

# Government of People's Republic of China

## United Nations Development Programme

### Project Document

#### Project Title:

#### ENHANCING CHINA-ASEAN ECONOMIC INTEGRATION: CROSS-BORDER ECONOMIC COOPERATION ZONES AT THE CHINA-VIETNAM BORDER

China has grown to become the world's fourth largest economy in large part due to policies initiated in the late 1970s to encourage foreign direct investment into special economic zones. After twenty-five years and the creation of many more special coastal cities and industrial promotion zones, economic growth has boomed in China and international trade now represents two-thirds of the country's economy. China is also the largest developing country recipient of foreign direct investment, much of which is directed towards trade-oriented, foreign-invested enterprises.

Yet China's economic growth remains concentrated on its east coast and its trade has been largely with overseas markets. Despite the fact that it shares over 22,000 kilometers of borders with fourteen countries (Democratic Republic of Korea, Russian Federation, Mongolia, Kazakhstan, Kyrgyzstan, Tajikistan, Afghanistan, Pakistan, India, Nepal, Bhutan, Myanmar, Laos, and Vietnam), only 5% of China's total trade (imports plus exports) is conducted with its immediate neighbors, according to the United Nations' Comtrade database.

This may now be changing, as China's leaders focus on a more broad-based, geographically balanced strategy of development, known as *Xiaokang*. Desirous of both spreading prosperity to provinces and socioeconomic groups far from the eastern seaboard – a high proportion of China's rural poor are members of ethnic minorities who reside far from the current poles of growth – and engaging with partners in Asia (at its borders and beyond), China now embraces cross-border economic cooperation as one element of that strategy. With this new cross-border dimension, China recognizes that there are potential benefits and risks. Better geographic and socioeconomic distribution of the benefits to trade liberalization and economic growth is sought, while cognizant of the need to protect the economic, socio-cultural, and political rights of men, women, and children who become engaged.

Against this backdrop, China and Vietnam have embarked on an ambitious program to develop "two corridors, one circle" of economic growth to accelerate integration of their economies. The concept, announced in 2004 by the two countries' top political leaderships, seeks to facilitate and promote trade and investment between Yunnan Province and Guangxi Zhuang Autonomous Region in China and corresponding Lao Cai (Laojie) and Lang Son (Liangshang) Provinces in Vietnam. Cooperation and joint planning by Vietnamese and Chinese authorities of cross-border economic cooperation zones (CBEZ) is active and ongoing in both corridors.

Framed by the U.N. Millennium Development Goals and a rights-based approach to human development and shaped in China by its existing program supporting *Xiaokang* and other cross-border activities, the United Nations Development Programme (UNDP) is uniquely positioned to support pilot initiatives for CBEZ on the border between China and Vietnam. Such an approach helps to ensure that the needs of both those who potentially will gain from as well as those who are potentially more vulnerable to increased integration will be addressed.

These initiatives will be implemented through UNDP partners, the China International Centre for Economic and Technical Exchanges, the Ministry of Commerce, and the provincial governments of Yunnan and Guangxi. The CBEZ project will further China-ASEAN integration through enhanced understanding of cross-border economic cooperation zones, participation in the planning for and implementation of CBEZ with support for collaborative structures to advise policymaking, and application of continuous learning practices to ensure that the lessons gained here will serve as a model for China's cross-border economic cooperation with other neighbors.

**UNDAF Outcome:**

Within the framework of international norms, conventions, and their mechanisms, and of the Global Compact, China's role in the international arena is enhanced, including through providing increased levels of South-South Cooperation.

**Country Program Outcome/Indicator(s):**

Global partnerships promoted for effective results/China's cooperation with neighboring countries (e.g., Tumen, Central Asia, Mekong sub-region) increased, especially in fields of trade, investment, tourism, and transport.

**Implementing Partner:**

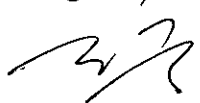

China International Center for Economic and Technical Exchanges (CICETE)

**Other Government Cooperating Agencies:**

Government of the People's Republic of China, Ministry of Commerce; The People's Government of Guangxi Zhuang Autonomous Region; and The People's Government of Yunnan Province.

Program Period:	2006-2010
Program Component:	Achieving the MDGs and reducing human poverty
Project Title:	Enhancing China-ASEAN Economic Integration: Pilot Initiatives across the China-Vietnam Border
Project ID:	
Project Duration:	2007-2009
Mgmt Arrangement:	National execution

Budget (\$US)	\$3,000,000
Total budget:	\$3,000,000
Allocated resources:	
• Government	\$1,500,000
• UNDP	\$1,500,000

Agreed by	Signature	Date	Name and Title
CICETE/ Government Implementing Partner		11/9. 2007	Wang Yue Director-General CICETE/MOFCOM
UNDP		27/9/2007	Subinay Nandy Country Director UNDP China

## **Table of Contents**

Acronyms.....	iv
Maps and Diagrams.....	v
Part 1. Situation Analysis.....	1
Part 2. Cross-Border Economic Cooperation and the Role of UNDP.....	8
Part 3. Project Strategy.....	9
Part 4. Management Arrangements.....	17
Part 5. Monitoring and Evaluation.....	18
Part 6. Legal Context.....	19
Part 7. Results and Resources Framework.....	20
Part 8. Tentative Budget 2007-2009.....	25
Part 9. Other Agreements.....	28

## **List of Tables**

Table 1: Risk Log.....	15
Table 2: Results and Resources Framework Matrix.....	20
Table 3: Tentative Budget, Summary.....	26
Table 4: Tentative Budget, Details.....	27

## **List of Figures**

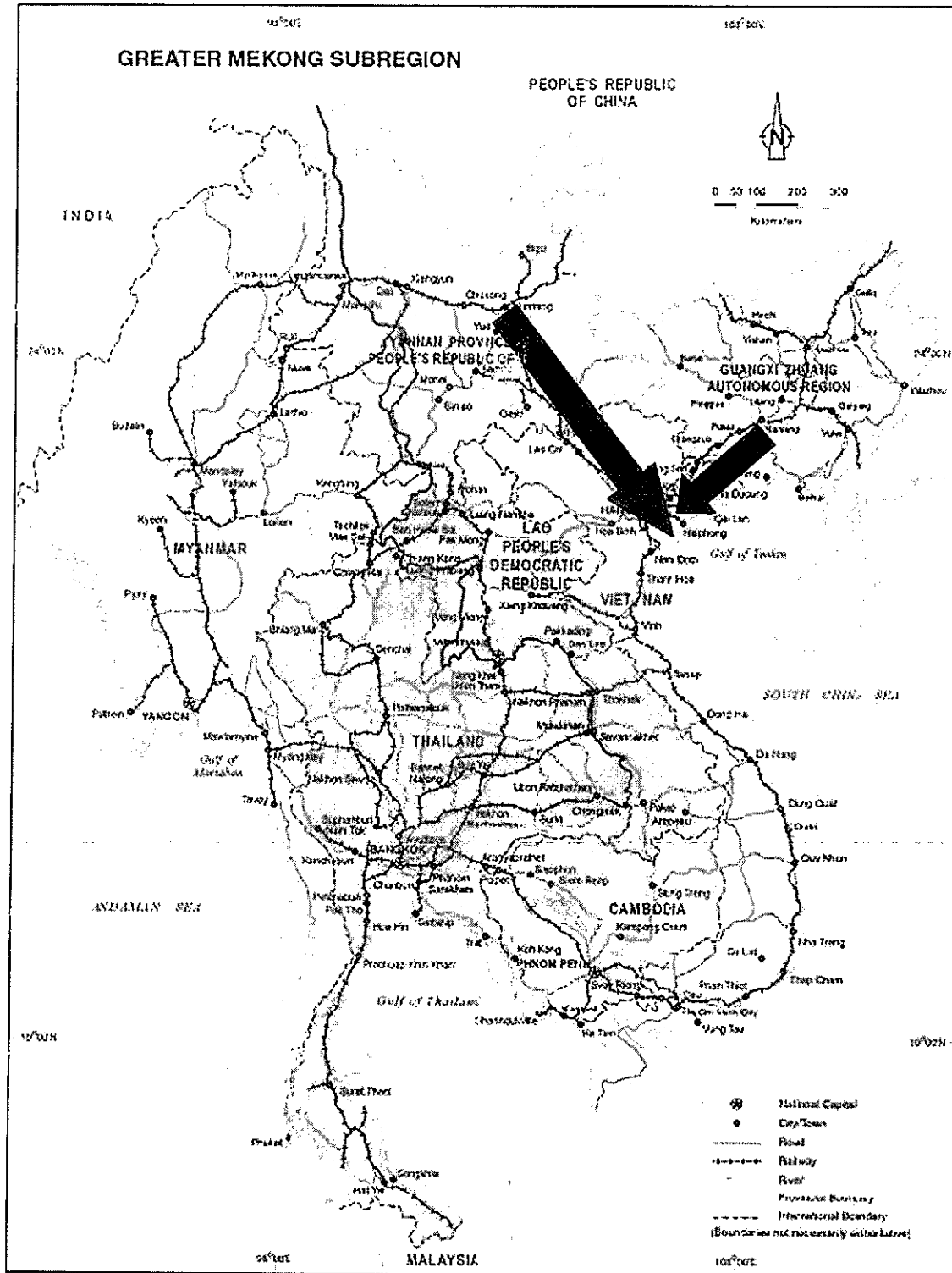
Figure 1: Greater Mekong Sub-region (GMS) and Designated China-Vietnam Corridors.....	vi
Figure 2: Hekou-Lao Cai (Laojie) Cross-Border Economic Cooperation Zone.....	vii
Figure 3: Pingxiang-Lang Son (Liangshang) Border Crossing.....	vii
Figure 4: Diagram of Cross-Border Economic Cooperation Zone.....	4
Figure 5: Project Organization Chart.....	18

## Acronyms

ASEAN	Association of Southeast Asian Nations
CAFTA	China-ASEAN Free Trade Agreement
CBEC	Cross-border economic cooperation
CBEZ	Cross-border economic cooperation zone
CICETE	China International Centre for Economic and Technical Exchanges
FTA	Free trade agreement, free trade area
GATT	General Agreement on Tariffs and Trade
GMS	Greater Mekong Sub-region
LMEC	Lancang-Mekong Sub-regional Economic Cooperation and Trade Development Center
PMU	Project management unit
PY	Project year
SCM	Subsidies and countervailing measures
SEZ	Special Economic Zone
UNDAF	United Nations Development Assistance Framework
UNDP	United Nations Development Program
WTO	World Trade Organization

## Maps and Diagrams

Figure 1: Greater Mekong Sub-region (GMS) and Designated China-Vietnam Corridors



Source: GMS Business Forum & Directory (<http://www.gmsbizforum.com/>)



## Part 1. Situation Analysis

### 1.1 International and Regional Contexts<sup>2</sup>

China's participation in international trade institutions, fora, and agreements has expanded greatly in recent years.<sup>3</sup> Accession to the World Trade Organization in 2001 was accomplished after fifteen years of protracted negotiations. China agreed to reduce its average import-weighted tariffs to 6.8% by 2007, down from 40.6% in 1992.<sup>4</sup> Almost all non-tariff barriers have been removed, including import and export quotas and licenses. China also undertook liberalization commitments in 93 service subsectors, most notably agreeing to foreign competition in banking by the end of 2006 and allowing 49% foreign ownership in telecommunications. As a WTO member, China now enjoys access to markets of WTO members at Most-Favored Nation tariff rates and defends its rights through the WTO dispute settlement mechanism.

During the accession negotiations, under pressure from major trading partners, China agreed to three unusual forms of discrimination against itself: a) special selective safeguards (blocking select imports) until 2013, b) a special textile safeguard mechanism until 2008, and c) acceptance of non-market economy status until 2015. The last provision permits WTO members to use specially constructed prices to evaluate and levy anti-dumping duties against Chinese imports.

Like the United States and the European Union, China also seeks to negotiate regional and bilateral agreements to create integrated markets with preferential rules that go beyond the WTO disciplines.<sup>5</sup> China has concluded trade agreements with its own Special Administrative Regions of Hong Kong and Macao, free trade agreements (FTAs) with the Association of Southeast Asian Nations (ASEAN), Chile, and Pakistan, and trade and economic framework agreements with Australia and New Zealand that lay the groundwork for FTAs to come. It has also initiated FTA negotiations with the Southern African Customs Union, the Gulf Cooperation Council, and Iceland, and is making bilateral overtures to Japan, the Republic of Korea, and India. The China-ASEAN agreement may also be enlarged to "ASEAN+3," i.e. to include South Korea and Japan. Thus, seemingly, China is positioning itself to become the hub of the world's largest free trade zone ever.

China's regional and bilateral trade agreements stand out both for their content and motivations. Unlike the comprehensive FTAs adopted by the U.S. and EU, Chinese FTAs have been noted for their diversity, brevity, absence of a dispute resolution mechanism, and a negotiating preference for initial streamlined agreements, followed by subsequent elaboration, rather than one-off treaties.<sup>6</sup> In pursuing FTAs, China's goals include securing access to raw materials for import and expanding market access for its manufactured exports.<sup>7</sup> Another goal is the achievement of recognition by regional partners of China as a

---

<sup>2</sup> This section draws on "China's Multilateral, Regional, and Bilateral Trade Agreements as a Framework for Cross-Border Economic Cooperation," a background paper prepared by Swarnim Waglé of the UNDP Regional Centre in Colombo.

<sup>3</sup> Trade agreements and arrangements taken from WTO, "Trade Policy Review of the People's Republic of China," WT/TPR/S/161 (Geneva: 28 February 2006).

<sup>4</sup> Unlike almost all other developing countries, China bound its tariffs at rates approximating their applied rates, 10% on average. This is far lower than the bindings to which other major developing countries (e.g., Egypt, India, Thailand, Mexico) have committed.

<sup>5</sup> Agata Antkiewicz and John Whalley, "China's New Regional Trade Agreements," NBER Working Paper 10992 (Cambridge, MA: National Bureau of Economic Research, December 2004).

<sup>6</sup> Antkiewicz and Whalley, *ibid.*

<sup>7</sup> Robert Z. Lawrence, "China and the Multilateral Trading System," paper presented at KIEP conference (Seoul: 11-12 May 2006, available from <http://ksghome.harvard.edu/~RLawrence/publications.html>); David Zweig and Bi Jianhai, "China's Global Hunt for Energy," *Foreign Affairs*, 84/5 (September/October 2005): 25-38.



full market economy. Such recognition is crucial in light of provisions contained in China's WTO accession protocol that permit WTO members to impose otherwise precluded discriminatory restrictions against China. Such recognition confers much greater economic security to China as it seeks to minimize the risk of actual evocation of those provisions.

According to the terms of China's 2002 Framework Agreement with ASEAN to promote free trade, most goods will transit duty-free between China and Brunei, Indonesia, Malaysia, Philippines, Singapore, and Thailand by 2010, followed in 2015 by free trade with the newer ASEAN member states of Cambodia, Laos, Myanmar, and Vietnam. At the Heads of State summit held in Nanning in October 2006 to commemorate the 15<sup>th</sup> anniversary of China-ASEAN relations, Chinese Premier Wen Jiabao called for increased bilateral cooperation, expanded economic ties, and accelerated implementation of the China-ASEAN Free Trade Area (CAFTA).

While CAFTA has the potential to encourage economic restructuring with the creation of regionally-based, competitive clusters, the sector-specific gains and losses induced by free trade could be unevenly distributed across the region. The challenge for each member is to identify and foster areas of comparative advantage, build in safeguard mechanisms in trade texts, and devise effective temporary compensatory arrangements to encourage such structural transformations to reorient the participating economies toward international competitiveness.<sup>8</sup>

Against this backdrop of commitments in the context of ASEAN, China and Vietnam have embarked on an ambitious program to develop "two corridors, one circle" of economic growth to accelerate integration of their economies (see Figure 1). The concept, announced in 2004 by the two countries' top political leaderships, seeks to facilitate and promote trade and investment between Kunming (Yunnan Province, China) and Haiphong via Hanoi (Vietnam) and Nanning (Guangxi Zhuang Autonomous Region, China) and Haiphong, also via Hanoi. Commitments to this goal were reiterated during the November 2006 China-ASEAN summit.

Although the Chinese provinces of Guangxi and Yunnan that border Vietnam, Laos, and Myanmar are less advanced by Chinese standards, they (and the country as a whole) are economically advanced relative to their neighbors. Thus a careful sequence of preparations in the lead-up to full implementation of the CAFTA by 2015 is necessary. China's emphasis on trade facilitation measures at the border, assistance with infrastructure construction in the sub-region and lax, unfettered allowance of safe imports could boost trade and nurture goodwill. Addressing infrastructure bottlenecks at both sides of the China-ASEAN border will facilitate trade,<sup>9</sup> which will further increase after the policy-induced obstacles of tariff and non-tariff barriers are progressively eliminated by 2015.

## 1.2 Evolution of China's Border Trade<sup>10</sup>

Trade along China's borders was officially acknowledged shortly after 1949, with the signing of border trade agreements with the Soviet Union, Vietnam, North Korea, India, and other neighboring countries. However, deteriorating political relations with certain neighbors led to its temporary cessation during the 1960s and 1970s. Economic liberalization and improved political relations with neighboring nations in the 1980s caused China's border trade to resume and grow steadily. Although first dominated by state-

---

<sup>8</sup> Manuel Montes and Swamin Waglé, "On Smarter Trade for Asia," *Far Eastern Economic Review*. Vol. 169, no. 5 (2006).

<sup>9</sup> The land crossings between Yunnan and Guangxi and the counterpart provinces in Vietnam, Laos, and Myanmar will be one major conduit for China-ASEAN trade, but not the only one, as seaports on China's eastern coast will continue to offer cheaper and faster access to half of ASEAN's consumers.

<sup>10</sup> This section draws on "Development and Administration of China's Border Trade," a background paper prepared by Dr. Li Guanghui of the Ministry of Commerce's Chinese Academy of International Trade and Economic Cooperation.

owned and collective enterprises, border residents gradually began to participate in border trade as well, conducted mostly as barter trade.

In 1992, the growth of Chinese border trade took off, thanks to preferential policies adopted to further develop barter trade with the former Soviet Union and East European countries, North Korea, Mongolia, Vietnam, Myanmar, and other countries. All commodities were deemed eligible in principle, except for exports of foodstuffs (rice, soybeans, corn), wolfram ore, crude oil, and finished oil products. Export quotas and licensing were cancelled and tariffs and value-added taxes on imports were cut in half. Furthermore, commodities imported through border trade were allowed to be sold elsewhere in the country. Besides state-owned and collective enterprises, individual enterprises began to play a significant role in border trade and instances of cash-based trade began. Clearer central administration exerted in 1996 caused cross-border flows to decrease at first, but by 1999 they had returned to their previous levels and resumed expansion. Since then, activities have increasingly normalized, with most transactions now conducted as cash-based trade.

Attitudes and policies toward cross-border trade vary from neighbor to neighbor, as do the modalities and scales of border trade between them and China. China's border trade partners include both WTO members (e.g., Myanmar, India, Mongolia, Kyrgyzstan) and non-members (e.g., Russia, Kazakhstan). Relative levels of economic development, technology, and market capabilities are also quite different among the partner countries. Because most of China's border trade partners are developing countries, with comparatively low levels of economic development and lacking in foreign exchange, and because the trade settlement systems between them and China have not been perfected and their banks have not yet formed client relationships, the Renminbi<sup>1</sup> has become the preferred means of settlement. Commodities exported through China's border trade now include a full array of agricultural products and manufactures. Imports through China's border trade are mainly raw materials (timber, rolled steel products, paper pulp, various mineral products, nonferrous metals, fertilizers, and agricultural products).

The administration of border trade in China involves both central and local government authorities. With its distinctly regional character, border trade has involved local governments to a relatively important degree. However, as a component of China's total foreign trade, border trade is also overseen by national trade authorities.

China's border trade legislation recognizes four modalities for border trade. The first is "border trade by border residents," i.e. trade by those living within twenty kilometers of the border, in government-approved border crossings or designated bazaars, not to exceed officially regulated values and quantities. The second is "small-scale border trade, which refers to trade through government-designated border ports, conducted by approved enterprises in approved border cities. A third category, "border purchasing through tours," emerged as a distinct category, particularly in China's northern border provinces, to overcome local constraints such as sparse border populations, high import tariffs in the neighboring countries, lax regulation of cross-border flows of people, and underdeveloped trade facilitation systems. Fourth, "foreign economic and technological cooperation in the border region" encompasses trade in services in the border region, such as the export of labor services, project contracting, timber cutting, agricultural planting, and management of joint-venture enterprises.

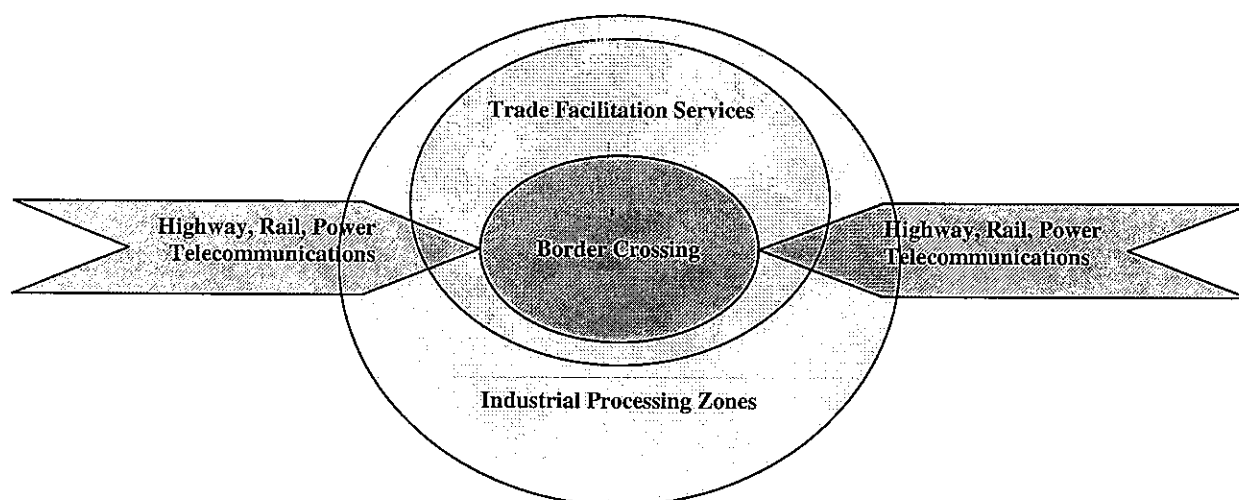
### **1.3 Cross-Border Trade and Economic Cooperation Between China and Vietnam**

Development in China's southwest lags behind coastal patterns in a number of ways. For instance, Yunnan Province and Guangxi Zhuang Autonomous Region have both experienced considerably smaller participation to date in foreign trade, as compared with coastal provinces. Yunnan, with 3.4% of China's population, only shipped 0.29% of China's exports in 2005. Guangxi, with 3.8% of China's population, only shipped 0.32% of China's exports that same year. In addition, their socioeconomic development also lags behind that of other regions, with 2003 HDI rankings of 29<sup>th</sup> and 22<sup>nd</sup>, respectively, among thirty-one provinces, Autonomous Regions, and municipalities.

Experimental and ambitious policies to concentrate investment and attention at their borders with Vietnam, and thereby stimulate China's investment and commercial relationships through Vietnam with the rest of the Mekong region and ASEAN, could help to stimulate Yunnan's and Guangxi's engagement with international trade and thereby promote growth and human development in these two provinces. The potential for cross-border economic zones (CBEZ) to catalyze investment, trade, and tourism between China and Vietnam, Laos, and the rest of the GMS, and to stimulate a greater outward orientation in hitherto isolated Yunnan and Guangxi regions is therefore significant. Trade may originate with enterprises based in Yunnan and Guangxi, or – particularly in the case of the more inland province, Yunnan – the CBEZ may become a gateway for trade originating in other land-locked provinces to the north and west of Yunnan.

The China-Vietnam border offers an interesting example of how rapidly the concept of border trade has evolved. In the early days of border trade liberalization, Chinese and Vietnamese authorities promoted informal, cross-border trade. A range of border crossings exists, from the smallest scale (e.g., hand-carrying of baskets and cartons across a rocky footpath at the national border gate of Coc Nam, between Pingxiang and Lang Son) to larger scale crossings via commercial trucks over roads and bridges at international border gates.

**Figure 4: Diagram of Cross-Border Economic Cooperation Zone**



Efforts are now underway to modernize China-Vietnam cross-border trade and encourage local economic development at the borders via the construction of CBEZ at two major border crossings. Both China and Vietnam envision modern border crossings with customs, inspection, and immigration services, linked to markets through modern highways, rail, power, and telecommunications infrastructure (Figure 4). Both also envision the creation of commercial zones at or near these border crossings to concentrate the provision of trade facilitation services (e.g., warehouses, financial services, logistics services, and even travel and entertainment accommodations for business people). Over the medium- to long-term, industrial processing zones are also envisioned within the CBEZ.<sup>11</sup> In its fullest development, therefore, the CBEZ may encompass a bundling of trade facilitation services and industrial activity, depicted above.

<sup>11</sup> The largest international example of a cross-border economic cooperation and development zone is the 2,000-mile (3,100-kilometer) U.S.-Mexico border, one of the most active borders in the world. In 2006 (through November), \$250 billion worth of trade (imports plus exports) was transacted (compared with \$400 billion across the U.S.-Canada border) (Source: USA Trade

Investments in infrastructure for these CBEZ are presently underway at the border towns of 1) Hekou (CN) in Yunnan Province and Lao Cai (Laojie) Province (VN) (Figure 2) and 2) the Youyiguan port that links the nearby towns of Pingxiang (CN) in Guangxi and Dong Dang in Lang Son (Liangshang) Province (VN) (Figure 3).<sup>12</sup> Cooperation and joint planning by Vietnamese and Chinese authorities at local government levels (i.e. Honghe Hani and Yi Autonomous Prefecture in Yunnan Province with Lao Cai Province and Chongzuo City in Guangxi with Lang Son Province) is active and ongoing.

While the two CBEZ share certain characteristics, they are distinct in several ways:

- **Geography of Border Crossings:** Hekou-Lao Cai is referred to locally as “one city in two countries.” The two urban areas are geographically contiguous, separated only by the Red River. This facilitates interaction of people and businesses at the border. On the other hand, the border crossing of Youyiguan (Friendship Port) (gate (3) on Figure 3) is more geographically distanced from the nearest towns of Pingxiang and Dong Dan, separated by mountains and 10-15 kilometers each to the border. Traditional trade, by truck and on foot, has long passed via mountain roads through gates (1) and (2) on Figure 3.
- **Status of Border and Transport Infrastructure Development and Management:** At Youyiguan, modern border crossing facilities – one for international trucks, the other for pedestrians<sup>13</sup> – opened in late October 2006 (gate 3 on Figure 3). A modern highway connects Nanning with the border. It is expected that both countries will jointly administer border formalities in the same facilities. At Hekou-Lao Cai, footings for a new, wide bridge to connect China and Vietnam have just been dug, and highway construction is underway. A narrower bridge already connects the two towns, allowing trucks and non-mechanized transport to cross it; however, the customs, inspection, and immigration facilities are managed separately and not yet using electronic facilitation.
- **Status of Cross-Border Economic Zone Infrastructure Development and Management:** Clearing for the 10 km<sup>2</sup> CBEZ (approximately 5 km<sup>2</sup> on each side) at Hekou-Lao Cai has already begun. A common vision with detailed layouts and proposed management rules have been developed by the two provinces (Figure 2). In Pingxiang-Dong Dang, a 17 km<sup>2</sup> space (approximately 8.5 km<sup>2</sup> on each side) is under discussion, extending beyond the Youyiguan crossing. However, detailed layouts and jointly defined management plans do not yet exist. A rough drawing of the Lang Son area was provided by local Vietnamese authorities (Figure 3).

Much is still unknown from a policy perspective about how these CBEZ, especially the industrial processing areas within them, will operate. Terms such as “free trade zone” and “special economic zone” are used by local policymakers to describe the environment envisioned for the CBEZ industrial processing areas. However, China’s WTO Accession Protocol promises that the two most sacrosanct principles of international trade law, i.e. ‘most-favored nation’ and ‘national treatment,’ will apply “throughout China’s customs territory including *border trade regions, minority autonomous regions, SEZs, open coastal cities, economic and technical development zones, and other special economic areas*”

---

Online). The largest single crossing point between the two countries is in Laredo, Texas, where approximately one-quarter of the value of trade crossed in 2006. Mexico has had over forty years of experience with the promotion of trade-related economic development along its northern border via the creation of “maquiladoras” or export processing operations. Notably, policies that originally promoted location-specific investments eventually evolved into duty treatment with national application. For summaries of this experience, see Staci Warden, “Assessing Export Platforms: The Case of the Maquiladora Sector in Mexico,” CAER II Discussion Paper No. 78 (Cambridge, MA: Harvard Institute for International Development, 2000; available at [http://pdf.usaid.gov/pdf\\_docs/PNACK686.pdf](http://pdf.usaid.gov/pdf_docs/PNACK686.pdf)).

<sup>12</sup> The two Vietnamese provinces of Lao Cai and Lang Son are referred to in China as Laojie and Liangshang, respectively.

<sup>13</sup> Though the promotion of cross-border tourism is a stated goal, two key constraints exist: passenger vehicles are currently not allowed, nor can visas be procured at the border.

where preferential tax, tariff, and regulatory measures are prevalent.<sup>14</sup> China's obligations are noted not only in the accession protocol but also in the Working Party's final report, which has been given a legal and enforceable status in the protocol. Thus the concept of tariff-free areas can only apply to the entire country and not to special economic areas at the border or otherwise.<sup>15,16</sup> China also agreed to fully implement the WTO Agreement on Subsidies and Countervailing Measures (SCM), including the elimination of all export subsidies.<sup>17</sup> Careful legal analysis will be required to ensure that policy treatment of the CBEZ is consistent with the two countries' international commitments.

Cross-border economic zones could still avail of specific subsidies for production as long as they do not cause or threaten to cause "material injury" or "serious prejudice" to a trading partner. In practice, this type of subsidy can be continued until a trading partner comes forward with a complaint.<sup>18</sup> Elsewhere, countries can also retain the policy option of affirmative action to meet social objectives, such as discrimination in favor of disadvantaged, ethnic groups.<sup>19</sup>

A full inventory of policy issues to be considered is essential. Full implications and practicality of these possibly valid applications from international trade law need to be more fully researched. Additional policy questions that might be considered include: Will land be made available by the government for industrial development? Will preferential fiscal, tariff, other trade, or credit policies to benefit enterprises that invest in the CBEZ be made available? If the CBEZ are established as export processing zones, what kind of bonding system will be set up to prevent leakage, either of inputs imported duty-free into the CBEZ or of goods produced for export? Will labor be allowed to enter and exit the CBEZ freely? Will tourists be allowed to enter and exit the CBEZ freely? Will crossing the border beyond the CBEZ into national territory be allowed (even facilitated) for labor and tourists?

Working groups to consider policy treatment of the CBEZ should be comprised of local Chinese and Vietnamese government officials and national Ministry of Commerce representatives. Representatives

---

<sup>14</sup> WTO, "Report of the Working Party on the Accession of China," WT/ACC/CHN/49, (Geneva, 2001), p. 12 (*italics added*).

<sup>15</sup> Special economic zones (SEZ) were first created in China in 1980 in Shenzhen, Shantou, Zhuhai, and Xiamen (followed by a fifth, in Hainan, in 1988). The SEZs were developed to pilot new economic reform policies, attract foreign investment (especially in modern, technology-intensive industries previously unknown in China), earn foreign exchange, and strengthen economic links with neighboring Hong Kong, Macau, and Taiwan. After initial success in these five zones, the experiment was expanded in 1984 to fourteen additional coastal cities, which established special economic districts offering tax breaks and other favorable treatment to foreign investors.

<sup>16</sup> In its own accession commitments, Vietnam – with 124 industrial and export processing zones as of the end of July 2005 – stated that it was "trying to limit the establishment of new [export processing and industrial] zones to zones for regional development and hunger and poverty eradication in socio-economic disadvantaged areas." WTO, "Report of the Working Party on the Accession of Viet Nam," WT/ACC/VNM/48 (Geneva, 2006), p. 86.

<sup>17</sup> Remission or drawback of import charges on *imported inputs consumed* in the production of the exported product is not considered an export subsidy and is permitted (item "i" in annex 1 to the Agreement on SCM). For details, see Bhagirath Lal Das, *The WTO: A Guide to the Framework for International Trade* (London: Zed Books, 2000).

<sup>18</sup> Article III.8 (b) of the GATT 1994 exempts the domestic subsidy from the discipline of national treatment. But, at the same time, limitation has been imposed in Article XIX of the GATT 1994 and the SCM Agreement, making the specific subsidy "actionable." See Das (2000), pp. 165-170.

<sup>19</sup> As when undertaking commitments on trade in services or the liberalization of investment related to Mode 3 of the General Agreement on Trade in Services. Similarly, the GATT Article XXIV: 3(a) supports "advantages accorded to adjacent countries to facilitate frontier traffic." GATS permits conditions and qualifications regarding *national treatment* in Article XVII; it permits limitations and conditions on *market access* in Article XVI. Both, however, should be introduced right at the time of taking the sectoral commitment and inscribed in the country's schedule. As an example, during WTO negotiations on financial services in 1998, Malaysia resisted, despite U.S. opposition, requests for commitments that it deemed would undermine its national policy of favoring Bumiputra enterprises. More recently, the Thai-New Zealand FTA allowed measures to treat New Zealand's indigenous Maori people favorably; see Murray Gibbs and Swarnim Waglé, *The Great Maze: Regional and Bilateral Free Trade Agreements in Asia* (Colombo: UNDP Regional Center, 2005).

from other national policy-making organizations (e.g., State Council, National Development and Reform Commission, Ministry of Finance, Central Development Bank, Ministry of Land and Resources, Ministry of Foreign Affairs) may also be invited on an occasional basis to inform of their organizations' views on border development.

#### **1.4 Enhancing Successful Cross-Border Economic Cooperation Through Business Outreach and Fostering of Economic Clusters**

In addition to settling CBEZ-related policy issues, there is a need to understand the likely social and economic impacts of cross-border trade on local and regional product, services, labor, and credit markets. Current trade and investment flows, incentives faced by individual enterprises and networks of individuals and enterprises (referred to as "clusters" in current business literature<sup>20</sup>), and prospects for gains from trade integration in Yunnan-Lao Cai and Guangxi-Lang Son are not well understood. As China evolves from an economy that directs investment and local development through the creation of special economic zones to one in which investment and development are shaped by market forces, it is crucial to understand the market logic that may or may not encourage enterprises to invest in manufacturing, processing, and service industries directly at and beyond the border.

From team observations made during the project formulation mission, it appears that consumer goods (foods, garments, consumer electronics) flow largely north-to-south, while Vietnam exports raw materials (e.g., natural rubber, iron ore, phosphates) to China for processing, as well as some foods. In return, semi-processed goods (e.g., steel products and fertilizers) are exported from China to Vietnam. As a landlocked province, Yunnan has a strong interest in creating a viable corridor to Haiphong as the most direct route for exporting its goods to world markets. Guangxi, on the other hand, with access to seaports on the coast does not need to ship goods to Southeast Asia or world markets via Haiphong.

FTAs set in motion a number of changes that have broader and deeper ramifications for member countries' economies, with effects at the national, cluster, producer, labor market, worker, and consumer levels.<sup>21</sup> Gender-specific variations in impact can be observed, if cross-border trade favors or disfavors one gender over the other with respect to employment or training opportunities. Therefore, the gender issue is to be significantly emphasized in project implementation. Integration of China's and Vietnam's economies will have repercussions on agriculture, industries, and service sectors in both countries not only at the border, but in a more diffused way throughout the adjoining provinces and perhaps even more extensively into the national economies.

Analysis of actual and anticipated cross-border exchanges, deeper understanding of clusters and the key actors involved (enterprise leaders and business associations), and consideration of appropriate policies to enhance the success of the CBEZs will help to insure that the zones are as encouraging of new business activity as possible.

This can be done in several ways.<sup>22</sup> Baseline data can be collected on production, trade, and investment flows, as well as tariffs and non-tariff trade requirements, and communicated via a project website. Rapid appraisal of a select number of key sectors would provide case studies of how Yunnan- and Guangxi-based enterprises view their markets at home and abroad. Assessments of changing workforce requirements for skilled, semi-skilled, and unskilled labor helps to inform about labor market changes and

---

<sup>20</sup> See "Fostering the Emergence of Economic Clusters," a background paper prepared by Dr. Li Zhineng, Development Research Center, State Council.

<sup>21</sup> See Lynn Salinger, Bruce Bolnick, Erin Endean, and Matthew Reisman, "Developing Country Labor Market Adjustments to Trade Reform: An Overview and Resource Guide," prepared for the U.S. Agency for International Development (Arlington, VA: Nathan Associates Inc., 2006). <http://www.nathaninc.com/publications/index.asp?bid=751422>

<sup>22</sup> See "Enhancing Successful Cross-Border Economic Cooperation Through Business Outreach," a background paper prepared by Lynn Salinger, Associates for International Resources and Development, Cambridge, Massachusetts.

also to provide information for education and training institutions to update their offerings. Economic development initiatives can promote collaboration among public and private partners to address issues such as the local business environment, cluster-related education and training opportunities, the encouragement of research and innovation, and the connectivity of local business, education, and research leaders with international counterparts. One way to do the latter is through the creation of advisory boards that bring business leaders together with government to provide feedback regarding the elaboration of CBEZ design and policies.

## **Part 2. Cross-Border Economic Cooperation and the Role of UNDP**

UNDP/China's support for cross-border economic cooperation (CBEC) initiatives is firmly rooted in China's development vision and its own core values expressed in the Millennium Development goals.

China's commitment to a *Xiaokang* society provides the overarching conceptual framework for the 2005 United Nations Development Assistance Framework (UNDAF). During the 11<sup>th</sup> Five-Year Plan (2006-2010) China's leadership is committed to extending the benefits of growth to rural areas, across regions, and westward away from the coast. At the same time, China also remains firmly committed to economic reform and external liberalization.<sup>23</sup> External liberalization and cross-border economic cooperation are key drivers of the *Xiaokang* vision, spreading the benefits of economic growth beyond China's east coast.

This vision corresponds to United Nations Millennium Declaration goals and the international cooperation component (Outcome 5) of UNDP's China Country Program for 2006-2010. The UNDP's China Country Program supports a) the design of policies and programs that balance development and operationalize *Xiaokang*; b) monitoring of emerging challenges within society, with greater focus on gender disparities and human vulnerabilities; c) further integration of China with the world through partnerships with neighboring countries; d) scaling up of South-South links; and e) balance of domestic development with opening up to the world. UNDP/China's technical and economic cooperation program already includes regional cooperation initiatives in northeast Asia (the Tumen Program, involving cooperation among China, the Democratic People's Republic of Korea, Mongolia, the Republic of Korea, and the Russian Federation) and in the west (the Silk Road Regional Program, involving China, Kazakhstan, Uzbekistan, Tajikistan, and Kyrgyzstan). Around the world, UNDP supports cross-border cooperation programs in Central Europe, Africa, Central Asia, and Southeast Asia.

UNDP's support for CBEC stems not only from economic growth and regional development objectives, but also encompasses the organization's concerns for the poverty, rule of law, human rights, civil society development, and gender dimensions associated with cross-border trade. Such an approach helps to ensure that the needs of both those who potentially gain from cross-border trade as well as those who are potentially more vulnerable to increased integration will be addressed. Yunnan and Guangxi, both characterized by human development indicators that are lower than the national average and high percentages of ethnic minority populations, are of interest, therefore, not only because of their proximity to Vietnam, but because of the challenges they represent from a distributional perspective.

The CBEC Project in China's southwest also represents an opportunity to apply lessons learned from earlier project work supported by UNDP in China. From 2001 through 2004, UNDP/China supported economic cooperation in the Lancang-Mekong sub-region (CPR/01/605/A). The nearly \$1 million project contributed to increased capacity of the Yunnan provincial government to engage in strategic regional planning. Through the Lancang-Mekong Sub-regional Economic Cooperation and Trade Development Center (LMEC), established in the Yunnan Department of Commerce, economic strategic planning, training, study tours, and research were carried out by the center with national and international specialists, investment and cooperation project proposals were prepared, and several key economic

---

<sup>23</sup> As reiterated in December 2006 by Vice Premier Wu in her keynote speech to the first China-U.S. Strategic Economic Dialogue.; see *China Daily*, December 14, 2006.

cooperation projects were launched. Since 2004, the LMEC has continued to operate and function as a clearinghouse for CBEZ dialogue, planning, and investment between and by Honghe Prefecture and Lao Cai Province officials.

### **Part 3. Project Strategy**

#### **3.1 Overall Project Objectives, Outcomes, and Beneficiaries**

Through support for two cross-border economic cooperation zones (CBEZ) in Yunnan Province and Guangxi Zhuang Autonomous Region on the China-Vietnam border, the CBEZ project will increase cross-border economic cooperation between China and Vietnam and thereby facilitate implementation of the China-ASEAN FTA.

In the short term, i.e. over the three-year life of the project, the project will

- enhance understanding of cross-border economic cooperation zones (design, structure, policy framework, operational rules) and the potential social risks that may accompany them,
- participate in CBEZ planning, policymaking, and implementation at multiple levels of government (both within China and between China and Vietnam), encouraging collaboration with non-governmental sectors to provide input and give feedback, and
- serve as a demonstration model for CBEC in other cross-border contexts around China.

Immediate beneficiaries of the CBEZ project will be government and non-government representatives from the CBEZ as well as observers from beyond the immediate China-Vietnam context who participate in capacity-building initiatives. Beneficiaries must also include women, minorities, and other potentially vulnerable social groups whose rights will be better protected through increased awareness and strategic planning to protect against the risks that openness can create.

In the medium term, these initiatives may encourage the growth of institutional networks, such as enterprises and business associations, civil society groups, and education and training institutions to flourish across the China-Vietnam border.

In the longer term, the project will contribute to increased economic growth, new livelihood opportunities for local residents, cross-border social protection, and poverty reduction.<sup>24</sup> Over the longer term, therefore, increased cross-border economic cooperation is expected to bring benefits for a variety of actors: consumers in both countries, who will enjoy greater availability of a wider range of goods at lower cost; businesses in both countries, who may benefit from lower costs of labor,<sup>25</sup> reduced costs and greater availability of raw materials and inputs, and reduced costs of doing international trade and business; workers in both countries, both skilled and unskilled, who may benefit from job creation via increased trade activity, industrial investments, and related services provision at the border;<sup>26</sup> and traders, especially those from Yunnan Province, who will benefit from enhanced access to global markets through Vietnam.

#### **3.2 Expected Outputs**

In order to achieve the intended project outcome of increased regional integration, three major outputs will be achieved:

---

<sup>24</sup> See the Asian Development Bank, *Regional Cooperation and Integration Strategy* (Manila, July 2006), p. 8 for specific linkages between increased regional cooperation and economic integration, on the one hand, and poverty reduction.

<sup>25</sup> In China, it is expected that labor costs in Yunnan and Guangxi are lower than on the coast, where wage pressures are increasing. Wage costs may also be lower in Vietnam than in Yunnan and Guangxi. The magnitudes of these relative labor costs should be explored during the project.

<sup>26</sup> Sector-specific research on key value-chains is needed to better predict the investment and jobs creation impacts of the CBEZ.



- *Opportunities for learning will be provided* by enhancing stakeholders' understanding of what a CBEZ can be, how it will function, and how it will affect the livelihoods of people and the prospects of enterprises and clusters who work with it;
- *Planning for and implementation of CBEZ will be supported, with public-public and public-private partnerships established* to advise the CBEZ policymaking process; and
- *Continuous learning practices will be adopted* to harvest lessons from the CBEZ project experience with China and Vietnam and apply them to cross-border activities between China and other ASEAN neighbors, as well as partners to the west and north.

Each is further described below; see Table 1 "Results and Resources Framework Matrix" for details about indicative activities to be undertaken in each of the three output areas. For all three outputs, management structures will be required that can orchestrate activities efficiently, communicate CBEZ progress effectively, and recruit additional expertise in, as necessary, for technical support.

**3.2.1 Output One: Capacities of a core group of government officials and non-government organization representatives to understand and manage cross-border openness strengthened.**

**Indicators:**

- Two training needs surveys carried out, at beginning of the project and at mid-point during the three years, to assess interests and priorities of potential trainees in government and outside of government.
- Training plan developed to deliver a minimum of three training workshops per year.
- Minimum of thirty participants with at least 30% of women and 30% of non government representatives per training workshop will benefit from enhanced understanding of CBEZ policy and management options.

A series of training courses will be offered to provincial and local government officials and leaders of non-governmental organizations (e.g., representatives from the China Enterprise Foundation (public enterprises), the Guangcai Program (private enterprises), research organizations, education and training institutions, and civil society organizations). Tentative topic coverage is proposed in six priority areas:

- (1) *Trade and investment policy regimes*: Review of China's and Vietnam's multilateral, regional, and bilateral trade and investment policy commitments; elaboration of trade and investment policy options for the China-Vietnam CBEZ (and possibly a China-Vietnam Early Harvest Program, within the context of the China-ASEAN FTA) in light of these commitments.
- (2) *Best international practices with regard to CBEZ*: Compare and contrast China's CBEZ plans with international experiences to promote investment (domestic and foreign) and industrial development (special economic zones, bonded warehouses, export promotion zones, industrial parks, duty drawback regimes)<sup>27</sup> and with economic and social dimensions of international border-cum-industrial development experiences (for instance, the *maquiladora* experience along the U.S.-Mexico border, China's own "border development" experiences between the Guangdong SEZs of Shenzhen and Zhuhai and the Special Administrative Regions, Hong Kong and Macao,

---

<sup>27</sup> Review and comparison of experiences can be found in the following papers: Chang-Tong Wu, "China's Special Economic Zones: Five Years After – An Introduction," *Asian Journal of Public Administration*; Nirupam Bajpai, Tianlun Jian, and Jeffrey D. Sachs, "Economic Reforms in China and India: Selected Issues in Industrial Policy," Development Discussion Paper No. 580 (Cambridge, MA: Harvard Institute for International Development, April 1997); Steven Radelet, "Manufactured Exports, Export Platforms, and Economic Growth," CAER II Discussion Paper No. 43 (Cambridge, MA: Harvard Institute for International Development, 1999; available at [http://pdf.usaid.gov/pdf\\_docs/PNACH178.pdf](http://pdf.usaid.gov/pdf_docs/PNACH178.pdf)); Tatsuyuki Ota, "The Role of Special Economic Zones in China's Economic Development as Compared with Asian Export Processing Zones: 1979-1995," *Asia in Extensio* (March 2003).

and an example drawn from elsewhere in Asia outside of China, such as the planned border EPZ investments in Cambodia along the Thai and Vietnam borders).

- (3) *Impacts of CBEZ on industries, value-chains, and clusters:* The design and operation of CBEZ should take into account current and foreseeable levels of cross-border economic activity. Information about current trade and investment flows, by industry, will be gathered and analyzed to understand what industries and types of enterprises are involved in cross-border trade, how the value-chains and clusters are organized, what economic incentives would lead to investment by them in the CBEZ, and likely impacts of increased cross-border integration.<sup>28</sup> Consideration of various market forces that decide location of investments, such as the proximity to trade centers, coast, transport routes, sources of raw materials, low-cost sources of labor, and consumer markets.
- (4) *Regular assessment on social economic issues:* the project should provide an opportunity to strengthen the capacities of the stakeholders of the project especially on issues related to gender, HIV/AIDS, ethnic minorities, so as to ensure that the overall socio-economic impact of the project and its results are well foreseen and understood, anticipated and incorporated in the implementation plans of the project.
- (5) *Gender issues:* 'gender perspective' will be included at every step and every activity of the project implementation. Gender session is a crucial element for all trainings and all PMUs and other relevant staff will have opportunities to undertake gender sensitization training. Specific activities and events focusing on women and gender issues could be organized. Participation of women-leaders, women-entrepreneurs and women from grass roots organizations should be fostered and their concerns mainstreamed in decisions affecting them.
- (6) *Cross-border travel and tourism-related partnerships:* One service sector of particular interest, the travel and tourism sector offers many dimensions (e.g., individual or group tourism oriented to business, culture, food, ecology and nature, fitness and sports, health and personal care, etc.) with significant opportunities to generate investment, employment, and flows of people across borders, and best-practice examples from elsewhere in China and the region.
- (7) *Vulnerabilities accompanying openness:* Orientation about the social risks that may increase with increased cross-border flows (e.g., drugs, human trafficking, sex trade, HIV/AIDS, exploitative labor practices, illegal migration, criminal behavior) and the strategies that are used elsewhere in Asia and globally to mitigate these risks.
- (8) *Management and presentation skills:* Possible topics include alternative techniques for knowledge management, continuous learning, public speaking, and information delivery.

Because of the highly technical nature of several of the capacity-building topics, a Training Advisor specialized in trade and industrial development will be recruited to work with the PMUs. His or her responsibilities will be to assist the PMUs in the design and implementation of a training needs survey questionnaire, the preparation of a draft training plan with schedule, the recruitment of resource persons to lead the courses (the Training Advisor him/herself may also co-teach one or more of the courses), and the preparation of draft terms of reference that describe what each course is to include and how the

---

<sup>28</sup> Assessments of opportunities and challenges facing specific industries related to trade liberalization are typically prepared through a combination of data analysis and structured interviews with industry and labor representatives. See, for example, the reviews of potential economy-wide and sectoral effects of FTAs conducted for the U.S. Congress by the U.S. International Trade Commission ([www.usitc.gov](http://www.usitc.gov)). See also P. Abbott, A. Touhami, and L. Salinger, *Future Outlook for Morocco-U.S. Trade and Investment Relations*, prepared for the U.S. Embassy in Morocco and the Moroccan Ministry of Finance and Economic Affairs (Cambridge, MA: Associates for International Resources and Development, 2000) and S. Belghazi, D. Plunkett, and L. Salinger, *Opportunities for Enhancement of U.S.-Morocco Trade and Investment*, prepared for the Moroccan Directorate of Foreign Trade (Cambridge, MA: Associates for International Resources and Development, 2002), both available at [www.aird.com](http://www.aird.com).

material should be presented. These terms of reference will be finalized after discussion with the course leaders.

Training courses may use a number of different formats. For some topics, material may be presented in a one-day forum. For other topics, it may be desirable to bring trainees together for initial presentations on Day 1, assign cases or skills-building exercises to be worked on by participants individually or in small groups during the afternoon and evening, and return to a group forum to process those exercises on Day 2. For yet other topics, it may be preferable to convene a group to introduce topics, decide on a common analytic framework, and highlight areas where more information may be required. This would be followed by the conduct of selected rapid assessments in the field, contracted by the PMUs to collect more in-depth information and present some preliminary analysis. Insights from the assessments would be presented at a subsequent workshop to highlight issues and present strategic action options. This approach would be especially appropriate with regard to Topic 3 above, about which little information currently exists.

Given the distinctly different levels of progress and coordination between Yunnan and Guangxi, it is expected that some of the training needs will differ in each corridor. Where topics are new to both, the provinces will collaborate on joint training exercises in order to learn together and from each other. Learning missions will also be organized for representatives from both to observe management techniques and gain policy insights from other border crossings in China, ASEAN, or (if justified) outside of Asia. Observers from other countries (ASEAN member states, non-ASEAN neighboring countries) may also be invited to participate in these learning initiatives.

***3.2.2 Output Two: Participation in planning for and implementation of CBEZ supported, with collaborative mechanisms to advise the CBEZ policymaking process both among government officials at various levels and with public-private partnerships created.***

**Indicators:**

- Creation of Project Management Units to manage day-to-day project activities.
- Participation by project team in CBEZ planning, policymaking, and implementation meetings at local, regional, and national government levels to ensure linkage between objectives articulated during capacity-building workshops and actual CBEZ policy design and implementation.
- Creation of CBEZ Administrative Committees to coordinate policy planning between Chinese and Vietnamese governments; regular meetings to be held quarterly.
- Creation of Steering Committee to oversee policy coordination between national and provincial levels, across provinces, and with Vietnamese counterparts; regular meetings to be held semi-annually.
- Two summits of provincial leaders to be organized, one to be held in Yunnan, the other in Guangxi, in years 2 and 3 of the project.
- Creation of Public-Private Advisory Boards to bring together government and a minimum of four non-government representatives to advise on CBEZ-related issues of concern; meetings to be held semi-annually.
- A minimum of ten invitees from other neighboring countries will participate as observers, on an intermittent basis, in meetings, training workshops, and summits during the course of the project.
- Websites describing the two CBEZ, operations, policies, and related cross-border trade and investment opportunities to be online by year 2 of the project.
- CBEZ-related stories and communication materials will be produced and appear in other media outlets.

The process of establishing well-functioning CBEZ is management-intensive and requires active participation by coordinators and government officials in meetings and travel. Administrative mechanisms must be established to coordinate at a number of government levels: within Yunnan and Guangxi, respectively; between Honghe Prefecture and Chongzuo City and their respective Vietnamese counterparts, Lao Cai and Lang Son Provinces; with policy makers in Beijing; and across the two CBEZ Administrative Committees. Part 4 below, regarding management arrangements, explains the interlocking sets of coordination mechanisms that are envisioned.

Success of the CBEZ also depends on insights gained from representatives of China's and Vietnam's enterprise sector (such as China's Enterprise Federation, for public enterprises, and the Guangcai Program, for private enterprises), research and education leaders, and civil society groups (e.g., relevant organizations that represent the interests of local groups, such as women, rural communities, etc.). These non-governmental advisors will participate in the capacity-building activities described under Output One and will help to identify the topics, clusters, and policy issues of particular interest within each workshop topic area. They will also advise the CBEZ Administrative Committees on operational issues either that can be foreseen or that come up during the course of the project with implementation of the CBEZ.

These initiatives will be implemented involving all local, national and international UNDP partners, the China International Centre for Economic and Technical Exchanges, the Ministry of Commerce, and the provincial governments of Yunnan and Guangxi. Other stakeholders, such as the China Development Bank, Guangcai Programme and the China Enterprise Confederation should be invited to participate in the design and implementation of the CBEZ. The CBEZ project will further China-ASEAN integration through enhanced understanding of cross-border economic cooperation zones, participation in the planning for and implementation of CBEZ with support for collaborative structures to advise policymaking, and application of continuous learning practices to ensure that the lessons gained here will serve as a model for China's cross-border economic cooperation with other neighbors.

It is also emphasized to build up synergy between CBEZ and other UNDP projects in project-related provinces, including UNDP Customs Administration Project, various Poverty Reduction Projects, Environmental protection and natural resources management projects as well as HIV/AIDS projects, to extensively strengthen the development contents.

In addition to managing relationships, dissemination of information about the CBEZ will be crucial. Building an economic information database and disseminating information to potential corridor traders and investors will increase CBEZ visibility and build demand for services.

### ***3.2.3 Output Three: Continuous learning practices to harvest lessons from the CBEZ project and apply them to possible cross-border initiatives between China and other neighbors adopted.***

#### **Indicators:**

- Minimum of three case study papers analyzing three distinct opportunities and challenges faced by CBEZ project will be prepared by CICETE for dissemination by UNDP.

China's active engagement with other neighbors in ASEAN and south, central, and north Asia raises the importance of the China-Vietnam CBEZ project as a demonstration model for cross-border economic cooperation zones. The model of learning, policy collaboration, and public-private partnership developed here will be of great interest to other CBEC instances around China's borders.

This has several implications for CBEZ project activities. As already described above, training and collaboration will include observers from other cross-border trade partners. In order to ensure that experiences are transparent, recorded, and evaluated for possible applicability elsewhere, the CBEZ Implementing Partner, CICETE, will be an active partner with Yunnan and Guangxi PMU's. Policy implementation process challenges and opportunities to be monitored for applicability to other CBEZ situations might include:

- Designing the policy environment: Who or what national agencies are the best sources of information on national commitments to multilateral, regional, and bilateral trade partners, and how do these dictate feasible policy options at the CBEZ level?
- Engaging in national-provincial-local level policy coordination: What are the appropriate national-level offices in each country that need to be engaged on a regular versus intermittent basis, and what is the best approach to move CBEZ policy decisions forward?
- Engaging in China-Vietnam UNDP coordination: What are the best modalities for ensuring coordination between two bilateral missions?
- Coordination between PMUs: What is the best way for the Guangxi PMU to learn from Yunnan's prior experiences?
- Identifying and involving public and private enterprises and other non-governmental actors in an advisory capacity to the project: How can private partners be identified, what contributions are expected of them, what capacity-building do they need to recognize and articulate their interests regarding the CBEZs, in particular, and CBEC, more generally, and how to sustain their relationship with the CBEZ Advisory Committee?
- Identifying key industries and carrying out rapid assessment of issues involved in their participation with the CBEZ: What trade and investment data is available, what additional information about cross-border trade is useful and easily collected at the enterprise or industry association level for understanding the issues at stake in the CBEZ, what insights are revealed by rapid assessments?

Table 1: Risk Log

ID	Description	Category	Impact & Probability	Countermeasures / Management response	Owner	Author	Date Identified	Last Update	Status
01	New policy of Cross Border Economic cooperation	Political & Regulatory	CBEZ is a very new concept for the government. Since the policies on trade, investment and immigration should be approved by the central government, it is the most critical challenge for the project. However, many government agencies expressed interest on this innovated initiative. Probability (P) = 1-2	Creation of Project Management Units to manage day-to-day project activities. Participation by project team in CBEZ planning, policymaking, and implementation meetings at local, regional, and national government levels to ensure linkage between objectives articulated during capacity-building workshops and actual CBEZ policy design and implementation.	CICETE, UNDP China	CICETE	20 March, 2007	20 March, 2007	no change
02	Negative Social-economic impact	Strategic	Although the integration will benefit most of people, there are also risks of negatively affecting vulnerable groups. Special attention of the social-economic impact of the project on these groups should therefore be given. The gender dimension should be also emphasized in accordance with UN	Project evaluation mechanism will be considered, which include routine evaluation and regular assessment as well as training programs. Building up synergy between CBEZ and other UNDP projects in project-related provinces, including Customs Administration Project and Poverty Reduction	CICETE, UNDP China	CICETE, UNDP China	20 March, 2007	20 March, 2007	no change



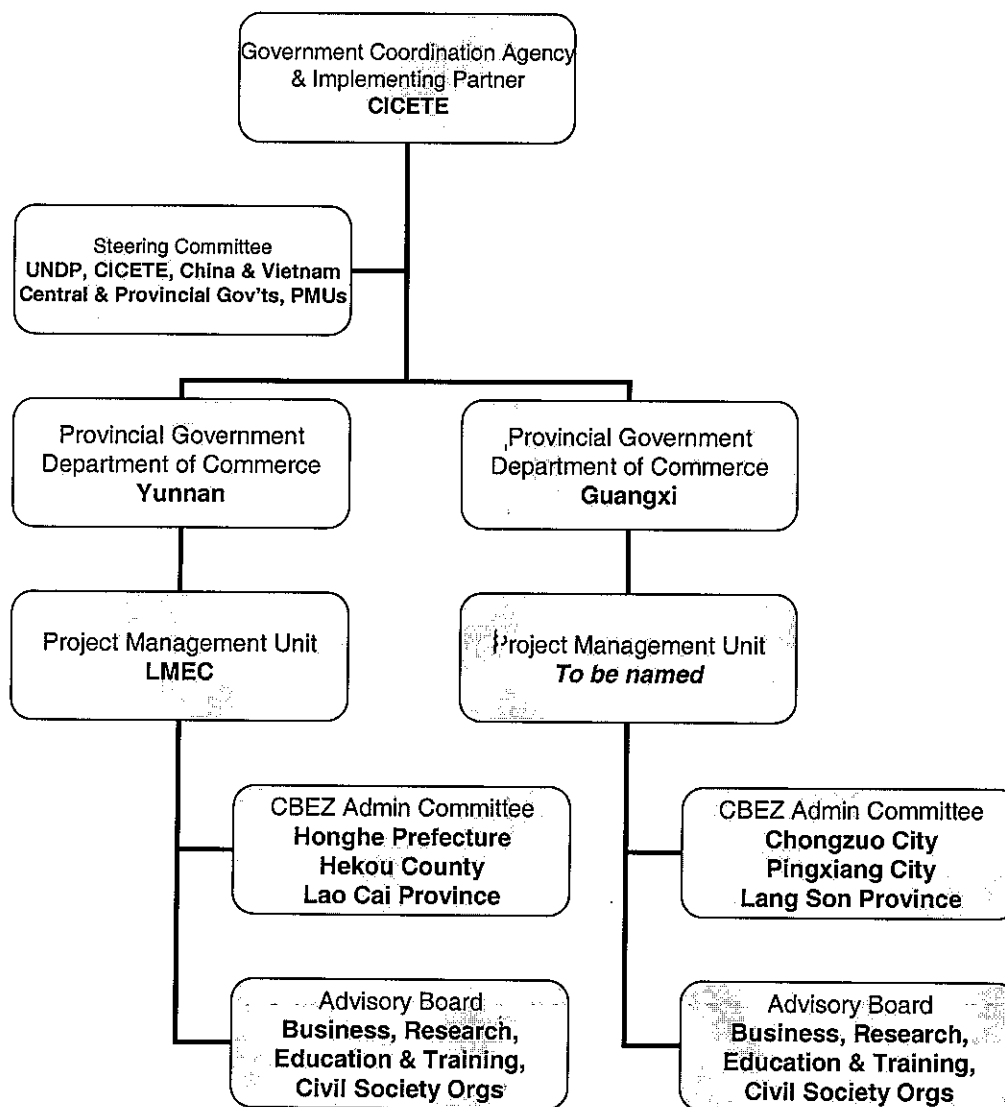
#### **Part 4. Management Arrangements**

Management of the CBEZ project will be comprised of a set of interlocking coordination mechanisms, outlined in Figure 5 and described below:

- The China International Center for Economic and Technical Exchanges (CICETE) will act as the **Government Coordinating Agency and Implementing Partner** for the CBEZ project. Partner agencies for the project include the Departments of Commerce of The People's Government of Guangxi Zhuang Autonomous Region and The People's Government of Yunnan Province.
- Under the aegis of an overall **Steering Committee**, policy coordination between local and national policy makers, the two provinces, and Chinese and Vietnamese authorities will be facilitated by CICETE to ensure political support for and policy consistency of proposed cross-border initiatives. The Steering Committee will be comprised of representatives from CICETE, UNDP, the central Chinese government (State Council, Ministry of Commerce, and possibly other trade-related organizations), provincial governments (e.g., governors' offices), Departments of Commerce from Yunnan and Guangxi, representatives from appropriate levels of the Vietnamese government (provincial and national) and local PMUs.
- **Project management units** (PMU) will exist within each of the provincial Departments of Commerce; in the case of Yunnan, the LMEC will act as the PMU in Kunming, and an additional, new project office will be established in Honghe Prefecture.
- PMUs will coordinate activities within each province via **CBEZ Administrative Committees**. The purpose of the Administrative Committees will be to provide a forum for discussing issues that may arise during the development and operation of the CBEZ. These will be established between Honghe Hani and Yi Autonomous Prefecture (Yunnan) and Lao Cai Province (Vietnam) and between Chongzuo City (Guangxi) and Lang Son Province (Vietnam).
- Public-private **Advisory Boards** will provide policymakers with input from representatives of business, research, education and training, and civil society organizations.



Figure 5: Project Organization Chart



## Part 5. Monitoring and Evaluation

The project will follow standard UNDP procedures for review, reporting, monitoring and evaluation. These will be guided by the annual work plans, the results and resources framework, as well as UNDAF and Country Program results matrix.

### *Annual Review*

Annual review for progress monitoring and planning will be completed at the end of each year to assess actual achievement of results against those projected, including technical and financial review. Annual reports will be prepared by the two secretariats and compiled into a single project report (with joint activities reported as one). This annual report will form the basis for a formal review of overall project results by the Steering Committee. Annual reports should be prepared by the project management units with the support of short-term external expertise if required.

### ***Periodic Reporting***

Quarterly reporting and review of progress shall be completed by the two secretariats to discuss progress, or unforeseen impediments to project implementation. These can also assist in the preparation of detailed work plan for the following year.

### ***Evaluation***

A mid-term programme review (in mid-2008) will be conducted by an external team to assess progress on outputs/outcomes and identify areas for strategic, budgetary, or programmatic adjustment if necessary. As discussed above, there shall be constant internal evaluation and oversight to improve performance continually. A terminal evaluation report shall also be prepared at the end of the project duration.

## **Part 6. Legal Context**

This document shall be the instrument referred to as such in Article 1 of the Standard Basic Assistance Agreement (SBAA) between the Government of the People's Republic of China and the United Nations Development Program, signed by the parties on 29 June 1979. The reference to "Implementing Partner" shall mean "Executing Agency" as used in the SBAA.

## Part 7. Results and Resources Framework

Table 2: Results and Resources Framework Matrix

Note: See Part 8. for budget details.

Intended Outcome as stated in the Country Results Framework:				Inputs (by Project Years)
10. Global partnerships promoted for effective results.				
<b>Outcome indicator as stated in the Country Program Results and Resources Framework, including baseline and target:</b>				
10.1 Public-private partnerships enhanced in South-South cooperation initiatives.				
10.2 China's cooperation with neighboring countries in Tumen area, Central Asia, and Mekong sub-region increased, especially in fields of trade, investment, tourism, and transport.				
<b>Applicable MYFF Service Line:</b> SL 1.4: Globalization benefiting the poor and SL 1.5 Private sector development				
<b>Partnership Strategy:</b> UNDP will assist the Government of the People's Republic of China to implement this project. The China International Centre for Economic and Technical Exchanges (CICETE) of the Ministry of Commerce, in close partnership with relevant stakeholders in Yunnan Province and Guangxi Zhuang Autonomous Region, will represent the Government in this project. Participation of counterpart agencies and stakeholders across the bordering Vietnamese provinces of Lao Cai (Laojie) and Lang Son (Liangshang) will be invited to engage meaningfully in relevant project activities.  Observers from other neighbors across China's borders in ASEAN and further to the west and north may be invited to workshops and summits to learn from the CBEZ Project experiences.				
<b>Project Title and ID:</b> Cross-Border Economic Cooperation Zones [CBEZ]				
Intended Outputs	Output Targets (years)	Indicative Activities		
1. Capacities of a core group of government officials and non-government organization representatives to understand and manage cross-border openness strengthened.	1.1 Training series launched in six priority areas for both provinces (2007-09)  (1) <i>Trade and investment policy regimes</i>  (2) <i>Best international practices with regard to CBEZ</i>  (3) <i>Impacts of CBEZ on industries, value-chains, and clusters</i>  (4) <i>Cross-border travel and tourism-related partnerships</i>  (5) <i>Vulnerabilities accompanying</i>	1.1.1 PMUs recruit external resource person to act as CBEZ Project Training Advisor. The CBEZ Project Training Advisor will assist the PMUs in the activities below, based on an expected level of effort of no more than 20 days per project year.  1.1.2 PMUs create list of training participants, drawn from provincial and local government offices, enterprise sector (e.g., China Enterprise Federation, Guangcai), research organizations, education and training institutions, and civil society organizations.  1.1.3 Training Advisor & PMUs design and distribute a training needs survey questionnaire, to be circulated to all on the training list at the beginning of the project and again at mid-point to solicit input regarding specific learning needs within each of the six areas and gauge demand for the topic. Participants also asked to suggest other topics that may be relevant to them.	1:1 Government-UNDP cost sharing  <u>PY 1:</u> US\$ 336,000 <u>PY 2:</u> US\$ 392,000 <u>PY 3:</u> US\$ 392,000	

	<p><i>openness</i></p> <p><b>(6) Management and presentation skills</b></p>	<p>1.1.4 Based on feedback from the Training Needs Survey, the Training Advisor prepares a draft Training Plan to propose formats and course coverage for each topic, and a training schedule.</p> <p>1.1.5 Two Resource Persons (one Chinese, one expatriate) identified for each of the six topics, their availability confirmed, and the Training Plan finalized.</p> <p>1.1.6 Terms of reference describing what each course is to include and workshop format drafted by the Training Advisor for each of the training courses and finalized with input provided by Resource Persons.</p> <p>1.1.7 Resource Persons contracted by the PMUs to prepare training course materials (5 days) and deliver training (additional day or more, depending on course format).</p> <p>1.1.8 Training events organized in conjunction with local education and training institutions where possible, with priority given to those with roles in fostering CBEZ (e.g., Honghe University in Mengzi, Yunnan). Memoranda of Understanding established with local academic/ institutes to host and manage aspects of training, including interpretation services.</p> <p>1.1.9 Participation of Vietnamese public and private representatives in relevant training facilitated with the assistance of UNDP/China and VNDP/Vietnam.</p> <p>1.1.10 For topic (3) on impacts of CBEZ on industries, value-chains, and clusters, interviews conducted by PMU and training course leaders with representatives of enterprises and civil society groups to assess a) most important present trade and investment activities that will use the CBEZ, b) current areas of advantage and disadvantage (e.g, cost, networking, value-chain integration) and how these will be affected by increased cross-border integration, c) possible effects of CBEZ on demand for labor, by skill level, and d) other possible effects of CBEZ on social and cultural dimensions of each zone. Insights will be used to guide CBEZ policymaking.</p> <p>1.1.10 At the conclusion of each training course, training materials edited into printed handbooks (in Chinese, Vietnamese, and English) for wider dissemination.</p> <p>1.2 Learning missions organized in-country and abroad (2007-08)</p> <p>1.2.1 One study trip organized for officials and non-government representatives within China to observe management techniques for cross-border flow of people and goods.</p> <p>1.2.2 Similar study trip organized within ASEAN, or if justified, outside of Asia.</p> <p>1.2.3 Each study trip will require careful preparation: an appropriate cross-border example must be identified, contacts with appropriate professionals</p>
--	---	--

<p><b>2. Participation in planning for and implementation of CBEZ supported, with collaborative mechanisms to advise the CBEZ policymaking process both among government officials and with public-private partnerships created.</b></p>	<p>developed according to the interests of the study team (e.g., CBEZ managers, trade and investment or local economic development promoters, SEZ or CBEZ policymakers, etc.), and travel logistics planned.</p>	<p>1:1 Government--UNDP cost sharing</p> <p><u>PY 1:</u> US\$ 504,000</p> <p><u>PY 2:</u> US\$ 588,000</p> <p><u>PY 3:</u> US\$ 588,000</p>
<p>2.1 CBEZ administrative structures formed (2007) that meet at regular intervals throughout the project (2007-2009).</p>	<p>2.1.1 Project Management Units (PMUs) established in Yunnan and Guangxi within the respective Departments of Commerce and entrusted to serve as Secretariats to the CBEZ Administrative Committees.</p> <p>2.1.2 PMUs constitute Honghe-Lao Cai and Chongzuo-Lang Son CBEZ Administrative Committees, comprised of government authorities and representatives of enterprise, research, education and training, and civil society organizations.</p> <p>2.1.3 PMUs formally inform and invite Vietnamese counterparts to be part of the CBEZ Administrative Committees.</p> <p>2.1.4 PMUs organize inception meeting to validate the CBEZ Administrative Committees and brief on expected project initiatives, followed by formal quarterly meetings.</p> <p>2.1.5 CICETE initiates contact with national- and provincial-level policymaking organizations in China and Vietnam to brief them on CBEZ Project and invite their participation in the CBEZ Project Steering Committee, along with representatives from CICETE, UNDP, and the PMUs.</p> <p>2.1.6 CICETE organizes inception meeting to validate the Steering Committee and brief on expected project initiatives, followed by formal semi-annual meetings.</p> <p>2.1.7 CICETE facilitates participation as Observers by representatives of neighboring country governments.</p>	
<p>2.2 Project team members participate in CBEZ planning, policymaking, and implementation to ensure linkage with objectives articulated in capacity-building workshops.</p>	<p>2.2.1 Facilitate at the outset a comprehensive inventory of policy issues to be considered in the planning for the CBEZ.</p> <p>2.2.2 Ensure linkage between ongoing CBEZ planning, policymaking, and implementation activities and insights gained from training workshops.</p>	
<p>2.3 CBEZ collaborative structures formed (2007) that meet at regular intervals throughout the project (2007-2009).</p>	<p>2.2.1 PMUs create list of organizations to participate in Public-Private Advisory Board, drawn from provincial and local government offices, enterprise sector (e.g., China Enterprise Federation, Guangcai), research organizations, education and training institutions, and civil society organizations.</p> <p>2.2.2 PMUs invite representatives of organizations to participate in CBEZ Advisory Boards.</p>	

	<p>2.2.3 CBEZ Advisory Boards to consider how the CBEZ are likely to affect their interests and constituencies, and advise CBEZ policymakers on strategic options.</p>
<p>2.4 Annual Provincial Summits commenced (2008-09).</p>	<p>2.3.1 Steering Committee briefs provincial leadership on the context and objectives of the CBEZ Project and secures commitment at provincial level to host Summits.</p> <p>2.3.2 PMUs help to organize Summit Meetings among four Provincial Heads in China and Vietnam (one to be held in 2008, the second to be held in 2009).</p> <p>2.3.3 Provincial heads from neighboring ASEAN member states invited to Annual Summits as Observers.</p>
<p>2.5 Information on CBEZ, policy and trade and investment opportunities disseminated.</p>	<p>2.4.1 PMUs prepare a publicity strategy for widest possible dissemination of information about CBEZ. Print, radio, television, and electronic outlets should all be utilized.</p> <p>2.4.2 PMUs build database on evolution of trade and investment flows between China and Vietnam since 2000. Trade data should be at the 4-digit level, if possible. Investment flows should also be detailed by industry, source, and other meaningful distinctions where possible.</p> <p>2.4.3 PMUs prepare websites for CBEZ Project, with links to appropriate national and provincial websites. Purpose of website is to inform potential traders and investors of the CBEZ, policies governing their operations, and attract investment into the CBEZ.</p> <p>2.4.4 PMUs prepare other materials for dissemination (e.g., press releases, brochures, interviews, exhibition display materials).</p> <p>2.4.5 Toward end of the project PMUs, with assistance from Advisory Board members, showcase opportunities for cross-border trade and investment by exhibiting at a provincial trade fair in Kunming or Nanning.</p>

<p><b>3. Continuous learning practices to harvest lessons from the CBEZ project and apply them to possible cross-border initiatives between China and other neighbors adopted.</b></p>	<p>3.1 Transparency of CBEZ capacity-building and collaboration experiences stressed, recorded, and evaluated for possible applicability elsewhere.</p> <p>3.2 Insights gained from China-Vietnam CBEZ Project shared with nascent UNDP Community of Practice on cross-border cooperation.</p>	<p>3.1.1 Regular field visits by CICETE representatives.</p> <p>3.1.2 Quarterly reports to be filed by PMUs and CICETE on policy implementation process issues, as outlined above.</p> <p>3.2.1 UNDP/China initiates Community of Practice with UNDP/Asia-Pacific or UNDP on cross-border cooperation policies, programs, and processes.</p> <p>3.2.2 In project year 3, CICETE and UNDP/China will write up case study of the process of implementing CBEZ on the China-Vietnam border.</p>	<p>1:1 Government--UNDP cost sharing</p> <p>PY 1: US\$ ---</p> <p>PY 2: US\$ 100,000</p> <p>PY 3: US\$ 100,000</p>
--	--	--	--

**Part 8. Tentative Budget 2007-2009**

Summary figures are presented below in Table , while more detail may be provided in Table 4 by the PMUs as annual workplans are established.



**Table 3: Tentative Budget, Summary**

(in U.S. Dollars)

Outputs	Project Year 1			Project Year 2			Project Year 3			Total			
	Yunnan	Guangxi	CICETE	Yunnan	Guangxi	CICETE	Yunnan	Guangxi	CICETE	Yunnan	Guangxi	CICETE	Total
1. Capacity-Building	168,000	168,000		196,000	196,000		196,000	196,000		560,000	560,000		1,120,000
2. Planning, Implementation, & Collaboration	336,000	168,000		392,000	196,000		392,000	196,000		560,000	560,000		1,680,000
3. Continuous Learning									100,000			100,000	200,000
<b>Total</b>	<b>504,000</b>	<b>336,000</b>		<b>588,000</b>	<b>392,000</b>		<b>588,000</b>	<b>392,000</b>		<b>1,120,000</b>	<b>1,120,000</b>		<b>3,000,000</b>

*Budget Notes: Assumptions used to allocate budget include the following:*

- a) Total CBEZ Project budget is \$3,000,000, to be contributed 50% by UNDP and 50% by local governments; however, because of the rapid start-up anticipated for the project (early 2007) and the fact that expenditures for this project were not programmed into the Chinese government's budget for calendar year 2007, UNDP will cover a higher share of programmed expenditures during 2007, with higher contributions coming from the Chinese government in later budget cycles. More details on expected cost-sharing will be worked out when the workplan for 2007 is prepared;*
- b) \$200,000 is set aside to prepare minimum of three continuous learning case studies, to be overseen by CICETE, and conducted in project years 2 and 3;*
- c) Of the remaining \$2,800,000, it is expected that the myriad of meetings and travel required to carry out Output #2 will be somewhat more resource-intensive than the capacity-building activities, hence a 40-60 split between the first two outputs;*
- d) Resources for Output #1 are allocated equally between the two provinces, because training needs are equal;*
- e) Resources for Output #2, on the other hand, are allocated disproportionately, with two-thirds to Yunnan-based activities, where CBEZ planning is further advanced, and one-third to Guangxi, where start-up is expected to be slower and thus absorptive capacity is lower;*
- f) It is expected that 30% of the budget will be expended in project year 1, and 35% each in project years 2 and 3.*

**Table 4: Tentative Budget, Details**

(in U.S. Dollars)

Code	Outputs and Activities	Project Year 1			Project Year 2			Project Year 3		
		Yunnan	Guangxi	CICETE	Yunnan	Guangxi	CICETE	Yunnan	Guangxi	CICETE
<b>I. CAPACITIES TO UNDERSTAND AND MANAGE CROSS-BORDER OPENNESS STRENGTHENED.</b>										
71200	International Professional, SSA									
71300	Local Staff, Support, SSA									
71400	Local Staff, Professionals, Service Contract									
71600	Travel/Summit									
71600	Participants' Travel/DSA (conference)									
72100	Contractual Services/Summit									
72200	Equipment & Furniture									
72400	Comm. & AV Equipment									
72500	Supplies (expendables)									
73100	Rental & Maintenance									
74200	Audio visual & print production costs									
74500	Miscellaneous									
75100	General Management Support (1%)									
	<b>Subtotal, Output #1</b>	168,000	168,000	--	196,000	196,000	--	196,000	196,000	--
<b>II. PLANNING, IMPLEMENTATION, &amp; COLLABORATIONS AMONG GOVERNMENT OFFICIALS AND PUBLIC-PRIVATE ADVISORY BOARDS SUPPORTED.</b>										
71200	International Professional, SSA									
71300	Local Staff, Support, SSA									
71400	Local Staff, Professionals, Service Contract									
71600	Travel									
71600	Participants' Travel/DSA (conference)									
72100	Contractual services, Institutions									
72200	Equipment & Furniture									
72500	Supplies (expendables)									
73100	Rental & Maintenance									
74200	Audio visual & print production costs									
74500	Miscellaneous									
75100	General Management Support (1%)									
	<b>Subtotal, Output #2</b>	336,000	168,000	--	392,000	196,000	--	392,000	196,000	--
<b>III. CONTINUOUS LEARNING PRACTICES TO APPLY CBEZ PROJECT LESSONS TO OTHER POSSIBLE CROSS-BORDER INITIATIVES IN CHINA ADOPTED.</b>										
71200	International Professional, SSA									
71300	Local Staff, Support, SSA									
71400	Local Staff, Professionals, Service Contract									
71600	Travel									
71600	Participants' Travel/DSA (conference)									



Annex

## United Nations Development Programme in China

### Schedule of Payments *(for cost-sharing contributions)*

**Award Title:** Enhancing China-ASEAN Economic Integration: Cross-Border Economic Cooperation Zones at the China-Vietnam Border  
**Award ID:** 00046662

**Project Title:** Enhancing China-ASEAN Economic Integration: Cross-Border Economic Cooperation Zones at the China-Vietnam Border  
**Project ID:** 00055702

**Project Duration:** 3 years

**Implementing Partner:** CICETE  
**Donor:** Provincial government of Yunnan

	<u>Date payment due</u>	<u>Amount (US\$)</u>
(a)	Dec. 1 <sup>st</sup> , 2007	150,000
(b)	Jul. 1 <sup>st</sup> , 2008	400,000
(c)	Jul. 1 <sup>st</sup> , 2009	290,000
<b>Total</b>	<b>Jul. 1<sup>st</sup>, 2009</b>	<b>840,000</b>

# United Nations Development Programme in China

## Schedule of Payments

*(for cost-sharing contributions)*

**Award Title:** Enhancing China-ASEAN Economic Integration: Cross-Border Economic Cooperation Zones at the China-Vietnam Border

**Award ID:** 00046662

**Project Title:** Enhancing China-ASEAN Economic Integration: Cross-Border Economic Cooperation Zones at the China-Vietnam Border

**Project ID:** 00055702

**Project Duration:** 3 years

**Implementing Partner:** CICETE

**Donor:** Provincial governments of Guangxi

	<u>Date payment due</u>	<u>Amount (US\$)</u>
(a)	Nov, 1 <sup>st</sup> ,2007	114,088
(b)	Oct.1 <sup>st</sup> , 2008	297,360
(c)	July 1 <sup>st</sup> , 2009	248,552
<b>Total</b>	July 1 <sup>st</sup> , 2009	<b>660,000</b>