Guangxi border-trade contributing to regional economic growth

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The new ADB financed border facility in Huu Nghi, Vietnam

In the southwest of the People’s Republic of China (PRC), Guangxi Zhuang Autonomous Region (GZAR) is becoming the epicenter of regional and global trade as multinationals shift manufacturing from South China to lower cost Southeast Asia countries. Established local logistics companies in Vietnam are partnering with international firms or are a party to a merger & acquisition as cross-border container traffic grows for garments/footwear, electronics/high technology and agriculture products. The PRC, Asian Development Bank (ADB) and logistics firms are accommodating this shift in global value chains by improving infrastructure and services at the borders and along their corridors.

A July visit to the Guangxi Pingxiang Integrated Free Trade Zone (FTZ) showed impressive developments from the first visit in 2011. Phase One is in operations to facilitate trade along the corridor from capital city Nanning to Pingxiang to Hanoi, Vietnam. The Pingxiang FTZ has a bonded logistics area, processing trading area and duty drawback functions. Pingxiang is a key node along the Nanning-Singapore Corridor, the Pan-Beibu Gulf Economic Zone and one of six platforms in the pilot program of a China-ASEAN Border Trade which is part of the Shenzhen-Hanoi-Bangkok network for full truck load (FTL) and less than truck load (LTL) potential. Phase Two will include light industry and processing areas for ASEAN shipments of equipment, agriculture and textile products.

The Vietnam side of this border is Huu Nghi (Dong Dang/Lang Son) to complement this Youyiguan or “Friendship” border gate with an ADB financed ($18.5 million) modern Customs and Immigration building opened in 2016. Further integration will occur with the construction of a Cross-Border Area Zone Industrial Park linking these two border towns for long distance trade as well as facilities for day traders that can move freely within a designated area across these two countries’ border zones.

**Labor cost comparison**

During a tour of the Pingxiang Integrated Free Trade Zone, the spokesperson explained the synergies of lower cost labor in Guangxi and in Vietnam than in Shenzhen (2014 monthly manufacturing wages: PRC-$700, Vietnam-$250, Cambodia-$130). Foxconn is the high-technology contract manufacturer for Apple products. They are planning to eliminate or reduce costly air transportation costs in their global value chains by using the cross-border trucking advantages between Pingxiang and Vietnam. “Vietnam factories will perform lower technical requirements, then shuttle components by trucks across the border to Pingxiang for higher value operations to take advantage of the low labor costs and tax benefits within the Cross-Border FTZ area.”

Cross-border infrastructure construction and service offerings are justified by the statistics and new transport routes traversed by notable multinationals. “Cargo throughput at Pingxiang and Huu Nghi rose from 1.1 million tonnes in 2013 to 1.5 million tonnes in 2015,” according to Vietnam Investment Review in May 2017. It is estimated that 1,500 trucks per day cross between China and Vietnam borders. Overall Vietnam’s export turnover increased 20.3 percent on-year to $126.09 billion in the first four months of 2017, while its import value reached $63.99 billion, according to the General Department of Vietnam Customs. Major users of cross-border transport services are multinationals the likes of Samsung Electronics, LG Electronics and Foxconn and Canon as well as garment brands such as Adidas, Nike and Levi’s and by the automotive sector of Honda, Toyota and Yamaha.

A further boost to Pingxiang cross-border economic zone development is by the ADB that could bring important demonstration effects to replicate throughout the cross-border towns in the Greater Mekong Sub-region (GMS). The GMS includes: the PRC (GZAR and Yunnan province), Vietnam, Thailand, Cambodia, Lao PDR and Myanmar, formerly Burma. The Guangxi Regional Cooperation and Integration Promotion Investment Program is a $450 million multi-tranche financing facility from 2016-2024. The PRC will finance another $730 million for a total package of $1.18 billion. This project will address key constraints in economic corridor and border area development in the region with important spillover effects for Vietnam.

In short, project components for Pingxiang will be a $6.9 million expansion of the Pingxiang border trade service center: border trade market, cold storage facility, warehouses and Customs and sanitary and phytosanitary inspection and facilities. A cross-border e-commerce platform will be developed in Longbang Border Economic Zone (BEZ) situated north of Pingxiang along another trade corridor, but connected to Hanoi as well. The cost of this will be $27.3 million for a smart port to build cross-border e-commerce and logistics services with real-time electronic exchange of trade logistics data. Also, small and medium enterprises (SMEs) in the border areas will receive funding for projects totaling $271 million.

The Vietnam Logistics and Business Association (VLA) is very active in lobbying their government ministries for member logistics firms to improve cross-border trade logistics. They informed that the highest levels of government are issuing resolutions to address issues and modernize their logistics sector. Mr. Nguyen Tuong, Deputy General Secretary and Mr. Nguyen Dung Minh, General Secretary of VLA cited Prime Minister Decision 200, “On Approval of the Action Plan for Enhancement of Competitiveness and Development of Vietnam’s Logistics Services by 2025” and Decision 1012, “Approval for Nationwide Logistics Center System Development Planning by 2020 and Orientation Towards 2030,” in 2017 and 2015, respectively. These resolutions have concrete plans for logistics infrastructure, operations and policies with roles and responsibilities for each ministry and for VLA to implement the over 60 action items.

**Investment in Logistics**

Chinese and Vietnamese logistics firms are not waiting for these actions to occur. Zhen Yang Logistics Co., Ltd is Chinese invested and opened offices in Hanoi and Lang Son, Vietnam across from Pingxiang, Guangxi, PRC for the Zhen Yang-Nanning-Hanoi route and routes between southern China and northern Vietnam. “We are the first Chinese logistics firm that is permitted to cross the border without trans-loading, but this intergovernmental agreement is under renegotiation subject to Vietnam Customs objections to the trucking routes,” said Mr. Nguyen Quang Tung, Branch Manager, ZYL Group in a recent interview in Hanoi. Zhen Yang has warehouses in Pingxiang, Nanning and Shenzhen for FTL and are planning LTL services. It’s customers are mostly high-tech companies such as Foxconn and Samsung as well as DHL, Damco, Expeditors and Yusen.

Gemadept Corporation, the parent company of Gemadept Logistics, the largest Vietnamese logistics firm and publicly traded on the Ho Chi Min City Stock Exchange and Malaysia-funded Overland Total Logistics (OTL-“Indo China Transport”) are catching the attention of Korean and Japanese logistics concerns. Founded in 1990, Gemadept has 12 subsidiaries in logistics, port operations and real estate development. Taekwang, a South Korean conglomerate is seeking a stake to secure better logistics services for their manufacturing operations in Southeast Asia.

Doan Van Tuan, Business Development Manager, Gemadept Logistics explained that their cross-border trade of temporary importing seafood from South Africa and beef from Brazil via Haiphong seaport, and re-exporting to China will stop. Although these transactions are legal in Vietnam, the re-exporting to China is illegal by Chinese companies and may raise transparency concerns since Gemadept is a publicly traded firm. However, Vietnam exporting of fruits to China is legal, he added. Mr Doan also remarked that Gemadept’s $670 million Mekong Logistics Refrigeration Center in the Mekong Delta province of Hau Giang in collaboration with Minh Phu Seafood Corporation completed construction and is in operation, now.

In 2001, OTL began operations and has comprehensive cross-border services of both FTL and LTL from Singapore-Malaysia-Thailand-Laos-Vietnam-Shenzhen, China. In 2016, Yamato Transport of Japan bought OTL. They have real-time technologies, air suspension vehicles and lift on lift off (LOLO) equipment, container E-Lock mechanisms by remote control (SMS) available at the Pingxiang border crossing for timely clearance and transit times in the entire ASEAN region and all destinations in China.

Mr. Trinh Manh Cuong (Henry), General Manager and Mr. Nguyen Huu Tuyen (Tommy), Operations Manager stated that their cross-border transport is now “700-800 containers per month” and that “truck freight costs are 30 percent to 40 percent higher than sea freight, yet sea cargo takes longer to book than truck and trucking transport time is faster.”