Kunming-Lao Cai-Hanoi-Haiphong Economic Corridor

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Abstract

The paper starts with a brief introduction to the concept of an economic corridor as background to outlining the characteristics, advantages and disadvantages, opportunities and difficulties in the development of the Kunming–Lao Cai–Hanoi–Haiphong Economic Corridor, one of the two economic corridors and one coastal economic belt that were approved by the governments of Vietnam and China in June 2006 for the development of the two countries and the region as a whole. The paper argues that this corridor has good prospects because of its important role in ASEAN-China economic relations, and because of the strong political will on the part of both China and Vietnam.

Economic corridors in brief

The concept of an economic corridor is not new. Before the Asian Development Bank (ADB) introduced the concept as an initiative for strengthening economic cooperation in the Greater Mekong Subregion (GMS), much has been known about economic corridors in America, Europe, and Africa as an approach to the development of contiguous geographical regions, where transport axes are the foundations for establishing cooperation in socio-economic development. For example, twenty-six economic corridors have been identified for improving the economic status of the Appalachian region of the US, while in Nigeria an eastern economic corridor played a positive role in socio-economic development.

Transport axes are the most important factor in economic corridors. Once we talk about an economic corridor, we must first

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and foremost talk about the development of a transportation system, including roads, railroads, waterways, and airways. Thus, in the discussion of economic corridors for GMS cooperation, much has been stressed on the development of transport infrastructure. For example, the development of the East-West Economic Corridor running from Mawlamyine-Myawady in Myanmar across Thailand and Laos to Da Nang Port in Vietnam involves six projects: an east-west transport corridor; water transport development; railway development; air transport development; facilitation of cross-border movement of goods and people; and human resource development for the transport sector. Similarly, the Southern Economic Corridor linking Bangkok in Thailand with Vung Tau in Vietnam involves developing roads, rails, waterways and airways across Thailand, Cambodia and Vietnam. The core transport projects of the Southern Economic Corridor are: a road improvement project from Bangkok through Phnom Penh and Ho Chi Minh City to Vung Tau; a southern coastal road corridor; a road improvement project from southern Lao PDR to Sihanoukville in Cambodia; and a Cambodia central-west-east corridor project.

An economic corridor expresses a downstream relationship between transport infrastructure development and economic growth. That is, a transport system is a precondition and decisive factor to socio-economic development of the nearby regions. The transport system enlarges the potentialities for socio-economic development of that region. The degree of modernization of a transport system will have considerable impact on the growth rate and quality of development of the related regions. The development of an economic corridor is a strategic breakthrough to create conditions for socio-economic development within a definite geographical area. By developing an economic corridor, we can help: strengthen infrastructure linkages; facilitate cross-border trade and investment activities; enhance the participation of private sector in development and improve its competitiveness; reduce poverty, develop agriculture and rural areas, improve the living conditions of low-income groups, generate employment opportunities for women, and develop tourism; and under the trend of liberalization and international economic integration, establish a broad framework for realization of bilateral and multilateral trade.
agreements. In short, by giving priority to infrastructure development such as transport, energy, information and tourism, an economic corridor will help create an open geographical space for maximizing the positive impact on socio-economic development, and at the same time, minimizing development costs.

An economic corridor can be a linkage of economic relations between or among governments, and at the same time involve the participation of regions or localities from different countries. Regions along an economic corridor may not have common or harmonized economic policies, but they can carry out trade and investment with each other, and can reduce barriers to trade, investment, finance and labor mobility in order to facilitate cross-border movements. The crucial points along a corridor are the border crossings, and the arrangements at these crossings can have a strong impact on socio-economic development of the localities along that economic corridor. Economic corridors depend on bilateral initiatives on cross-border issues (though, multilateral initiatives have a long-term character and play a decisive role).

A network of economic corridors will be gradually established through the development of transport infrastructure. In the GMS, ADB has initiated five economic corridors, three of which are quite large, namely: the North–South Economic Corridor linking Yunnan in China to Bangkok in Thailand, which in fact includes the Kunming–Lao Cai–Hanoi–Haiphong Economic Corridor; the East–West Economic Corridor, running from Yangon in Myanmar through Thailand and Laos to Da Nang in Vietnam; and the Southern Economic Corridor from Bangkok through Phnom Penh in Cambodia to Vung Tau in Vietnam. These three economic corridors will create a network for the GMS.

The Kunming–Lao Cai–Hanoi–Haiphong Economic Corridor has been assessed by ADB as the shortest and most feasible project because the infrastructure either exists or is simple to develop, and because trade relations at the China-Vietnam border have so far been smooth.

**Kunming–Lao Cai–Hanoi–Haiphong Economic Corridor**

With the system of waterways, roads, railroads, and airways from Yunnan to Lao Cai–Hanoi–Haiphong, this economic corridor
is basically a geo-economic space linking four towns and twenty districts of Yunnan, China (with Kunming as the center) with the northwestern provinces and the Red River delta of Vietnam (with Lao Cai–Hanoi–Haiphong axis as the center) for creating spillover development effects. This is a relatively large economic corridor, in terms of population density and land area. The project includes 10 percent (40,000 km²) of the land area, and 30 percent (13 million) of the population of Yunnan Province, and 24.5 percent (80,000 km²) of the area and 25 percent (19 million) of the population of Vietnam.

After the signing of a framework agreement on Comprehensive Economic Cooperation between ASEAN and China in 2000, an early harvest program under the ASEAN-China FTA stimulated increased border trade of vegetables and fruit within an early harvest program, and prompted member countries to favor further liberalization in terms of policy environment, infrastructure, supporting services system, and institutional management reforms, including the possibility of economic corridors within the GMS cooperation framework. The Kunming–Lao Cai–Hanoi–Haiphong Economic Corridor is not only aimed at enhancing the efficiency of GMS cooperation but also plays an important role in the implementation of the ASEAN-China FTA. Accordingly, this economic corridor is an integral part of the ASEAN-China network along both north-south and east-west axes. Yunnan and Guangxi provinces of China, and the border provinces of Vietnam will become important bridges for the realization of the ASEAN-China FTA. Hence, in my view, the Kunming–Lao Cai–Hanoi–Haiphong economic corridor can be viewed as one of the main axes of the Vietnam–China relationship.

The idea of an economic corridor accords with the socio-economic development strategies of both China and Vietnam. The Chinese government gives special priority to the development of its western region, including Yunnan, in order to balance development between east and west. Yunnan province is the gateway for promoting cooperation with GMS countries in particular and ASEAN in general. Due to Vietnam’s comparative advantages, favorable geographical conditions, and relatively well developed economic-trade relations compared with other GMS countries,
Vietnam is given prominence within Yunnan’s policy on economic development with ASEAN, especially in the linkage of land border gates and the system of seaports in Vietnam. This economic corridor is expected to have better impact than other economic corridors linking Yunnan with border provinces of Myanmar and Laos. The complicated and perilous terrains, poorly developed economic-trade relations and many other disadvantages of Laos have even made Chinese scholars think of the possibility of “borrowing Vietnam’s road” for developing China–Lao economic trade relations. Furthermore, the special position of Vietnam in this economic corridor is secured by Vietnam’s policies to strengthen economic and trade relations with China, and to develop remote and secluded regions of Vietnam. For these reasons, the premiers of the two countries share commitment to the idea of forming economic corridors. The Kunming–Lao Cai–Hanoi–Haiphong corridor, the Nanning–Lang Son–Hanoi–Haiphong corridor, and the Tonkin Gulf economic belt are regarded by both countries as developments which advance the feasibility of an ASEAN-China FTA. In other word, the Kunming–Lao Cai–Hanoi–Haiphong Economic Corridor is not a new idea, but reflects the political will of the two governments. In addition, it is not only an instance of cooperation within the GMS framework, as proposed by ADB, but is a step towards an ASEAN-China FTA, as this economic corridor will be developed as an open and liberalized economic zone, with reductions of tariff and non-tariff barriers and other obstacles for the realization of an ASEAN-China FTA and East Asia FTA in the near future.

The building of the Kunming–Lao Cai–Hanoi–Haiphong Economic Corridor creates a free economic area within the ASEAN-China FTA framework by linking adjacent regions through transport axes to assist development and harmonization. This economic corridor will also create spillover development impact on regions nearby. Thus in my view, this economic corridor will be an important breakthrough in Vietnam–China economic relations, as well as improving the role, position and interests of Vietnam and China in the process of realizing an ASEAN-China FTA. The second GMS Summit established a strategic cooperation
framework in four areas: reinforcing infrastructure for development; improving trade and investment environment; strengthening social and environmental infrastructure; and mobilizing resources and deepening partnership. China is expected to play a considerable and influential role in GMS cooperation, which will be an important precondition for enhancing the feasibility of the Kunming–Lao Cai–Hanoi–Haiphong Economic Corridor.

**Feasibility and prospects**

In theory, the Kunming–Lao Cai–Hanoi–Haiphong Economic Corridor is a part of the ASEAN-China FTA, and hence the FTA is the framework for determining the corridor's contents and integration schemes. Thus, the nature of the corridor is rather clear, and a more practical step than others within the GMS cooperation framework, as it prepares the way for the early harvest program. As it will have a positive impact on GMS cooperation, it should attract funding from the world donor community, especially overseas development aid from Japan and other developed economies.

Even with no economic corridor, trade, tourism and investment relations between Vietnam's border provinces and Yunnan have developed under the umbrella of the two countries' policies of opening doors. In 2003, Vietnam ranked third among ninety-three trade partners of Yunnan, with a turnover of US$ 280 million, accounting for 5.8 percent of total trade turnover between Vietnam and China. In 2004, the figures rose to US$ 568 million, or 7 percent of total Vietnam–China trade. Vietnam mainly exported minerals, agri-forest aquatic products, and a few consumption products such as detergents, plastics and footwear, while Yunnan mainly exported chemicals, plants, tobacco materials, construction materials, agricultural products, fresh vegetables, and fruit. Though the amount is small and the trade structure simple, two-way trade relations have created primary conditions for market access, trade promotion, and official trade exchanges between the two sides.

Trade in services is also small but growing, especially transport, customs, seaport and tourism services from Haiphong seaport in Vietnam to Kunming in China. Seventy percent of the total trade volume on this corridor in 2003 was carried by train, and 30
percent by road. The trade volume between Yunnan and Haiphong port increased from 70,000 tons in 2001 to 150,000 tons in 2003. The system of customs-free stations along the economic corridor has been improved to protect product quality and improve delivery times. In 2003 there were 136,000 tourists from Yunnan, accounting for 35 percent of total tourist arrivals from China to Vietnam.

Yunnan and Vietnam have cooperated on investment and production for eighteen years in such areas as equipment import-export, supply of copper drilling chains, upgrading of tobacco production, aluminum, and equipment for sugar production. The two sides have cooperated on experimental agricultural products such as cereal strains, processed agricultural products, and anti-poison technologies for export potatoes.

Trade, investment, and tourism among provinces within the economic corridor have become more diversified and complementary. For example, Vietnam mainly exports agri-forest aquatic products, footwear and wood products, while Yunnan province mainly exports machines, equipment, chemicals, plants and construction materials. By exploiting their respective comparative advantages, the two sides have contributed to creating employment opportunities, reducing poverty, and building a sustainable environment for socio-economic development.

Considerable improvements have been made in infrastructure in the economic corridor. The system of railways linking the two countries has been upgraded to some extent. The capacity of the rail system could be increased by projects linking the east–west corridor with the Kunming–Lao Cai–Hanoi–Haiphong corridor. Along with a relatively modern highway from Kunming to Hekou, Vietnam has a project to upgrade the Lao Cai–Hanoi road in order to reduce time and transportation costs from Haiphong port to Kunming. In addition, both sides are looking at improvements in customs procedures and payment methods, building airports, and investment in waterway projects along the Red River. These infrastructure projects are very important preconditions for realization of this corridor in the near future.

The legal system for trade and other activities along the economic corridor has been gradually improved. The two sides have applied many measures for enhancing trade volume, investment,
and tourism. Since 1989, Vietnam has expanded export rights, and loosened regulations on foreign exchange management for the purpose of developing cross-border trade relations with China. Following an agreement on cross-border import-export goods in 1991, nine border gates have been opened, tariffs and charges related to cross-border trade have been adjusted, and local authorities are not allowed to intervene in these trade activities. Under China’s strategy for development of the western region, priorities have been put on Yunnan province for investment and local government empowerment, enhancing the province’s capacity for participating in regional and global integration.3 In short, even before the signing of the framework agreement for the ASEAN-China FTA, changes made in economic and legal systems on both sides have contributed to trade liberalization.

From a broader perspective, the vision of an ASEAN Economic Community with free flow of commodities, services, skilled labor and capital will create pressure for Vietnam and other ASEAN members to complete projects like the economic corridor which can contribute practically to the realization of the vision. Moreover, this economic corridor will also be linked with other free trade areas such as those between ASEAN and Korea, ASEAN and Japan, and other possible bilateral FTAs. It is expected that the Kunming–Lao Cai–Hanoi–Haiphong corridor will attract attention from non-ASEAN and non-China investors. Such external participation will strengthen the feasibility of this corridor project.

Difficulties and obstacles

Trade, tourism, and investment are still smaller than their potential size, and Vietnam has a substantial deficit on bilateral trade. This indicates that comparative advantages and complementariness of both sides have not been fully tapped. Most enterprises engaged in the economic corridor are small and medium, and their operations are still incompatible with world conventions and practices.

The trade structure is simple with no trend of upgrading towards more value-added products, such as technology-based products (which enjoy preferences under the ASEAN-China FTA).
That is why the value added from these exports within the economic corridor is small. In addition, because of the poor infrastructure and largely cross-border trade activities, this economic corridor is not very attractive to other ASEAN members. For example, ASEAN-6 countries concentrate their trade and investment activities on the Chiangjiang river delta (China) rather than on economic corridors within GMS countries. Currently, provinces along the Chiangjiang river delta account for about 40 percent of the imports and 30 percent of the investments from ASEAN countries into China. This is a big challenge for the Kunming–Lao Cai–Hanoi–Haiphong Economic Corridor.

The infrastructure is not yet adequate for the demands of this economic corridor. The transport routes are still difficult. Progress on upgrading in Vietnam is slow. Harmonization with Yunnan is imperfect. Water and air transport are underdeveloped. Some road building projects exist on paper only. Compared with the Nanning–Lang Son–Hanoi–Haiphong corridor, the Kunming–Lao Cai–Hanoi–Haiphong corridor is longer and facing more difficulties.

Services to support trade, investment and tourism activities are weak. The inadequacies of telecommunications, finance, and other business services are retarding the pace of development. In spite of a signed agreement on trade payments, the prevalent forms are still barter or cash. Only a fifth of transactions are made through banks, which is unacceptably low.

Policies to regulate economic and trade activities have exposed a number of defects. Implementation of signed agreements has been inconsistent; management of goods import-export remains inefficient; customs procedures are time-consuming (one goods container needs two to three days to complete all the required customs procedures, even for an official trade transaction). This situation is due to inconsistencies in regulations and procedures between the two sides. While goods from Yunnan can enter Vietnam under a free import mechanism with convenient and fast procedures, goods from Vietnam to Yunnan are subject to strict management regulations by the Hekou Border Trade Office. If this problem is not overcome soon, it will become a barrier to the corridor. There are also problems about certificates of origins and
technical standards. If there are clear regulations, the volume of goods traded along this economic corridor will increase.

There is strong political will to build this economic corridor, but there are difficulties in gaining commitment and confidence on the part of all the actors involved. Though the corridor is part of the ASEAN-China FTA, the cooperation among ASEAN countries within the AFTA framework over the past ten years has not been efficient, mainly because of the member countries’ low confidence in the results of integration. This problem needs to be overcome.

Many provinces of Vietnam along this economic corridor are not quite ready for the corridor, despite various meetings on implementation.

**Summary and suggestions**

The ASEAN-China FTA needs some breakthrough initiatives. This corridor can play that role, and stimulate other cooperation programs within the FTA framework.

As China is now a WTO member, and Vietnam will almost certainly become so soon, this economic corridor will become attractive as a cross-border region acting as a bridge between the two markets.

The Nanning–Lang Son–Hanoi–Haiphong Economic Corridor, Tonkin Gulf economic belt, and the Kunming–Lao Cai–Hanoi–Haiphong Economic Corridor form a development triangle, linking southwestern and southeastern China with north Vietnam, contributing to the economic relationship between ASEAN and China, and serving as a building block of an East Asia free trade area in the future.

The political will to develop the corridor exists on both sides. Hence the corridor has a promising future, but requires action on several points.

The potentialities, advantages, and disadvantages of this economic corridor need to be reassessed to work out an appropriate cooperation framework and strategic priorities.

To ensure harmonious development of the economic triangle, the exact roles of its three constituent parts need to be well defined, to ensure close cooperation between China, Vietnam, and other
ASEAN members.

Priority must be placed on the development of infrastructure including transport routes and trade services such as customs-free stations, trading centers, banking and telecommunications services, and improved customs procedures.

This corridor needs to be linked to the east-west economic corridor through the north-south highway axis, and to the southern corridor, in order to attract businesses from Vietnam, and exploit Vietnam’s comparative advantages within the GMS and ASEAN.

The legal foundation of the corridor and the management system need to be improved in lines with commitments under the ASEAN-China FTA framework.

The rights and responsibilities of local governments need to be defined.

A joint China-Vietnam commission is needed to manage the corridor, under the auspices of the Vietnam-China economic and trade cooperation commission.

Notes

1 http://www.corridor.com/economic/economic.html

2 Paper presented by an expert from Guangxi Academy of Social Sciences at the seminar on ‘Promoting ASEAN-China trade relations,’ held in Guangxi on 26-27 September, 2004.


4 Including Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand.
Bibliography


