Lao PDR and Vietnam Border Trade and Economic Linkages: Performance and Prospects

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Abstract: Lao PDR and Vietnam share an extensive land border and there are a number of points at which border crossings can be made and border trade conducted. The connectivity of these crossings is to be intensified by cross-border transportation infrastructure such as the Vientiane-Bolikhamsay-Vung Anh deep seaport railroad, which would facilitate exports from landlocked Lao PDR. Such infrastructure will improve existing Vietnamese investment in its western neighbour, where more than 400 projects worth more than US$5 billion have already been licensed in activities such as hydropower, industrial tree plantation and mining. Meanwhile, Star Telecom, which is a joint venture between Viettel Global and Lao Asia Telecom, has achieved 50% market share of the mobile telecommunications market in Lao PDR and there are numerous further opportunities for investment in consumer markets as well as business-to-business markets. The Lao PDR government would certainly like to diversify its exports away from reliance on natural resource commodities but lacks resources and capacity for leadership in this area and the vital small and medium-sized enterprises sector suffers from the ‘missing middle’ phenomenon that means firms are generally unable to participate in regional value chains, including those mobilised potentially by Vietnamese partners. This paper investigates the extent of Lao-Vietnamese border trade and cross-border investment and the prospects for the future in an international environment challenged by trade wars, volatility and global climate change.

Keywords: Border trade, cross-border investment, Lao PDR, telecommunications, Vietnam.

1. Introduction

The history of rapid economic development in East Asia has been characterised by relationships between the public and private sectors such that private sector organizations are at first compelled by the state to help accomplish state-level developmental goals and, subsequently, incentivised to do so after a re-negotiation of the relationship between the two sectors. Glassman (2018:378) observed that: “States – autonomous or otherwise – do not act, rather classes and class fractions act
through them, just as they act through markets.” To some extent, this is related to the large-scale privatisation of state-owned enterprises (SOEs), which commonly accompanies the move towards the market. Maintaining a dominant economic role for the state can ensure the continuing importance of the state capacity, even though ownership structures may have changed (Lee, Lin & Chang, 2005).

The developmental goals may be international as well as domestic, especially in a world in which globalisation and its attendant forces have made cross-border flows so convenient and common. In the case of Vietnam, while it is managing its internal transformation through application of the paradigm of import-substituting, export-oriented, intensive manufacturing with competitiveness based on low labour costs, it is also managing to create a presence overseas through fractions of the business class. In Lao People’s Democratic Republic (PDR), resource-seeking activities (Dunning, 2000) are the most important form of motivation for most Vietnamese investment, which is shown in the various plantations and mining operations to be found there. Yet a financial return is not the only motive for a rapidly developing government to wish to pursue overseas activities. Market share in a strategically important industry can provide significant political strength, particularly in a landlocked country which needs to maintain good relations with all of its neighbours in the hope of promoting a viable means of exporting (Faye et al., 2004). In the case of mobile telecommunications, such an opportunity presents itself as, in the absence of viable domestic competition, a well-resourced foreign competitor could quite quickly establish itself as having a strong market position. Viettel, which is supported by the Vietnamese state, has already demonstrated in Cambodia that it has the resources to defeat any and all competitors (Amponstira & Walsh, 2014) and can also compete in terms of making high technology available to its customers (Le, 2019). The company has established a strong competitive position in Lao PDR and, with a network of positions in countries around the world, it will not need to try to squeeze a profit out of every branch. This is an example of one fraction pursuing a specific developmental goal within the overall mixture of fractions pursuing different goals and different types of goals with respect to one neighbouring trade partner. This paper considers the range of trade and investment activities linking together the countries of Lao PDR and Vietnam with a view to understanding the different types and motivations of trade and investment that are taking place. This degree of diversity helps explain the apparently non-rational activities that are sometimes seen.

This paper follows a critical-analytical case study approach. That is, it involves a focus on specific events, individuals and organizations that recognises, in terms familiar to Bourdieu, that activities observed are: “…the products of not just one field - not even one as encompassing as the social space - but of relations, balances, tensions and harmonies between a multitude of fields vying for attention (Atkinson, 2016:6-7, emphasis in original).” As a result, it is not always possible to allocate motives and actions into discrete categories and it reflects the purpose of this paper that there are not always clear answers to these questions.

2. Vietnam and Lao PDR

Vietnam and Lao PDR share a very long land border and a lengthy history as members of mainland Southeast Asia, which has now been designated to be part of the Greater Mekong Subregion (GMS), along with Cambodia, Myanmar, Thailand, Yunnan province of China and Guangxi Zhuang autonomous zone, also in China. The history of the two countries has been influenced by their location as southern neighbours to China (albeit separated from the country by difficult terrain) and shared histories of ethnic group migration and movement. After colonisation by France, both countries achieved independence through
armed political revolutions in the 1970s and, after the collapse of the Soviet Union, both countries have been required to introduce economic reforms and more market-based activities while maintaining their existing political orders. Vietnam has a large population and important urban centres in Hanoi and Ho Chi Minh City, as well as ports and internal infrastructure to support investment and trade, which has been demonstrated by the large investments made by Samsung in the country which have made it Vietnam’s largest employer. By contrast, Lao PDR has no access to the sea and its small population is sparsely spread across mountainous and forested lands. There has been concern expressed in the past that, owing to asymmetrical size and influence, Vietnam might come to dominate Lao PDR. However, the general global consensus that economic growth means accepting inwards foreign direct investment (FDI) has led to both countries having become opened to investment from around the world, more or less irrespective of the influence that those investment projects would have. From a scholarly perspective, most attention has been fixed on the scope and scale of FDI into both Vietnam and Lao PDR and the readiness of those countries to accept that investment. Comparatively little attention has been placed on the trade and investment links between the two countries from a business management perspective, although there have been studies related to political economy, migration, sociology and regional studies. The purpose of this paper, therefore, is to investigate trade and investment issues involving neighbouring Lao PDR and Vietnam and the identification of issues and challenges to those links that might be profitably explored. This has been attempted through a critically-analytical study of the current situation and prognosis of what is likely to develop in the future. One sector of particular interest is mobile telecommunications, since this has a pivotal role in facilitating further economic development and improving quality of life for all sectors of the population. As a result, this sector is given additional attention. It is found that one of the principal problems facing the countries involved is the lack of capacity in terms of small and medium-sized enterprises, since at least some of these need to be developed in order to be able to participate fully in regional supply and value chains.

3. Border trade

Border trade involves any form of cross-border transaction involving two or more countries. It can include both formal and informal activities, such as border markets, border traders and short or long-distance cross-border merchants. In the case of Lao PDR, many of the people involved in these activities are women, who contribute to the feminisation of border activities in mainland Southeast Asia (Walker, 1999).

There are seven border crossing points available for commerce on the Lao-Vietnam border, which is some 2,337 km long and is to a large extent based on the mountainous region between the two countries, which have a sparse population and little economic value. Consequently, the border itself was not demarcated until after the successful revolutions in the 1970s (St. John, 1998). The border crossings are at Sobboun-Tay Trang, Banteui-Nameo, Nam Can-Namkan, Nam Phao-Keoneua, Napao-Chalo, Dansavanh-Lao Bao and Phukeua-Bo Y. Governments of both countries have reached agreements to promote border trade and to enhance trade facilitation. The value of the trade was US$936 million in 2017 and it has been increasing each year (Vietnam Economic News, 2018). In 2018, the value exceeded US$1 billion. Trade is regulated by the ‘Border Trade Agreement between the Government of the Lao People’s Democratic Republic and the Government of the Socialist Republic of Vietnam’ signed in 2015 as the latest in a series of bilateral agreements between the two countries which began in 1977 (WTO, 2019). Altogether there are seven main border gates, eight international border gates, 18 auxiliary border gates and a large number of
trails across the countryside, as well as eight border economic zones. A total of 36 markets have so far been established (Nhan Dan Online, 2019a).

Most investment flows associated with border trade have involved Vietnamese investment in its neighbour. To date, 292 projects with a value of US$5.1 billion have been approved and, of these, 110 projects are located in the 10 border provinces of Lao PDR with a value of US$2.7 billion (ibid.). This approach is seen as being a positive approach to promoting economic development on a stable basis and it is being further employed in the case of the Cambodia-Laos-Vietnam Triangle Area, which was established in 1999 “… with the aim of strengthening the solidarity and cooperation among the three countries and ensuring security, political stability and poverty reduction, as well as promoting socio-economic development in the area (Nhan Dan Online, 2019b).” Security issues include drug trafficking and unofficial cross-border migration (Parameswaran, 2017). In mountainous areas shared by Lao PDR and Vietnam, “Market influences are increasingly permeating the uplands of both countries although to varying degrees, connecting them with not only national, but also global commodity markets, and leading to increasing differentiation within and between ethnic groups (Friederichsen & Neef, 2010). When markets are themselves illegal, as for example in the case of some timber trading, this can have a corrosive effect on state actors and lead to further illegality (To, Mahanty & Dressler, 2012).

At a conference reviewing Lao-Vietnamese border trade in 2018, 11 booths for each side were created and the Lao enterprises displayed wooden products, home appliances, electronics, rubber products, rice and sugar; meanwhile, Vietnamese enterprises displayed cassava starch, pepper, curcumin powder, sweet potatoes, peanut oil, citronella oil, coffee, medicinal herbs, clean vegetables and Phuc Trach pomelo (Vietnam Economic News, 2018). It seems likely that, from the Vietnamese perspective, the exporting of agricultural commodities (and some products) is the most important element of this trade. As a contrast, two-way trade between Vietnam and Yunnan province of China rapidly increased to US$1.84 billion following the signing of a border trade agreement and the total value of Vietnamese fruit and vegetables to China as a whole amounted to US$1.2 billion in the first half of 2018 (Nga & Quynh, 2018).


<table>
<thead>
<tr>
<th>Lao PDR</th>
<th>Principal Exports</th>
<th>Principal Markets</th>
<th>Export</th>
<th>Principal Imports</th>
<th>Principal Import Sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copper ore (557), rubber (193), gold (155), rough wood (37), non-knit men’s suits (86)</td>
<td>China (1,180), India (242), Japan (146), USA (91), Germany (90)</td>
<td>Broadcasting equipment (134), delivery trucks (95), iron structures (90), other steel bars (88), hydraulic turbines (86)</td>
<td>China (1,340), Japan (112), South Korea (92), Austria (54), Czech Republic (41)</td>
<td></td>
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<tr>
<td>Vietnam</td>
<td>Broadcasting equipment (30,700), telephones (14,900), integrated circuits (14,600), textile footwear (9,500), leather footwear (6,060)</td>
<td>USA (46,200), China (39,900), Japan (18,100), South Korea (16,100), Germany (10,900)</td>
<td>Integrated circuits (15,600), telephones (10,200), refined petroleum (7,230), electrical parts (4,690), Light rubberized knitted fabric (4,510)</td>
<td>China (70,600), South Korea (47,700), Japan (13,100), Singapore (11,800), Hong Kong (10,100)</td>
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<tbody>
<tr>
<td>Cereals and preparations</td>
<td>1,064</td>
<td>-953</td>
<td>-25</td>
<td>-90</td>
</tr>
<tr>
<td>Fruit and vegetables</td>
<td>589</td>
<td>-2,660</td>
<td>-9</td>
<td>52</td>
</tr>
<tr>
<td>Meat and meat preparations</td>
<td>-15</td>
<td>-3,589</td>
<td>0</td>
<td>-174</td>
</tr>
<tr>
<td>Dairy products (milk equivalent)</td>
<td>-251</td>
<td>-514</td>
<td>-34</td>
<td>-34</td>
</tr>
<tr>
<td>Fish</td>
<td>2,488</td>
<td>5,997</td>
<td>-2</td>
<td>-2</td>
</tr>
</tbody>
</table>

Overall trade between Vietnam and Lao PDR exceeded US$1 billion in 2018, with Lao PDR exporting US$723.5 million and importing US$552.2 million. Lao PDR exported agricultural commodities such as rubber, coffee, maize, cassava, rice and cattle, as well as drinking water, minerals and wooden products. It imported petroleum, fertilizer, steel, machinery, electrical equipment, construction materials and spare parts (Khmer Times, 2019). It is logical for investment to accompany some forms of cross-border trade. Dunning’s OLI paradigm would suggest that companies will undertake foreign direct investment overseas if it believes that internalisation of a resource or activity will be more efficient or profitable than an arm’s length approach (Dunning, 1988). Vietnamese investment in Lao PDR has been mostly located in the hydropower, mining, transport, industrial tree plantation and services (especially telecommunications) sectors (The Voice of Vietnam, 2017). These involve, therefore, both market-seeking and resource-seeking activities. In a study of firms involved in cross-border investments on the China-Vietnam border, Wang, Yang and Chan (2010) found that individual firm success would be likely to be affected by:

- Preferential tax policy, financial support policy and land use policy;
- Some elements of the investment climate, namely resource availability, market potential, political and legal stability and infrastructure;
- Financial support policy is associated with regional attributes and
- Performance is influenced by region-specific elements such as resource availability, transport, governance, logistics, electricity supply and geographical location.

It is apparent that there is scope for improvement in trade facilitation procedures in both Vietnam and Lao PDR. Research indicates that the regulatory environment, physical infrastructure and communications technology all have a definite impact on export performance (Portugal-Perez & Wilson, 2012).

4. Transportation infrastructure

Lao PDR is a landlocked country without a coast of its own and this means it faces additional costs in managing exports and paying for imports and must maintain good relations with its neighbours in order for international trade to take place at all. It is not surprising, therefore, that landlocked countries face a development deficit compared to other countries which have access to the sea (Faye et al., 2004). JETRO figures estimate that to ship a 40 ft container from Vientiane to Yokohama it costs US$2,500, compared to US$1,600 from Phnom Penh and just US$1,000 from Hanoi.

Given that the border with Vietnam is difficult in terms of topography, the logistics systems of the country are quite limited and this represents a further challenge to rapid development. Recognising this problem, the Asian Development Bank (ADB) has attempted to reframe the country as being land-linked rather than land-locked and argued that it can benefit from the movement of goods within its borders. To do so, it can benefit from the ongoing attempts to build the Asian Highway Network (AHN), which is a series of road and
rail links that are intended to join together all the major places of production and consumption within mainland Southeast Asia to neighbours in all directions. In particular, this strategy is related to the concept of economic corridors, which the ADB claims are “... proven to be an effective tool to enable industrial proliferation, create jobs, upgrade infrastructure, align infrastructure with urban and social agglomerations, unify domestic markets, and link production centres with global value chains (Hong, 2018)”.

As Figure 1 shows, Vietnam and Lao PDR will be linked by the East-West Economic Corridor (EWEC) that extends from Da Nang in the east to Mawlamyine in the west via Kaysone Phomvihane, Mukdahan and Khon Kaen. The EWEC is further connected via the Intercorridor Link to the Northern Subcorridor that joins Quy Nhon in the east to Bangkok and, ultimately, to Dawei, which is the site of a large but unfinished special economic zone that will house primarily Thai investment. If supported by appropriate trade and travel facilitation programmes, these corridors could certainly benefit the countries involved and make them suitable locations for regional value chains such as Toyota’s Thailand plus one strategy (SCB Economic Intelligence Center, 2016).

In addition to the ADB’s efforts, Lao PDR and Vietnam can also benefit from the One Belt and Road (OBR) policy of the Chinese government, which also uses transportation infrastructure to help create new forms of the Silk Roads that will be both conduits of trade and economic corridors in their own right. The OBR policy supplements extensive Chinese
investment in its southern neighbours and some additional influence as a result.

Transportation infrastructure plays an important but not exclusive role in the connectivity that promotes economic development. The 2018 Bangkok Declaration, resulting from the 8th Ayeyawaddy-Chao Phraya-Mekong Economic Strategy (ACMECS) summit, calls for improvements in connectivity in a number of ways: “... harmonisation and simplification of rules and regulations to facilitate movement of people, free flow of goods, services, and investment, as well as financial cooperation to accelerate infrastructure development (Ambashi, 2019).”

One means by which this is to be attempted is through the proposed Vientiane-Hanoi highway, which is reported to be supported by the Japanese International Cooperation Agency (JICA). This road would link Hanoi with Bangkok and, ultimately, Singapore, with new links to China to the north. It is anticipated that this will generate larger volumes of traffic, which would themselves contribute to development, while a stimulus in FDI in apparel and food industries would also be expected. However, it is also possible that the road will provide opportunities for Chinese and Thai producers who would take advantage of the new infrastructure without really contributing to it. The highway is one of a series of possible improvements to the country’s infrastructure that are being considered. A feasibility study for a rail link from Vientiane to Vung Anh port has been concluded positively. The Lao PDR-China rail link is also scheduled. As part of the EWEC, a Savannakhet-Dong Ha port link is also being planned. Should all or even some of these projects reach completion, it would enable the country to be part of a land-linked region and would raise its attractiveness as a home for investment for Vietnamese firms and investors, who could more conveniently control and distribute products created there. Lao PDR has also opened a number of different special and specific economic zones and these have been linked to the transportation networks and supplied with inland container depots which function as logistics and distribution centres as well as forms of dry docks.

5. The telecommunications sector

The Vietnamese telecommunications company Viettel has established itself as one of the principal players in the GMS, with a large domestic market giving it benefits in terms of economies of scale and scope and government support facilitating research and development activities. The company was established as the Information and Electronics Corporation (SIGELCO) which then became the Military Telecom Group (Viettel) (Viettel, 2015a). These advantages enabled the company first to take a competitive position in Cambodia and then to defeat most competitors in conditions of cowboy capitalism. The Cambodian government wanted a mobile telecommunications sector to be rapidly created but lacked resources to develop the necessary infrastructure. The solution it devised was to open the sector to any and all foreign investors who wished to participate and then let them establish their own networks and compete with each other until the evolutionary pressures of the market stabilised the hyper-competitive situation (Ampornstira & Walsh, 2014; Ampornstira, 2016). Successful expansion in Cambodia has been accompanied by additional expansion in Myanmar, where the government has taken the approach of permitting only a small number of foreign investors to take licenses there. At first, three licenses were issued to Myanmar Posts and Telecommunications (MPT), Telenor from Norway and Ooredoo from Qatar. A fourth license was issued in 2018 and was awarded to Mytel, which is a joint venture enterprise of the Myanmar government and Viettel. Mytel has now become the third largest operator in the country with a 14% market share and some 5.5 million subscribers (Nhan Dan Online, 2019c). Viettel now has a presence in 10 countries around the world, including the African
countries of Mozambique, Tanzania, Burundi and Cameroon, with more than 90 million customers (Viettel, 2015b). The company operates on a multidomestic strategy that means its approach is defined by specific market conditions in the countries in which it wishes to do business rather than adopting a single approach around the world. Where it is possible, the company will take a lead in technological development, by for example establishing trial of 5G technology in Phnom Penh, the capital of Cambodia (Le, 2019) and in Myanmar (Waring, 2019), in addition to trials in Hanoi and Ho Chi Minh City in Vietnam.

In Lao PDR, Viettel has been working with Lao Asia Telecom for a decade to form Star Telecom (Unitel) and now has 3 million customers, 54% market share, 6,500 broadcasting stations and 30,000 km of optical cable (Ministry of Information and Communications, 2018). Star Telecom is lauded as a symbol of cooperation between the two countries and has received awards for its contribution to economic development and to government coffers. Notably, the company has embedded itself in the Lao PDR government by organizing the Population Data Management System Creation Project for the fiscal year of 2017-2018, which is to be used to create a national database of all people for the purposes of economic development and national security (The Laotian Times, 2017). Viettel is, therefore, not only a successful commercial company in its own right but one which is willing and capable of helping enact state-level developmental goals of friendly cooperation with neighbours and in extending the country’s reach around the world. This is in accordance with Glassman’s (2018) recent argument about the relationship between states, governments and economic development: “States – autonomous or otherwise – do not act; rather, classes and class fractions act through them, just as they act through markets (ibid.:378).” In other words, Vietnam does not act directly to bring about its particular goals but it makes it possible for fractions of classes to do so on its behalf. Of course, the correlation between goal and action is not likely to be perfect or, even, very high.

Research has indicated that access to mobile telecommunications has a significantly positive impact upon living standards of people throughout a country, although access to the internet, while it may improve quality of life, does not translate to economic development in its early stage of presence (e.g. Chavula, 2012). For Lao PDR to become a more attractive place for inward FDI, the skills and capabilities of its labour force will need to be improved, which is partly what is occurring in this case.

6. Issues and challenges

It is evident that, despite the many plans for future improvements, the transportation infrastructure that connects Lao PDR and Vietnam is still poor and represents a barrier to increasing trade and investment between the two countries. Infrastructure is an enabling technology which permits individuals and organizations to pursue any type of activity, which may not be entirely positive. It has been argued that infrastructure is one of the more important means by which more intensive forms of capitalism may be introduced into a country. In this sense, the Vietnam-Lao PDR region is being brought more thoroughly into the condition of more efficient market transactions and, to that extent, is more involved in capitalist conditions.

Much of the production involved in Lao PDR-Vietnam trade and investment remains in the commodity category, meaning that little if any value is added during the production process and so profitability remains low. There is a need to stimulate more value adding activities to these forms of production and to find means whereby money generated in the area remains in that same area. If, for example, these efforts were related to the tourism industry, it would be vulnerable to resource-leaking because investment in at least some forms of tourism development is derived from remote investment, whereby the investor is far
from the site of the investment and has little or no stake in keeping profits there.

Harvey (1996) is among a number of scholars who have noted the phenomenon of the spatial fix, which addresses the problems of falling profitability in one part of the world by moving production and consumption to another part of the world (so long as infrastructure exists there to enable it to occur) where prospects are better. This might take place in the Vietnam-Lao PDR region and, indeed, it could be argued that it has already started to take place. The more attractive the area appears to be, the more likely that spatial fixes will take place to move production there, with all the complications this is likely to bring.

There is scope for greater harmonisation of trade practices among countries in the GMS, on either a bilateral or multilateral basis. Non-tariff barriers can be set aside, as long as government agencies can satisfy themselves that the goals of those barriers can be justified but met in other ways. In particular, as FDI in Vietnam has shown and the creation of regional value chains indicates, exports, which are much desired, depend on initial imports. If the imports are impeded, then so too will the exports be.

Finally, in both countries and, indeed further afield, there are some large or quite large corporations available and numerous small or very small (micro) enterprises. However, there is a phenomenon of the ‘missing middle’ of companies which are large enough to have the resources and capabilities to partner with inwardly investing firms as members of supply chains. In general, inwardly investing firms are very happy to partner with local firms because they represent market access which is difficult and expensive to obtain. If they cannot find such firms, this represents a possibly significant problem in the localisation process.

7. Conclusion

This paper has considered the nature and extent of trade and investment involving both Lao PDR and Vietnam. It has been shown that these activities are increasing in scope and complexity, despite some problems in organizing such activities. It is important that scrutiny of these activities take place intensively into the future so as to understand the nature of business activities and relationships in the region. An extensive empirical approach would be beneficial. However, as the research approach adopted will indicate, even extensive research will not necessarily make the situation any clearer as the contestation between different fields of analysis will be likely to make taking an overall perspective a complex undertaking.

Economic development rarely works in an entirely equitable manner and more often follow Schumpeter’s famous dictum that capitalism leads to creative destruction. Since both governments concerned have a strong commitment to equality of all citizens, attention will need to be paid to those who lose out as a result of the creative destruction; their loss will be more significant than the gains made by other people.

References


