off-farm employment is high. Table 5.9 shows that about 40 percent of people in Moc Bai work as traders, while the share of persons primarily engaged in agricultural work is about 25 percent, compared with 70 percent in Lao Bao.

Table 5.9: Employment by Type of Work in the Two Locations

	Lao Bao		Moc Bai		Total	
	Number	Percent	Number	Percent	Number	Percent
Farming	196	69.3	77	24.5	273	45.7
Trade	34	12.0	125	39.8	159	26.6
Food processing	2	0.7	3	1.0	5	0.8
Small manufacturing	5	1.8	14	4.5	19	3.2
Servicemen	7	2.5	14	4.5	21	3.5
Driving	5	1.8	3	1.0	8	1.3
Daily wage labour	6	2.1	29	9.2	35	5.9
Government staff	28	9.9	49	15.6	77	12.9
Total	283	100.00	314	100.00	597	100.00

The unemployment rate for people aged between 13 and 60 is about 3.4 percent in Lao Bao and 1.9 percent in Moc Bai. These figures are representative of the average rate of unemployment in Vietnam's rural areas. However, it should be mentioned that the unemployment rates measured in the survey do not truly reflect the situation in these two areas. The shortage of agricultural land and of non-farm employment has caused a serious problem of underemployment in these areas. While the number of working days per year, and number of working hours per day, can vary for different types of jobs, the average number of working days in these two locations amounts to only about 250 per year. This implies that an average person in these areas utilises only 70 percent of total available working time. Those most affected by underemployment are farmers and people working in small crafts or services, while the busiest people are traders, who work almost every day in their shops or kiosks.

Table 5.10: Working Days per Year

	Number of working days	Percent of available time
Farmers	223.0	61.1
Government staff	237.7	65.1
Small manufacturers	245.4	67.2
Drivers	256.0	70.1
Daily wage labourers	270.0	74.0
Servicemen	275.6	75.5
Traders	294.6	80.7
Average	252.8	69.3

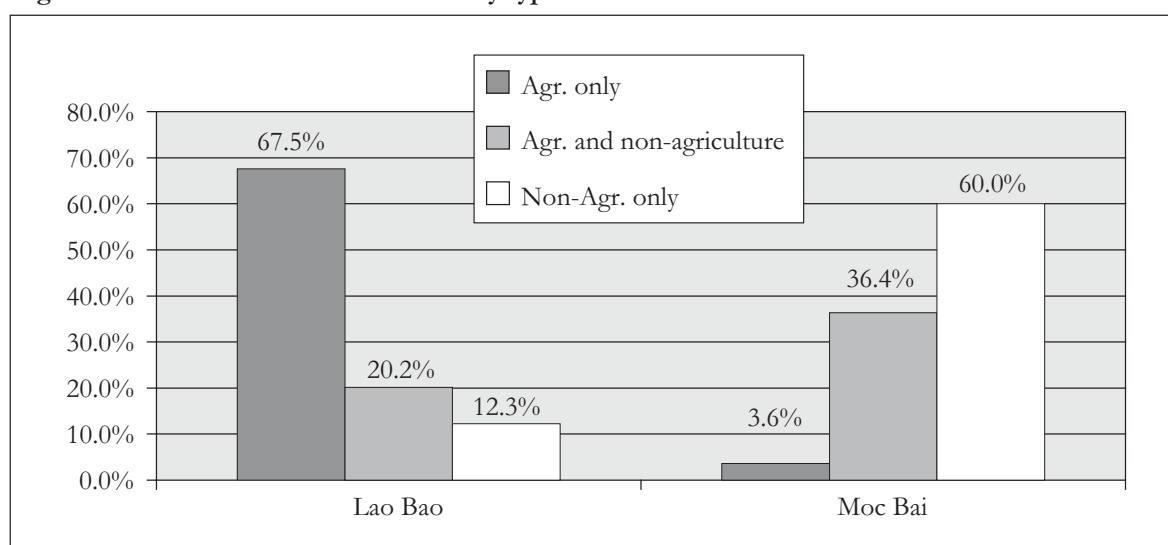
The high rate of underemployment clearly indicates that local people face a severe shortage of jobs. Agricultural work does not help very much given the shortage of agricultural land, and sufficient other jobs are not created in manufacturing and services. This is why looking for jobs outside the village is one of the preferred options, although the level of skills and education may limit access to such jobs.

The survey revealed that the percentage of people working outside the village differs from village to village. The number of Moc Bai people working outside the village is substantially higher than in Lao Bao (19.5 percent vs 5.0 percent). Those working outside the village take jobs such as day labourer, serving in shops or craft work. However, the survey indicated that although some new industrial entities have emerged in the areas, the most popular jobs are as day labourers, hired employees of small enterprises or small traders going in and out through the border checkpoints.

5.3.2.1.2. *Economic Activities of Households*

Complete reliance on agricultural production cannot sustain families, and therefore people have to take additional jobs in non-agricultural activities. With the establishment of cross border economic areas, it is expected that a significant number of families will be able to develop their own (formal or informal) enterprises. In fact, in Moc Bai, where the economy is more diverse, the share of households engaged in non-agricultural work is very high (about 60 percent), and the share of households participating in mixed agriculture and non-agricultural work is also very large (Figure 5.2).⁵³ Not surprisingly, in Lao Bao, agricultural households are the lion's share of the working population. The second largest group of households combines agricultural and non-agricultural occupations, and non-agricultural households account for only about 12 percent. This is explained by the fact that Lao Bao is a remote mountainous and agricultural area, where manufacturing and services, although strongly encouraged by government policy, are very new. Moreover, a larger share of the population in Lao Bao consists of ethnic minority groups who still depend on the primary economy.

Figure 5.2: Distribution of households by type of work



In agriculture, rice is the main crop cultivated by most households. In addition, households also grow fruits or industrial crops. Rice depends very much on irrigation. Only 36 percent of households in Lao Bao reported that their land is irrigated, while the figure in Moc Bai is a bit higher but still very low at 42 percent. In Moc Bai, most households can cultivate two crops per year, and about 50 percent have three crops per year. In Lao Bao, for households with agricultural land, only 70 percent can grow rice in the spring. The poor irrigation system affects the autumn crop: only 50 percent of households cultivate then, and no households in Lao Bao have a third crop. The poor irrigation system is clearly a cause of the lower per capita agricultural income of households in Lao Bao compared to Moc Bai (VND 4.1 million compared with VND 6.3 million). The natural conditions in Lao Bao are reported to be more favourable to animal raising. Therefore, many households there raise animals such as buffaloes, cows, pigs, chickens and fish.

⁵³ In Figure II.1, "Non-agr. only" stands for households that do not have income from cultivation or animal raising; "Agr. and non-agriculture" refers to households that have a mix of agricultural and non-agricultural income sources, and "Agr. only" represents households that have income only from agriculture.

As mentioned above, the number of households engaged in non-agricultural work differs between Lao Bao and Moc Bai. These non-farm households do different types of work, such as manufacturing, trade, construction, transportation, services and others. Trade accounts for the biggest share: 52 percent of non-agricultural households in Moc Bai and 47 percent in Lao Bao. Most of these traders operate on a small scale, specialising in goods for daily consumption. In most cases, agricultural products sold in these small shops originate locally, while manufacturing goods originate in cities. The second largest group of non-farm activities is providing services such as small restaurants and hairdressers. Day labour is becoming an important option for many local people who cannot open their own enterprises.

There is a clear relationship observed between land ownership and engagement in non-farm activities. The majority of non-farm households do not have agricultural land: the less land people own, the more active participation in non-farm activities. As shown in Table 5.11, people who own more land are much less active in non-farm work. Clearly, land shortage has forced people to find non-farm work.

Table 5.11: Percentage of Households Engaged in Non-Agricultural Activities, by Land Ownershi

Land ownership	Lao Bao	Moc Bai	Whole sample
Landless	38	57	52
0.1 hectare	12	23	20
0.2 hectare	12	9	10
0.3 hectare	21	4	8
0.4 hectare	9	2	4
More than 0.5 hectare	9	5	6
Total	100	100	100

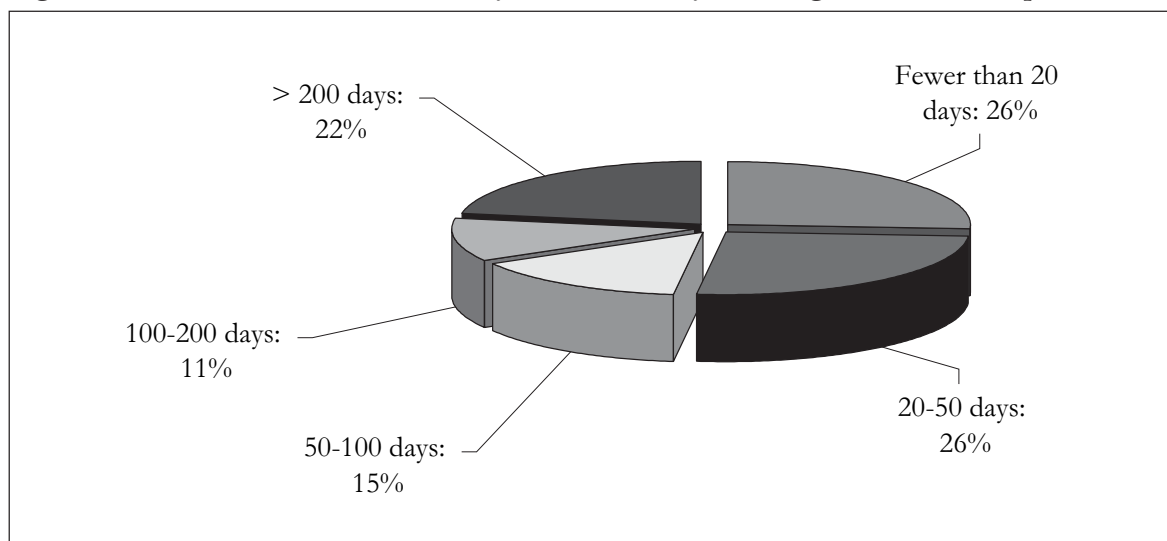
5.3.2.2. CROSS BORDER ACTIVITIES AT SURVEYED LOCATIONS

5.3.2.2.1. *Participation in Cross Border Economy*

Only 27 of 214 households surveyed participate in cross border economic activities, about 13 percent of households in a large area along 15–20 kilometres of main road leading to the border gates. At first glance, this ratio is not very high if one expects cross border areas to be very busy with imports, exports or tourism, as is the case at the border between Vietnam and China. However, before implementation of the new policy, most of these people lived in a self-sufficient economy and for the most part had never been out of their villages.

Among these 27 households, eight have two members working in the border area. Those who work there are mostly the heads of the households. About 50 percent frequently work in the border marketplaces and the other 50 percent do so seasonally.

Figure 5.3: Distribution of Households by Number of Days Working at Border Checkpoint



While many of the people participating in cross border economic activities, especially day labourers, have not completed primary or secondary school, those who have set up their own businesses in the areas have a good education level: three out of four who have established their own factories or large shops have university education.

In addition to Vietnamese, people from Laos and Cambodia are directly or indirectly involved in trade and other businesses through the border gates. The most popular activities include small Cambodian and Lao traders coming to business centres in Vietnam to collect goods to sell in Cambodia or Laos. These traders are mostly small, but some of them are quite large, moving a volume of goods that requires a 2.5 tonne truck to carry them. These traders (small or large) never come to Vietnam to collect a single kind of good, but rather different goods for daily consumption and/or inputs for manufacturing. Although it appears that trade is conducted by a number of small traders, very often the main volume of trade is conducted by key traders—Vietnamese, Cambodian or Lao. Although these people may or may not appear in the marketplace, they control both inflows and outflows of goods and services.

5.3.2.2.2. *Commodities Traded at Border Gates*

The survey data indicate that there are not many agricultural products of local origin traded at the border. Some households report that they buy Cambodian agricultural products such as fish and meat, but the volume of trade is not very large because these products are bought solely for household consumption. Some traders supply fruits to local markets from Cambodia or Laos, but these originate in Thailand. Most inputs for agricultural production in the border area are provided from domestic markets, and it is hard to find these inputs supplied from Cambodia or Laos.

Different trends can be seen in the trade patterns of the two surveyed localities. At Moc Bai border gate, the main inflow of goods is agricultural products such as rice, meat and fish, while the outflow is mostly manufactured items such as confectioneries, construction materials, pesticides and daily consumption products. Table 5.12 shows the items traded in the border markets. Unfortunately, there is no exact information on the volume of these traded items, although it is observed that exports account for a larger share of trade, and that these items mainly come from Ho Chi Minh City and its neighbouring provinces.

Table 5.12: Traded Items in Border Markets Reported by Traders

Import	Number of cases	Export	Number of cases
Daily consumption goods	3	Birds (chickens, ducks)	1
Confectioneries	1	Production instruments	3
Cereal, sandals, clothes	1	Home appliances	6
Cows, buffaloes	1	Confectioneries	1
Fish (all kinds)	1	Construction materials	1
Meat	1		
Total	8		12

The degree of participation in the cross border economy depends on differences in production patterns of the local economies, as well as on the income of people. It is commonly recognised that if the income of residents is low, they mostly rely on a subsistence economy and not on markets. In this case, participation in cross border economic activities should not be expected to be very high. A low income does not give people a chance to choose: they are forced to rely on their own production of low-cost goods. This can be clearly seen from the consumption patterns of surveyed households. Table 5.13 reveals that most goods (agricultural and manufactured) that people consume are locally produced. Also, the majority of the foreign manufactured goods consumed locally originate in Thailand, while the share of goods produced in Cambodia or Laos is very small.

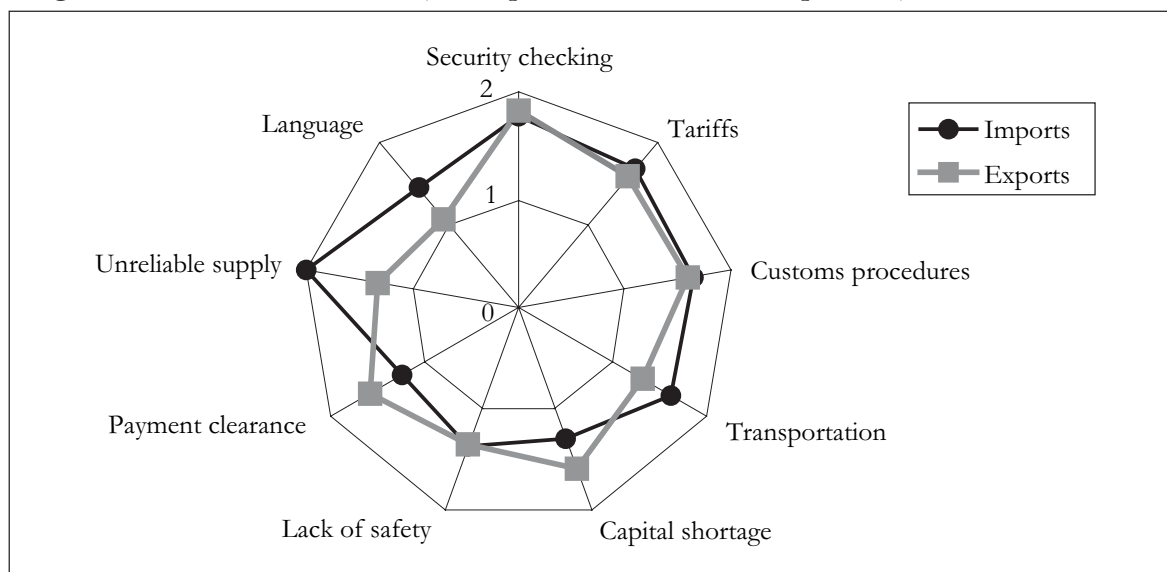
Table 5.13: Consumer Goods Traded by Households, by Origin (%)

	Vietnam	Cambodia/Laos	Thailand	Other country
Cigarettes	86	1	12	1
Soap powders	88	2	11	0
Garments	92	3	5	0
Rice	99	0	1	0
Beverages	99	1	0	0
Fish, meat, chicken	100	0	0	0
Vegetables	100	0	0	0
Fruits	100	0	0	0
Tea, coffee	100	0	0	0

5.3.2.3. BARRIERS TO CROSS BORDER ECONOMIC EXCHANGE

Most traders say that there are no important difficulties in conducting cross border economic exchanges. However, they complain of strong competition for market share among traders and limited demand. These two obstacles are considered the biggest constraints to increased activity. In addition, while some people find security problematic, others mention capital shortage as a barrier. But most businesspeople say they have not met significant barriers to doing business in these areas. During individual interviews, interviewers heard complaints about customs declarations for Cambodian traders, but these mostly originated from language difficulties, rather than the procedures themselves. In most cases, these barriers can be readily overcome. Diagram II.1 shows the results of surveys about barriers, which point to an almost perfect environment for cross border trade in the zones surveyed.

Diagram II.1: Obstacles to Trade (1 = no problem, ..., 5 = serious problem)



However, the picture does not mean that there are no obstacles at all. Corruption on both sides of the border by customs officers and policemen is ranked as one of the most unfavourable conditions. Another bottleneck is problems in payment clearance due to an absence of sufficiently professional banking services. A lack of adequate transportation facilities is also mentioned. These difficulties are reported by several traders who, however, have found ways to overcome them. It is reported that these problems are minor for experienced traders, but could be big problems for new entrants.

5.3.2.4. A PORTRAIT OF KEY TRADERS IN CROSS BORDER MARKETS BETWEEN VIETNAM AND CAMBODIA

The trade in cross border markets between Vietnam and Cambodia is conducted by both large and small traders. The large traders are mostly located in Go Dau town or Ho Chi Minh City. In the past, small Vietnamese traders have dominated the informal trade at the Moc Bai checkpoint. Now this small informal trade is mostly conducted by small or medium Cambodian businesses. The decline of small Vietnamese traders is due to the strong competition from big traders, who have crowded out small businesses.

5.3.2.4.1. *Cambodian Traders*

The Cambodian traders can be divided into two types. The first are very small traders who deal fully on their own. They come to Vietnam daily by bicycle or motorcycle, and the volume of their trade is limited to one or two days' trading. These traders live not far from the border, and they come to Vietnam to buy a just a few different goods, mostly manufactured. They usually go to Go Dau town (10 kilometres away from the gate) to buy the goods themselves.

Trade by small Cambodian traders

Number of traders per day: two dozen

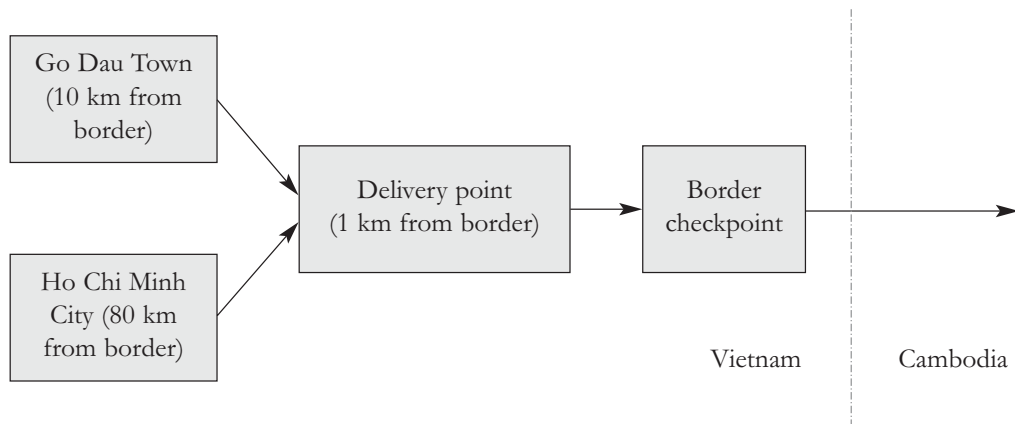
Goods: daily consumer goods of all kinds except agricultural products

Transportation means: bicycle or motorcycle

Volume of trade: less than \$50 per trade



Trade by small Cambodian traders



Number of traders per day: three or four

Goods: daily consumer goods, production inputs

Goods are collected by Vietnamese intermediaries at delivery point and taken to border gate.

Transportation means: bicycle, motorcycle or mini-truck

Volume of trade: up to \$1,000 per shipment



The second type of Cambodian trader is medium sized. These traders live in Cambodia, 20–30 kilometres from the border. They come to Vietnam to buy goods for their own shops and for other shops in their networks. These traders normally visit Vietnam weekly and buy various goods, including agricultural pesticides, material for some manufacturing enterprises and consumer goods. The operations of these traders are typically around a thousand dollars.

5.3.2.4.2. Emerging Vietnamese Cross Border Traders

Intermediate Traders

Some Vietnamese traders function as intermediaries for Cambodian traders. Vietnamese traders collect goods based on the orders of Cambodian traders. Every day, they receive calls or messages from Cambodian traders asking them to collect the goods and to deliver them to a particular destination. Generally, the Vietnamese intermediaries and Cambodian traders both know the prices of goods very well, so usually only the quantity and types of goods need to be specified. Then the intermediaries make calls to shops or enterprises either in Ho Chi Minh City or in Go Dau town to order the goods, which will then be taken to the delivery point by either the producer/shop owner or by the intermediaries' employees. Around midday, the goods are generally all collected. Cambodian traders then appear to conclude the transaction.

There are three enterprises working as trade intermediaries in the border area, and each provides services for four or five Cambodian traders, who visit Vietnam once a week. The goods that these intermediaries collect are based on the demand of Cambodian traders, but consist mainly of manufactured items. They originate from Ho Chi Minh City, 100 kilometres from the border, and from Go Dau town, 10 kilometres from the border.

Collaboration of Vietnamese Intermediaries and Cambodian Traders: Rationale for Trade

The relationship between the Vietnamese intermediaries and Cambodian traders is very strong, and sufficiently reliable to conduct trade. Of course, Cambodian traders do not rely entirely on Vietnamese intermediaries, since they themselves collect some goods. In the process of collecting goods, Cambodian traders also explore the market to update their information on the goods they trade and to identify new items.

The Vietnamese intermediaries not only collect goods but also complete customs procedures for their Cambodian customers. The language barrier and complex customs procedures force Cambodian traders to rely on Vietnamese intermediaries to transport goods across the border. However, the strong relationship between the Vietnamese intermediaries and Cambodian traders depends on capital provision. The Vietnamese provide capital to Cambodian traders who are short of it. This relationship is so reliable that this type of transaction does not require a written contract. The surveyed enterprises reported that among the 20 Cambodian traders who regularly deal with them, some sometimes experience a shortage of capital, in which case the enterprise provides between VND 2 million and VND 5 million for five days.

Vietnamese Traders

In addition to Cambodians, there are a number of big and small Vietnamese traders. They are mostly located in Go Dau town, 10 kilometres from the Moc Bai border gate. The large traders are enterprises or households that have been involved in trade for a long time. The small traders are households trading in a small volume of goods to shops in Cambodia. Of course the main criterion for classifying small and large traders is the volume of trade. However, the time spent trading can also be a criterion. The large traders carry on the business for the whole year, while small traders conduct trade less regularly—once or twice per month, for a total of one to two weeks per month. Small traders normally have some other occupation such as services or agricultural work. The large traders normally collect goods from Ho Chi Minh City based on the orders of Cambodian partners. Each shipment of these traders is enough for a truck. Mostly their trade is completed at the border gate, when the goods are transferred to Cambodian traders. It is estimated that in Go Dau town, there are about 10 such large traders, and most of them transfer their goods at Sa Mat gate, not Moc Bai gate. Small traders do

not focus on a special commodity, but rather on different goods, according to the orders of Cambodian partners. Small traders differ from large traders in having to take goods deep into Cambodian territory, for example to Phnom Penh. However, their volume of trade is very small, and it is not efficient for them to carry the goods to Phnom Penh themselves, so they rely on transport companies to deliver goods to Phnom Penh by truck.

Small traders specialise mainly in consumer goods collected from Ho Chi Minh City. Many traders located in Go Dau town have to go to Ho Chi Minh City to collect goods, and then bring these goods to transport companies to carry to Cambodia. These small traders cannot rely completely on transport companies to deliver goods to Cambodian partners. The Vietnamese traders also use other means, such as motorcycles, to complete deliveries.

Communication is also critical for these small traders. Some people have cell phones, others have fixed phones, and still others do not have a phone but rely on bus drivers or other traders for information on demand conditions in Cambodia. This kind of trade faces strong competition from big companies.

5.3.3. IMPACT OF CROSS BORDER ECONOMY ON LIVING STANDARDS OF THE LOCAL POPULATION

5.3.3.1. LIVING STANDARDS IN SURVEYED LOCATIONS

The data collected in the survey show that the living standards of people in the region are generally rather low. The average annual expenditure per capita on both sides of the border is approximately VND 4.7 million (about \$310), and the income level is on the order of VND 5 million (about \$320). The national average is higher, estimated at \$400 (income per capita). Upon closer examination, it was noted that the average expenditure and income level are slightly higher in Moc Bai than in Lao Bao: per capita expenditure in Moc Bai is VND 4.8 million and in Lao Bao VND 4.7 million, while income per capita in Moc Bai is VND 6.6 million and in Lao Bao VND 4.1 million. These figures confirm the hypothesis that income and expenditure in the surveyed areas are close to the average for other rural areas in Vietnam, but should be higher in more favourable areas for cross border transactions like Moc Bai than in less advantaged localities such as Lao Bao.

Land ownership has a major impact on the income and expenditure of households. Table 5.14 shows that among landowners, land ownership and per capita income/expenditure tend to go hand in hand.

Table 5.14: Expenditure and Income of Surveyed Households by Land Ownership

Land per Capita	Average (VND million)
Per Capita Expenditure (VND million)	
Landless	5.59
0.10 hectare	3.02
0.20 hectare	3.88
0.30 hectare	3.88
0.40 hectare	6.51
Over 0.50 hectare	4.73
Per Capita Income (VND million)	
Landless	7.70
0.10 hectare	2.25
0.20 hectare	4.70
0.30 hectare	3.40
0.40 hectare	5.60
Over 0.50 hectare	6.20

At the same time, “landless” households form a group with higher per capita income. This is explained by the fact that the term “landless” does not refer only to farmers who lack cultivable land, but mainly to households that have abandoned agriculture and moved to non-farm businesses. These “landless” people have better living standards. The survey indicated that in both locations, non-farm households have per capita expenditures about 1.6 times and per capita income about 1.3 times higher than farming households; the difference in per capita expenditure in Lao Bao is about 2 times and in Moc Bai about 1.5 times. The per capita expenditure gap between the richest and poorest groups is not very large: 6.0 times for the whole sample, 7.0 times for Lao Bao and 4.5 times for Moc Bai.

One of the most interesting findings is that living standards of households in surveyed areas are strongly related to the education of the head of the household. The higher is the education of the head of household, the better opportunities are available and the higher the level of income (as shown in Table 5.15). In particular, households whose head has achieved a university level education have living standards three times higher than households whose heads have not completed primary school.

Table 5.15: 2003 Per Capita Expenditure by Education of Head of Household

	Per Capita Expenditure (VND million)	Number of Observations	Minimum	Maximum
Incomplete primary school	3.4	33	0.8	9.3
Primary school	5.3	61	1.1	27.7
Secondary school	5.1	37	1.3	20.3
High school	5.5	36	1.6	28.0
Technical school	7.1	4	2.1	13.5
University	10.9	4	6.3	16.3

5.3.3.2. CROSS BORDER ECONOMIC TRANSACTIONS AND LIVING STANDARDS

One of the most important reasons for this survey is the need to find out whether participation in cross border economic activities can have a positive impact on living standards. Is it true that people involved in these transactions can achieve better living standards? Is it true that involvement in cross border economy can help people to improve their knowledge of market economy?

Answering these questions is not easy. The surveyors tried to use changes in people’s income and expenditure as indicators of the change in their living standards. Due to limited data, expenditure is more widely used, especially to compare living standards over time (income data are difficult to estimate due to non-availability of data on production costs, output prices, taxes etc.).

For both Lao Bao and Moc Bai, the data on income and expenditure indicate that participation in cross border economy has a positive impact on living standards. Households in which at least one member participates in cross border activities have a higher income per capita. The survey revealed that 27 of 224 households have someone participating in the cross border economy, and the average per capita income of these 27 households was VND 5.3 million, while the average income per person of households not participating in the activities was VND 4.2 million.

Furthermore, the survey results also indicate that in areas where there are more people involved in cross border trade and other transactions, the living standards of the people are better. Only four of the 11 surveyed villages have households participating in cross border trade, the ratio of household involvement being estimated at 8, 11, 20 and 52 percent. Except for one case, the higher was the rate of involvement of the village in cross border

trade, the higher was per capita expenditure. Villages not involved in foreign trade experience lower standards of living, not only for the average value but also for the minimum value.

Table 5.16: Average Per Capita Expenditure by Villages' Involvement in Cross Border Trade, 2003

Trade involvement (%)	Per Capita Expenditure (VND million)-Average Value	Number of Observations	Per Capita Expenditure (VND million)-Minimum Value	Per Capita Expenditure (VND million)-Maximum Value
0	4.5	143	0.7	28.0
8	5.2	28	1.4	15.0
11	6.3	9	1.6	15.6
20	4.7	18	3.1	6.2
52	7.7	23	3.0	20.3

Test for significant difference in living standards for groups of households participating (Yes) and not participating (No) in cross border economy

Group	Obs	Mean	Std. Err.	Std. Dev.	[95% Conf. interval]	
Yes	25	8.5464	1.366864	6.83432	5.725331	11.36747
No	196	4.573173	.228353	3.196943	4.122814	5.023531
combined	221	5.022633	.26692	3.968051	4.496585	5.54868
diff		3.973227	.8008178		2.394931	5.551523

Degrees of freedom: 219

Ho: mean(Yes) - mean(No) = diff = 0

Ha: diff < 0	Ha: diff != 0	Ha: diff > 0
t = 4.9615	t = 4.9615	t = 4.9615
P < t = 1.0000	P > t = 0.0000	P > t = 0.0000

The statistical t-test for significance of average expenditure for two different groups of households participating and not participating in cross border economy also indicates a significant difference.

5.4. CONCLUDING REMARKS AND POLICY RECOMMENDATIONS

5.4.1. CONCLUDING REMARKS

Cross-border trade and other economic transactions have proved to be very important in stabilising society and developing the economy in poor and remote border areas. Lessons learned so far from Vietnam show that these activities can be very diverse in form, scope and intensity.

In Vietnam, the opening of borders for economic transactions is a direct consequence of the state's political agenda for the diversification of external economic relations, which started with the beginning of *doi moi*. A number of remarkable achievements have been reached following implementation of the policy. However, since the late 1990s, when the state started to test specific policies in some border economic areas, cross border exchanges have drawn the attention of both policy makers and businesspeople. The new sub-regional economic integration in the “cross border economic areas” has proved to be highly effective in helping border provinces to revitalise their natural potential and human resources for the sake of social and economic development. Although the livelihoods of local people must still improve, participation in cross border economy has proved to be an important route for people to escape poverty.

5.4.1.1. STRENGTHENED CROSS BORDER ECONOMIC TRANSACTIONS HAVE BROUGHT ABOUT A SIGNIFICANT IMPROVEMENT IN THE SOCIO-ECONOMIC LIFE OF REMOTE BORDER AREAS.

The promotion of CBE has created favourable conditions for localities to make full use of their potential for economic development. As a result, economic activities within these areas have been revitalised. This can be clearly seen from the increased imports and exports, and the big growth in the number of people exiting/entering the country through the border gates for business, tourism and other purposes. The increase of state revenues collected from the activities in these areas also points to the improvement. Given that at least 50 percent of these revenues are retained by the localities to invest in infrastructure and local development, the increased revenue translates directly into improved living conditions of local inhabitants.

After only a few years of implementation of the open economy policy, some of the localities, although still ranked among the poorer provinces, have achieved a higher economic growth rate. Moreover, the structure of the local economy has changed remarkably. A spurt of trade, tourism, transportation, communications and other services has contributed to transforming some local areas from an agriculture-based economy into an economy in which industry and services play an increasingly important role. Mong Cai border economic zone is an excellent example of this phenomenon.

Likewise, economic integration has noticeably contributed to the implementation of the government's political aim of developing a multi-sector economy. While local industry was heavily dominated by local state enterprises, today the non-state economic sector accounts for 60–70 percent of total industrial production in the areas. The same is true of retail trade: while in the past state-owned commercial establishments covered all types of trade, the share of the state sector is now reduced to less than 20 percent of the total retail turnover of the localities.

The impacts of cross border economic exchange on local budget income and expenditure are also noteworthy: provinces with reopened border gates like Quang Ninh, Lang Son and Lao Cai have significantly increased the revenues collected from these activities. Thanks to the rapid increase of local state revenues, some provinces have now become independent of the central budget. Some provinces (such as Quang Ninh) now can even keep their budget balanced and have escaped the list of “permanent budget recipient” provinces. Larger and more stable revenues as a source of development financing give local authorities more decision-making power and enable them to extend the scale and scope of expenditures on local socioeconomic targets.

The rise of CBE has also laid the foundation of new economic centres in the previously poor border provinces. Today Mong Cai (Quang Ninh province), Dong Dang (Lang Son province), Lao Cai (Lao Cai province), Lao Bao (Quang Tri province), Cau Treo (Ha Tinh province) and Moc Bai (Tay Ninh province) have become focal points for the flow of goods, services, currencies and transportation from and to Vietnam. Some of these have become transit points or commercial centres of national importance, where domestic and international companies choose to locate their branches, representative offices or agents. Likewise, a number of rural clusters, communes and districts located along borders now have been turned into new urbanised centres, conveniently arranged for commercial transactions, storage of goods, currency exchange and services to the cross border economic areas. Ethnic minority groups are given a greater opportunity to become acquainted with the rules of a market economy.

Implementation of the CBE policy has boosted trade diversification and scale. Moreover, the cross border trade has greatly increased the number of market participants. In the past, economic exchanges involved a very small number of local inhabitants, who conducted barter transactions for subsistence purposes, but now thousands of enterprises from all economic sectors are taking part in trade activities. The forms of economic transactions have changed from barter to a more diversified set of business activities, e.g. imports and exports, temporary imports for re-export, transit of goods from third countries etc. Tourism is the second sector that has benefited substantially from CBE. Since implementation of Decision 53/TTg, the number of tourists visiting Vietnam through border gates has increased by 30–40 percent. This increase has not only contributed to increased income and job creation for inhabitants of the areas but has also brought intangible values to the local populace by expanding their vision of the outside world, enhancing their knowledge and access to a market economy. Agriculture and rural development have also benefited from CBE, because many agricultural, aquatic and forest products and inputs (such as fertilisers, water pumps, pesticides, seeds and breeds) are subject to cross border trade. At the same time, transportation also has made progress: a number of roads and local paths connecting main border gates to mainland cities and centres have been either upgraded or newly built: Hanoi-Lang Son, Hanoi-Lao Cai. Railways have been substantially improved; a number of roads connecting the border gates to central towns and cities in central Vietnam have been reconstructed as a result of the cross border economic policy.

5.4.1.2. ECONOMIC EXCHANGE ACROSS THE BORDERS HAS RAPIDLY INCREASED AND BECOME A NEW FORM OF ECONOMIC COOPERATION AND INTEGRATION BETWEEN VIETNAM AND ITS NEIGHBOURS

International economic integration has reached a new stage marked by a variety of forms and scope of cooperation: in parallel with global integration (WTO) and regional cooperation (NAFTA, AFTA), many other forms of integration such as growth triangles or “growth areas” have been created to meet the new requirements of regional economic development. Since *doi moi*, Vietnam has actively sought new and diversified forms of economic collaboration with other countries and regions. In parallel with other methods of opening up the economy (such as industrial parks or export-processing zones), cross border economic areas are considered by Vietnam as a new mode of regional integration. As is clearly revealed from practical experience, this new form of economic cooperation has enabled the country to bring into full play the comparative advantages of its remote mountainous regions.

Moreover, cross border economy no longer means only single goods and commodity exchange. Instead, it encompasses a much larger spectrum of exchange of capital, technology, finance and even work forces. CBE's operational modalities have also changed from barter to a much higher level of organisation: in many border economic areas, the number of different types of enterprises, companies, and offices has rapidly increased.

5.4.1.3. THE ACTIVITIES HAVE ALSO REVEALED A NUMBER OF CONSTRAINTS AND PROBLEMS THAT NEED ATTENTION

A first constraint, as revealed from the study on CBE, is a big disparity in performance and economic gains achieved by different border economic areas. While economic exchanges are reported to be very successful in the northern provinces adjacent to the Chinese border, the operations in some of the areas neighbouring Laos and Cambodia are less encouraging. Apart from the fact that the provinces in the central and south-western part of the country have fewer advantages than their counterparts in the north, the constraints also come from a lack of awareness and insufficient knowledge of the role and importance of the activities, ineffective implementation of policy, low capacity to respond to external changes and weaknesses in management and administration. The relatively low level of participation of local people in cross border trade (about 10 percent of households in the region) is revealing. Another piece of evidence is the fact that the beneficiaries of opening border markets are mainly from large cities or business centres rather than the local populace.

Increased smuggling, trade fraud and social evils are a source of concern generated in parallel with strengthened CBE. This concern is increasingly pressing, as illegal trade and fraud are often reported to be increasingly more sophisticated.

5.4.2. POLICY RECOMMENDATIONS

5.4.2.1. GENERAL POLICY CONSIDERATIONS

5.4.2.1.1. Cross border economic exchange must be supported by a properly designed, long-term strategy and socio-economic development plan

Since it is recognised that the mutual benefits generated from cross border activities can positively contribute not only to economic growth, but also to social stabilisation and the improvement of people's living standards, the development of such activities must become a long-term political course supported by a properly designed, comprehensive strategy. The immediate goal of this strategy is to build a firm border economic corridor in order to **(i)** contribute to speeding up and sustaining regional economic growth; **(ii)** restructure the economy toward an industrialised and modernised one; **(iii)** accelerate cross boundary trade and tourism; **(iv)** reduce the poverty of the population living in the mountainous border region; **(v)** facilitate the formation of new urban centres that will become focal points for industrialisation and commerce in the near future; and **(vi)** enhance education/training and raise awareness of market economy principles in the local population.

At the same time, the strategy on CBE should be integrated as a constituent part of the country's foreign economic policy, in which not only is the immediate objective of economic growth a target, but other longer term goals of socio-economic development are also identified. Existing regional and international institutions of economic integration such as AFTA (ASEAN) or a China-ASEAN free trade area and Mekong Sub-Region Development Cooperation are factors that should be taken into account in this strategy.

5.4.2.1.2. Apart from an overarching policy framework applicable to the country as a whole, a system of specific policy incentives for each border area should soon be worked out and implemented

These policies must be formed and applied in accordance with the specific conditions of each locality in order to maximise efficiency and the appropriateness of the CBE. The policy should be formulated in a way that enables local governments to exploit fully all the potentials, strengths and advantages possessed by these localities. Stronger empowerment of local authorities should be pursued through the extension of their autonomy and decision-making powers in the allocation of budget revenues, investment and economic cooperation. Apart from the support provided to mountainous areas in general, cross border economic areas should be given greater attention and more incentives.

It is also critical that policies should not be limited to providing incentives to domestic enterprises. Various forms of preferential treatment should be worked out in order to attract more international capital and technology to the localities. A first step should be the strengthening of monitoring, evaluation and adjustment of all policies currently applied to economic activities in the border areas. A thorough review and evaluation of the relevant policies of neighbouring countries is necessary to provide a better understanding of the situation.

5.4.2.2. SPECIFIC POLICY CONSIDERATIONS

5.4.2.2.1. Promotion of Cross Border Trade

Better formulation and implementation of a regulatory framework for the effective functioning and management of cross border economic exchanges

Given that trade has often played an important role in CBE, and that an absence of specific regulations on cross border trade often creates barriers, it is strongly recommended that a regulatory framework be formulated for this most popular type of cross border activity and its management in the frontier marketplaces. These regulations should ensure the provision of effective operational mechanisms that facilitate the activities, along with the strict implementation of provisions stipulated in other legal or regulatory documents (e.g. agreements and treaties between the two countries). In addition, a list of tradable products should soon be worked out to achieve:

- an increased number of manufactured products, and reduction in the number of primary items for export;
- increased import of technology and equipment applicable to local production.

Providing stronger incentives to non-state sectors to participate more actively in cross border exchange

Incentives should be provided to other than state sectors to encourage them to take a more active part in the activities. The state should also provide support to enterprises in their efforts to enhance competitiveness. In the current context, the provision of “licences” to business could be a good measure to reach the goal.

Establishment of border “free trade areas” where possible is also recommended.

5.4.2.2.2. Tourism

In order to make full use of the comparative advantages of the frontier localities, a comprehensive strategy on the promotion of cross border tourism should soon be formulated and implemented. Toward this goal, the Vietnam National Administration of Tourism (VNAT) should provide strong support to border provinces to undertake an investigation of tourism potential within the areas and the formulation of a sound tourism development plan.

Immigration procedures should be reviewed and made as simple as possible to create convenience and comfort for both international and domestic visitors. Only experienced and competent local travel agents should be granted permits to provide travel services in cross border economic areas. The development of a more proactive and cooperative relationship with tourist agencies from neighbouring countries on the basis of mutual benefit and support should be considered an important target. The construction and upgrading of hotels, restaurants and entertainment facilities and the training of staff are also very important in achieving better services to lure tourists.

5.4.2.2.3. Immigration

The most important goal of immigration policy specifically applicable to the border economic areas is to ensure freedom of movement and doing business for citizens on both sides of the border. Immigration policy, therefore, must be based first on the agreements signed by the two governments.

The issuance of a tourist pass or visa at border gates for tour travellers is a significant step towards the simplification of immigration procedures, which can make it more attractive for tourists to visit through mainland border gates. Given the very positive experience at border checkpoints in Mong Cai and Tan Thanh, it is appropriate to replicate the experience in other provinces. At the same time, measures to prevent and/or fight against law violations by tourists also need to be worked out and strictly implemented.

5.4.2.2.4. Tax and Fiscal Policy

The review and amendment of tax and fiscal policies, especially those applicable to imports and exports through border gates, are considered critical to generating income for the state budget and to minimising the shortcomings of the existing tax system. To this end, a first action should be the abolition of the two-tier tariff (on formal and informal trade), which causes tax evasion or tax avoidance as well as leading to corruption of tax collectors. Moreover, in order to ensure the flexibility and accuracy of tariffs, local governments should be delegated the right to make decisions on tax levels, while the tax policy remains a responsibility of the central tax authority.

The provision of appropriate tax incentives/subsidies to promote production and export, and the strict punishment of tax evasion, are very important, not only to ensure increased state revenue, but also to improve social equity.

The mobilisation of other sources of finance (for example from other provinces/ localities or from foreign and international sources) for investment in infrastructure or in projects directly supporting economic exchanges, import and export or tourism through border gates could be a good policy measure to be considered.

Given the severe shortage of local funding resources, it is strongly recommended to allow local governments to retain a larger share of tax revenues collected in the border economic areas for re-investment in infrastructure within the areas. The experience of Quang Ninh and Lang Son provinces should be reviewed soon for replication in other border gate areas.

5.4.2.2.5. Monetary and Banking Policy

One of the most significant obstacles to cross border trade is the clearance of payments. Lessons from Quang Ninh and Lang Son show that the current banking system is unable to ensure a smooth clearance of payments for cross border economic activities. The absence of appropriate regulations on monetary settlement of such activities, and the low capability of the Commercial Bank of Vietnam (Vietcombank), which is the sole entity authorised to provide these services, are the main sources of difficulties. To overcome these weaknesses, three measures are recommended:

- Design and implement regulations on monetary settlements specifically for transactions undertaken in border economic areas.
- Negotiate with the neighbouring countries/regions to reach an agreement on banking payment and other clearance procedures.
- Involve other than state-owned sectors to provide money exchange services in the border economic areas (e.g. by providing them permits for money exchange).

5.4.2.2.6. Investment Policy

Investment policy must be directed to ensuring improvement of the existing infrastructure, buildings and other necessary facilities for cross border economic zones. To do this, a sound plan for improving or constructing new buildings should first be completed. International and main national border gates should be upgraded to provide in sufficient quality and quantity the necessary facilities such as housing, offices, equipment for checkpoints, electricity, water and modern means of communication and transport.

5.4.2.2.7. Improvement of Operational Management and State Governance

As stated, poor management and coordination of economic activities in border areas has led to inconsistency and disorder in implementation of the policy pertaining to CBE. To solve these problems, the following measures and actions are strongly recommended:

- building a new model of management, allowing more proper functional coordination between state agencies and institutions in the localities;
- capacity building and human capital strengthening of local government officials and employees of government agencies in the border areas;
- ensuring decentralisation of infrastructure provision and public service delivery.

In short, this study has aimed to provide a better understanding of cross border economic activities, which have considerable implications for growth, equity and poverty reduction in relatively disadvantaged areas in Vietnam. It is hoped its findings can help to design better policies to manage the emerging economy, identify constraints, draw attention to any adverse trends and make cross border flows more efficient and rational.

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ANNEX: ABOUT THE SURVEYS

Due to the limited secondary data for analysing the cross border economy and its impacts, a field survey was conducted in the two cross border economic areas in Lao Bao (Quang Tri province) and Moc Bai (Tay Ninh province). The main questions explored by the survey were: **(i)** How important is the contribution of cross border economic activities to the total output of the localities? **(ii)** What percentage of local households are involved in these economic activities? **(iii)** Do cross border economic activities play any role in improving the livelihoods of local people? **(iv)** What are the main obstacles encountered in carrying out cross border transactions? Two simultaneous sub-surveys were conducted in the two border economic areas. The first was conducted with a questionnaire specifically designed for village heads or managers (key informants). This survey was carried out in 50 villages in the two areas. The second was conducted to gather information and data on households. In this survey, 224 households in the same areas were interviewed, also with a questionnaire specifically designed for the purpose.

As the impact of cross border economy was perceived as not being limited to the border gates but reaching other areas involved in the transactions, the survey was conducted over a larger area: about 20 kilometres from the border gate or along the roads leading to the localities. The unit of sample selection is a village, which on average consists of 300–400 households with a population of 1,000–1,200 persons. Normally, even if the economy in the villages is mainly agriculture-based, it often encompasses other types of economic activity such as small retail businesses and small industrial production and services enterprises. Owing to the comparative advantages of natural, geographic and infrastructure conditions, some villages look better, “more developed,” than others and are commonly perceived as having a more advanced economy and a higher participation rate in cross border trade and other economic activities. To avoid bias, the sample was chosen to cover both advantaged and less advantaged villages. In addition, as the level of participation in cross border economy varies from village to village, the sample was selected to cover both active and non-active villages.

In particular, for the Moc Bai cross border economic area, two types of villages were selected: **(i)** those located closer to the Moc Bai border gate (checkpoint) and **(ii)** those closer to Go Dau town. Although located 10 km from the border checkpoint, Go Dau town is an important transit point for goods between Ho Chi Minh City and Cambodia. The area selected for sampling in Moc Bai is 15 km from the border checkpoint on the Cross-Asia Highway.

Table: Survey Sample

	Village Number	Village Name	Number of Households
Lao Bao Border Free Trade Area	1	Huong Tan	28
	2	Tan Lap	19
	3	Khe Sanh	20
	4	Lao Bao border gate area	22
	5	Tan Long	25
Moc Bai Cross Border Economic Area	6	An Thanh	20
	7	Loi Thuan	18
	8	Long Thuan	27
	9	Go Dau town	25
	10	Thanh Phuoc	20
		Total	224

For the Lao Bao commercial area, villages located along the road from the border gate toward Dong Hoi Town (the capital of Quang Tri province) were selected. The survey area for Lao Bao is 20 kilometres long. Moreover, in each of the surveyed villages or wards, about 20 households were selected by so-called “systematic sampling.” In some wards/villages where the cross border activities are more significant, the number of selected households may be more than 20. This is because these areas are more densely populated, and the over-sampling helps to form a clear picture of cross border transactions.

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