

# Stakeholders' Perspective on Logistics in the Greater Mekong Sub-region

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## ABSTRACT

The developing economies of the Greater Mekong Sub-region (GMS)<sup>1</sup> have shown that they have become increasingly linked into the global economy through trade, investment credit, and technology. Adequate transport and communication facilities play a vital role in their economic recovery and development. In recognition of the benefits of this regional integration, the countries of the GMS are co-operating to implement a number of initiatives to reduce physical and non-physical barriers to trade and transport.

This study seeks to obtain the perspective and perception of key stakeholders on critical logistics issues as well as their views on the ways and means to address the issues. This study also intends to link the formal institutional environment with the individual stakeholder perspective and perception of critical issues and by that identify critical points related to logistic solutions in a cross-border environment. This study utilizes a participatory approach, developed by UN-ESCAP<sup>2</sup>, which is known as the anthology methodology. The results show a clear discrepancy in terms of perceived benefit between relevant stakeholders.

## 1. INTRODUCTION

The developing economies of the Greater Mekong Sub-region (GMS) have shown that they have become increasingly linked into the global economy through trade, investment credit, and technology. Adequate transport and communication facilities play a vital role in their economic recovery and development. In recognition of the benefits of this regional integration, the countries of the GMS are co-operating to implement a number of initiatives to reduce physical and non-physical barriers to trade and transport.

Trade and investment initiatives require closer co-ordination of transport and communication infrastructure, which implies the removal of barriers so as to facilitate movement. An interconnected infrastructure network will accelerate trade and introduce efficient transport and

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communication facilities across the GMS. This will reduce trade transaction cost in the GMS. The flow of goods information and services within and cross borders must be ensured in the most effective way. Bottlenecks in small segments could lead to congestion, late delivery, increase in costs and ultimately loss of future contracts. Transport in the GMS must be considered as a critical sector to enhance regional economic growth and integration. As an economic sector, transport (i.e., by improving efficiency and reducing costs) is an essential contributory ingredient to international competitiveness. “An integrated transport system is a prerequisite for the competitiveness for goods”<sup>3</sup>.

A number of initiatives have included the first Thai-Lao Friendship Bridge and the rehabilitation of roads in member countries of the GMS. There are also a number of other initiatives underway such as: the development of the East-West Economic Corridor (EWEC), which is being developed to create a direct land route from Danang in Vietnam to Mawlamyine in Myanmar (which include a second Thai-Lao bridge linking Mukdahan and Savannakhet); and the construction of a road through the northern provinces of Lao People’s Democratic Republic, which will provide a direct land route from Kunming in China to Bangkok in Thailand.

In the area of trade and transport facilitation, countries of the sub-region have developed a GMS Cross-Border Transport Agreement. They are currently negotiating the 20 annexes and protocols to the Agreement; this process is expected to be complete in 2005. In addition to these initiatives, there is a need to develop efficient logistics systems in the sub-region in order to increase its competitiveness when accessing regional and global markets.

In recognition of the importance of such logistics systems, the Third Ministerial Meeting on the ASEAN-Mekong Basin Development Cooperation (AMBDC) held during 8-9 October 2001 in Chiangrai province (Thailand) considered a number of issues related to the whole cross-border trade chain, including public markets, export promotion institutions, bonded warehouses, border warehouses and the location of border warehouses.

As a follow-up to the Ministerial Meeting, the Ministry of Commerce in Thailand organized a workshop where UNESCAP presented an outline for a study that addressed logistics issues in the sub-region. Of particular importance in this study is the consideration of how to move towards a “borderless” GMS and the identification of how increased economic and regional integration would influence the logistic systems in the sub-region.

## **2. PURPOSE OF THE STUDY**

The objective of this study is to find ways on how to improve the sub-region’s competitiveness through improved logistics planning and development. In return, this increase in competitiveness will reduce poverty and improve the overall quality of life for the people in the Sub-region. Comprehensive logistical systems, which are efficient, reliable and cost effective, are currently in the developmental stage throughout most of the Sub-region and there is a

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<sup>3</sup> Integrated Implementation Programme for the ASEAN Plan of Action in Transport and Communications (1997).

demand for a study based on the stakeholders perceptions' on cross border trade and logistics system.

This study seeks to obtain the perspective and perception of key stakeholders on critical logistics issues as well as their views on the ways and means to address the issues. The specific output of the study is described hereunder:

### *Stakeholder analysis of cross border logistics systems in the GMS*

This part of the study intends to link the formal institutional environment with the individual stakeholder perspective and perception of critical issues and by that identify critical points related to logistic solutions in a cross-border environment. In this study a participatory approach, known as the “anthology methodology”, was used. This methodology was developed by UN-ESCAP and its purpose has been to examine:

- A. Stakeholders' perspectives and perceptions of critical issues and by that identification of critical points related to logistic solutions in a cross-border and transit environment with special emphasis on the function, demand, and location of distribution centres, warehouses and/or inland clearance depots. The context of the study is the existing and future environment concerning cross-border and transit activity in GMS countries with special focus on Cambodia, Lao People's Democratic Republic and Thailand. The following groups of respondents were identified for this study.

- Policy makers/Government officials (regulators/enforcers);
- Shippers/Consignees/Traders (intermediary service, linking producer with market);
- Transport service providers; and
- Industrial and agricultural sector.

Relevant stakeholders of the above groups were interviewed at the following border crossing locations:

- Chiang Kong-Houayxay (Thailand/Lao People 's Democratic Republic)
- Chiang Saen (port on the Mekong)
- Mae Sai-Tachilek (Thailand/Myanmar)
- Aranyaprathet-Poipet (Thailand/Cambodia)
- Nongkhai-Vientiane (Thailand/Lao People 's Democratic Republic)
- Mukdahan-Sawannakhet (Thailand/Lao People 's Democratic Republic)

- B. These stakeholders were asked questions related to:

- Identification of the principal problems, constraints and their causes related to border trade and transit trade when applicable.
- Identification of possible strategies to address the said problems and making proposals on possible actions to implement solution strategies in order to reduce constraints within the system.
- Possibility of establishing public border warehouses to facilitate cross border trade in the GMS.

The presentation of this report will be separated into two main sections. The first section will present an overview of the general situation, issues and responses provided by the stakeholders. This section is divided into three parts: (1) the identification of principal problems and their causes related to border trade; (2) The identification of possible strategies and how to implement them in order to address the said problems; and (3) the possibility of establishing public border warehouses to facilitate cross border trade. The second section will present more detailed analysis of stakeholders' statements for each of the areas visited as well as statements from central agencies.

### 3. GENERAL FINDINGS

Table 1, hereunder is providing details of the respondents by their group and survey location.

*Table 1: respondents' details*

<b>Location</b>	<b>Policy</b>	<b>Service Providers</b>	<b>Traders</b>	<b>TOTAL</b>
Aranyaprathet-Poipet	4	4	7	<b>15</b>
Mukdahan-Sawanakhet	4	2	8	<b>14</b>
Nongkhai-Vientiane	4	3	5	<b>12</b>
Maesai-Thachilek	2	-	8	<b>10</b>
Chiangsaen	1	5	13	<b>19</b>
Chiangkhong-Houey Xay	1	6	14	<b>17</b>
Central	8	-	-	<b>8</b>
<b>TOTAL</b>	<b>24</b>	<b>16</b>	<b>55</b>	<b>95</b>

In total, 95 stakeholders were interviewed during November and December 2003 and early January 2004 in the pre-selected provinces and border points. The study team delivered the interview protocols to all stakeholders. Stakeholders' responses and viewpoints are summarized, presented and discussed here below.

#### *1. Identification of principal problems and their causes related to border trade*

A number of problems related to border trade were identified during the interviews with key stakeholders in all the provinces visited as well as with central agencies in Bangkok. One of the

key themes that arose during the interviews with all stakeholders was a lack of clear understanding in terms of rules and procedures related to border trade and how border trade differed from international trade. This lack of understanding both at the provincial and national level has created a “gap” in terms of understanding the realities of border trade between GMS countries. One respondent even stated very clearly: “border trade is not transit trade!”

It was noticed during the field survey that many border trade rules were considered cumbersome for local exporters and importers, in particular small-scale traders who did not appreciate the bureaucracy involved. They felt that the system was not suitable for micro and small businesses. The perception of outdated and complicated import/export rules and regulations in the GMS countries is prevalent among the key stakeholders but the question remains whether outdated rules are better than no rules at all. GMS countries own trade policies must first be clearly defined, in particular those related to border trade, as there is no harmonization yet of border trade policies within the GMS. This is an area where substantive coordination and cooperation is critical.

Complicated and incoherent import/export and transit tax system has been identified as a principal problem for border trade. This is particularly true when the points of views of all traders are taken into account. It seems that tax rate within the study area are highly arbitrary, depending on the officer in charge of the import/export process or the bilateral situation between the two trading countries. This is clearly the case when border trade between Thailand and Lao People’s Democratic Republic is explored. The stakeholders’ general feeling is that there are no standardized procedures and no standardized tariffs for border trade. However, a nationality bias has been observed where the blame has mostly been directed to the other trading partner country. It is possible that this complicated tax system is one of the causes for the proliferation of contraband or smuggled goods, as the borders between countries in the GMS sub-region are long and highly permeable. Some respondents were bold enough to suggest that this incoherent import/export and tax system favours corrupt practices.

There is also a perception that there is no recognized standard in terms of how to conduct border trade. Stakeholders consider that border trade is different than from traditional international trade. This creates numerous problems for the traders, as for each border trade transaction they feel that the rules are continually changing. This is also reflected in the sentiment that traders and service providers do not have enough knowledge on how to conduct border trade properly. This problem really relates to the fact that there is no harmonization of border trade practices, be it in terms of business transactions or cross border procedures. Clear border trade policies or harmonized border trade legislation could help provide a framework on how to conduct border trade within the GMS.

An interesting issue is that there is a persistent feeling of mistrust between Burmese, Laotian and Cambodian traders and the Thai traders. From the interviews, certain stakeholders were quite vocal in their mistrust of Thai traders. They felt that Thai traders usually take some advantage during border trade transactions. This may or may not be relevant to the fact that certain types of Thai products are currently being boycotted in Myanmar, Lao People’s Democratic Republic and Cambodia. It is of course important to discern that not all of the Thai traders are unworthy of

trust but it is possible that many of these Burmese, Lao and Cambodian traders have had bad experiences with Thai border traders.

Fluctuation in currency exchange rate is considered as another major problem. The Thai baht is a freely convertible currency but there are problems related to the exchange rates of the Lao kip, the Myanmar kyat or the Cambodian riel. The rates are continuously changing and there is also a difference in terms of exchange rates between the official rate and the 'black' market rate. This makes it difficult for traders to set up their selling prices. One easy way to circumvent the problem is to use just one currency for border trade in the region. In practice, the Thai baht is currently the 'de-facto' currency for border trade in the region but this places an increased burden on Cambodian, Lao and Burmese traders on the other side of the border. There is a possibility that in the near future the Chinese yuan will become the currency for trade in this sub-region as the Chinese traders are willing to trade with Lao and Burmese traders and be paid in the currency of both countries. At present, since most of the border traders have to source their product from Thailand, they have to pay in Thai baht and are subject to their currencies' fluctuation against the Thai baht. Thai traders are not willing to accept the currencies of neighbouring countries.

Lack of infrastructure is appraised by all the stakeholders to be a major constraint for border trade. From the stand point of the stakeholders, lack of adequate road, bridges, warehouses or facilities is seriously hindering the capabilities of the countries to integrate their economic system. At the provincial level, this lack of facility and infrastructure seriously limit the capacity of border trading posts in terms of types of goods that can be transported and also in terms of volume. It is possible that the lack of infrastructure is related to the low level of volumes of goods traded across borders. However, in Nongkhai province, Thailand, the level of infrastructure is considered acceptable with the usage of the Thai-Lao friendship bridge as a gateway to and from Lao People's Democratic Republic. Figure 1, hereunder, is a schematic cause and effect diagram that incorporates most of the general problems involved in border trade in the GMS.

The lack of standardized border trade procedures and weak infrastructure linkage is hindering the development of the GMS logistics system. The purpose of any logistics system is to be able to satisfy customers while controlling or even lowering all the costs involved. The infrastructure linkages is the backbone of logistics development in the GMS but this upgrade of infrastructure must be done in conjunction with the facilitation of trade and transport services to create an effective and efficient integrated logistics system within the GMS.

This cause and effect diagram clearly demonstrates the relationship between the numerous factors that are considered problematic in the case of border trade. The issues are in fact inter-related and must be appreciated from a holistic perspective. Not one of the problems can be or should be taken out of context as a proposed solution may become misleading. An integrated approach is needed in order to solve the problems. This integrated approach should combine solutions to the 'hardware' infrastructure aspect with the solutions to the 'software' rules and regulation aspect.



In summary, the problems involved in the development of logistics system for cross-border trade are mostly related to the import/export processes of the countries in the GMS. There still exist high levels of arbitrary taxes for traded goods and a lack of harmonized procedures for cross border trade. Financial security in terms of trading is also lacking with strong currency fluctuation and no specialized or dedicated services for cross border payments. Infrastructure is also considered a constraint but the impact may seem less important due to the relatively low volumes involved. This may be true for now but in the near future with the implementation of free trade areas (FTAs) in the sub-region; infrastructure will become as critical in the facilitation of the movement of goods across borders as the harmonization of border trade rules and regulations. There is a very strong potential for expansion of border trade after FTAs are in place and this will probably lessen the need for contraband trade as tariffs and non-tariffs barriers will be eliminated in the GMS.

*The identification of possible strategies and how to implement them in order to address the identified problems*

The interviewed stakeholders agreed that the most effective way to lessen the impact of border trade related problem is to set-up joint cross border committees at the national, provincial and at the district level too. Some of these committees are already in existence but it seems that their activities and output should be more clearly defined. In order to reduce the 'gap' in terms of understanding the border trade rules it is important to create two-way communication channels among the parties involved. These communication channels must include national as well as local governmental agencies, service providers and border traders. The public and the private sector in each country must work together in developing the agenda of each joint cross border committee. The traders themselves considered this public private partnership approach critical. Improved collaboration among stakeholders is the desired outcome from these consultative bodies.

It is also important to give authority to negotiate border trade agreements to provincial or district level agencies. The process of decentralization will help local governmental agencies to make decisions and take action immediately without referring first to a central governmental agency. If decentralization is not possible at this stage then the establishment of a single agency or assigning the responsibility to an existing agency that deals with border trade issues at the provincial or district level can be a solution. This single agency will be the sole agency involved with all the documentation or paper work needed for cross border trade, similar to a one stop service for border traders.

Some stakeholders discussed the possibility of implementing special rules and regulations just for border trade. These rules and regulations should be flexible and adapted to the need of the border traders as usually the scale of their operations are relatively small. If special rules or regulations cannot be implemented, then a relaxation of existing rules could be a solution. But, this relaxation will only cover border trade and not transit trade. Ideally, the border areas should become special economic zones where free trade is the



norm. This will lessen the need for rules and regulation and will make the GMS truly “borderless”. All the respondents, however, did not share this vision. Some respondents were very clear in their need for borders to protect their homeland from outside threats.

It was also proposed that a fix or pegged exchange rate be utilized in order to limit the effect of currency fluctuation but this solution does not seem feasible. Fixed exchange rate will only fuel the development of ‘black’ market exchange rate. The problem of exchange fluctuation cannot be dealt with just by rules or regulation as exchange rates are linked to numerous factors that are not always controllable.

Human resource development, especially capacity building in terms of understanding the mechanism of international trade is proposed as a solution to the problem of lack of knowledge of stakeholders involved in border trade. This might be done in relatively quick manner, as it does not require high level of financial investment. Special training programs could be comprehensively targeted for state officials, service providers and traders.

An upgrade in infrastructure, in particular physical links across border are considered important to the facilitation of cross border trade. Without this improvement in infrastructure it will be difficult to facilitate the movement of goods across border. Linkage roads, bridges are seen as the integrators that will help expand border trade. The problem with infrastructure upgrade is the source of funds as many countries in the GMS have limited financial capacity. Borrowing for infrastructure linkage upgrade may not be financially sustainable in the long run.

In summary, stakeholders proposed numerous solutions to the facilitation of border trade and the improvement of the regional logistics system. Some of the solutions were practical such as the establishment of joint border trade committees to look at procedural barriers or to implement a public-private dialogue among the stakeholders involved. However, some of the other solutions were not as practical such as the fixing of exchange rates. Nonetheless an interesting solution is the fact that in the future all countries in the GMS would belong to the same free trade area and that will automatically have to facilitate all types of trade between member countries. The question of suitability of establishing public border warehouses was then put forward to all stakeholders for the improvement of the regional logistics system and border trade facilitation.

### *The possibility of establishing public border warehouses to facilitate cross border trade*

Almost all of the stakeholders interviewed felt that it was suitable to establish border warehouses in their own area in order to facilitate cross border trade. The only exceptions were respondents located at the Thai-Cambodian border who felt that the establishment of a border warehouse was not necessary. The main reason given was the relative proximity of the border to Bangkok, the establishment a border warehouse would, according to them, only increases cost, waste time without any particular benefits.

The biggest suitability problem may be with Chiangrai province where respondents of each border crossing area (3 areas) declared the suitability of their area for the establishment of border warehouses. It seems very unlikely that trade flows for each individual border crossing will be sufficient to justify the establishment of a border warehouse for each crossing but this shows the intent of the local community of wanting to improve trade in their area.

An interesting viewpoint is that the most vocal supporters for the establishment of border warehouses were governmental officers or local district officers. They felt that it was a sensible way to support the development of cross border trade in their respective area, whereas the private sector was usually more skeptical about the idea. Many traders were afraid that the establishment of border warehouse in their area would increase their cost. Most of these traders also mentioned the fact that they had their own storage area and that the trading volumes did not justify the need to build a dedicated cargo storage facility. Transport service providers were less wary of border warehouses than the traders. This is probably due to the fact that they can pass on any cost increase on their customers. If border warehouses were able to increase the service providers' service level then they would not feel any objection towards their establishment.

In their belief, governmental officers considered that the establishment of a border warehouse in their area would help accommodate the future expansion of trade in the region. However, the impact of border warehouses is dependent upon the upgrading of border links. If the infrastructure is not ready, then it will be difficult to justify the establishment of these border warehouses, as border crossing will still remain difficult. In terms of priority, establishing border warehouses is not the most critical issue that will help facilitate cross border trade.

These border warehouses should not be just warehouses but also act as distribution centres as well as customs checkpoints. The stakeholders would like their border warehouses to provide value-added services compared to the traditional warehousing functions. These services can be related to re-conditioning, re-packaging of goods or even services related to goods inventory management. If these value-added services could be offered border warehouses would then be able to generate more revenues and create new employment opportunity for the local people.

It is believed that the establishment of border warehouses would accelerate hub status for the area involved. Local district officers mostly share this belief and would like the

warehouses to be located in their area. But, a chief area of concern is the cost involved in using border warehouses. The traders and service providers believed that having to go through a border warehouse would definitely increase their transaction costs. Some traders even felt that establishing border warehouses would only benefit big businesses at the expense of small local traders.

Nonetheless, the majority of respondents considered the establishment of border warehouses to be useful to the economic development of their border area. District officers believed that the local community would benefit from a more systematic method of conducting border trade through the use of warehouses. This will help traders and service providers to control their cost and facilitate inspection by governmental agencies involved in import and export process. This perception is interesting as some local traders felt that they would not get any direct benefit from the establishment of border warehouses but they still supported the idea because they thought that it would benefit their area as a whole.

Location issues appeared to be very nationalistic. Stakeholders wanted the border warehouses to be solely located in their area. The point of view of Lao stakeholders should be taken into account, as they believed that establishing border warehouses on the Lao side would bring more benefit than on the Thai side. Cambodian also shares similar beliefs. It was not within the scope of this study to decide which location was the most suitable but the issue of a “borderless” GMS would definitely affect the location of the border warehouses. Thai stakeholders suspect that with a “borderless” GMS the location of warehouses would be in neighbouring countries due to the lower cost of land and labour. The issue of borders would therefore disappear.

A limitation in this study was related to the concept of “borderless”. Governmental officers did understand the concept very clearly and could foresee its impact. However, it was much more difficult to explain the concept and its possible impact to traders and service providers. The concept of “borderless” might be something that is a bit too far away from local people’s preoccupations. During the interviews, when the concept of “borderless” was explained, many respondents still considered that the establishment of a border warehouse was still of utmost importance but acknowledged that the location may be dependent upon other factors such as the freight flows, the level of infrastructure linkages and ease of access.

In summary, except for private stakeholders on the Thai-Cambodian borders, most of the respondents were favourable to the concept of establishing border warehouses to facilitate border trade and improve the regional logistics system. The strongest support for the establishment of border warehouses came from governmental/local officers. However, it was also acknowledged that border warehouses offering basic warehousing services were insufficient. Border warehouses should be able to provide other types of value-added logistical services such as single window customs inspection or the repackaging of products.

#### **4. GENERAL CONCLUSIONS**

Overall, most of the policy makers were in favour of the establishment of public border warehouses/distribution centres to facilitate cross border trade and improve the region's logistics system. They considered that the establishment of these facilities as a critical link in upgrading the regional infrastructure and to facilitate trade. However, the decision related to the location of these facilities still needs to be confirmed as a GMS "with" or "without" border would surely have an impact on the location decision.

The private sector, as a whole, does not seem to be particularly enthusiastic about the idea of establishing a public warehouse. They are afraid of the likely increase in costs and time in using these facilities. They also believe that these facilities would only serve the interest of big businesses. If the GMS really become borderless, the Thai private sector thinks that these facilities would move to neighbouring countries due to the lesser cost involved in their operations.

However, many of them do believe that the establishment of public border warehouses/distribution centres would be of great value to their local community in terms of local economic development. A greater concern for local traders and service providers is for the improvement in linkage infrastructure between neighbouring countries. They believed that these improvements would greatly improve cross border trade and the regional logistics system. Nevertheless, infrastructure improvement is necessary but not sufficient to facilitate border trade. Rules and procedures related to border trade must be harmonized.

The biggest threat for Thai stakeholders is from the influx of Chinese made products, which are significantly cheaper and are competing very strongly with Thai made products. This issue is not directly related to the study but shows the concerns of the Thai respondents who are afraid of losing their dominant market share in the GMS. Respondents from other countries do not see a threat from the influx of Chinese products as many of them consider these products to be of lower quality. However, respondents in Lao People's Democratic Republic and Cambodia think that it is good that there is competition between the products of Thailand and China.