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Sino-Vietnamese Border Trade Relations- under the context of regional integration

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Abstract

Since the normalization of Sino-Vietnamese political relations in 1991, especially after the 21st century, China and Vietnam have involved multiple regional economic cooperation. In today's global trend of accelerating regional economic integration, the economic and trade cooperation between China and Vietnam has been deepened, under different framework (GMS, CAFTA, B & R), the scale of trade is also expanding. As an important part of a country's foreign trade, border trade is an effective supplement to conventional trade. China ’s Guangxi and Yunnan provinces are geographically adjacent to Vietnam ’s seven northern provinces, providing a geographical advantage for the development of Sino-Vietnamese border trade. How will regional integration affect the border trade between China and Vietnam? What factors will promote or hinder China-Vietnam border trade?

By applying the Border effect theory and the Transformation of the border effect, the impact of different regional economic cooperation to the Sino-Vietnamese is analyzed. Among them, the construction of Economic Cooperation Zones (cross-border) is regarded as the focus of enhancing trade facilitation. Combining the Border shielding effect theory and studies related to the development of the border trade in different regions, four determinants are proposed (Trade Pattern; Policy; Infrastructure; Financial). Through these four determinants, and taking Guangxi Province as a specific example for analysis, the problems in the status quo of Sino-Vietnamese border trade development can be summarized. Related countermeasures are also proposed, in order to give suggestions on sustainable development of Sino-Vietnamese border trade.

Key Words: Border trade; Regional Economic Cooperation; Border effect; Cross-border Economic cooperation zone; Trade facilitation.

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Chapter 1 Introduction

1.1 Background

China and Vietnam are neighbors with a total border of 1,450 kilometers. The economic development of these two countries plays an important role in the regional economic integration of Asia. China-Vietnam relations have undergone many changes and improvements since the normalization of bilateral political relations in 1991. Through different regional economic initiatives (GMS, CAFTA), two governments have signed a number of bilateral trade agreements and established a free trade area, which aims to continuously strengthen and promote cross-border trade relations in the border areas.

Provinces of China and Vietnam on the border; Yunnan and Guangxi of China; Cao Bang, Dien Bien, Ha Giang, Lao Cai, Lai Chau, Lang Son, Quang Ninh of Vietnam, are all relatively underdeveloped regions for their respective countries. Even have a geographical location on the border, they only serve as a trade channel due to their own economic development and industrialization level. By playing an active role in the development of border trade, border areas can also be developed.

Under the superposition of different regional economic cooperation frameworks, the regional economy continues to move towards integration. What help can be provided for border trade? What problems are facing the current development of border trade?

Based on these issues, this study aims to explore the border trade between China and Vietnam. The author will analyze how regional economic cooperation and integration will affect border trade. In addition, the author tries to analyze the existing and potential factors that can form mechanisms to promote or hinder bilateral trade, especially border trade.

1.2 Research Question

The research question of this thesis is :

How does border trade between China and Vietnam develop in the context of regional economic cooperation?

Since the border trade, just like other kinds of international trade, involve a series of different perspective. Due to the limitations of space and the author's ability, this paper has to make a choice in order to ensure as much attention as possible, namely, This paper only considers the development of border trade between China and Vietnam in the regional economic context, instead of focusing on the global economic development context (in the economic development and trade relations between China and Vietnam, as well as some other chapters, the economic context beyond the regional scope may be involved, but it is not the focus). Based on this, the first Sub question is proposed：

- How does regional economic cooperation give opportunities to enhance Sino-Vietnamese border trade?

In addition, in order to as much as possible from the multiple perspectives on the detailed investigation on the influence factors of border trade, in addition to the regional economic cooperation mechanism, and in some cases, also contain more detail part in regional economic cooperation framework, these factors (in the second chapter will further explain) will be how to influence of China-vietnam border trade. According to these factors, putting forward some policy suggestions, which is also the practical purpose of this article.

Therefore, the second sub-qusetion is proposed:

- What factors matters in the development of Sino-Vietnamese border trade; and what countermeasure can be taken to develop？

1.3 Thesis Disposition

Chapter 1 introduces the background of the study, defines research questions, and describes the scope of the study. **Chapter 2** presents the results of a literature review on Relationship of Trade (border trade) and economic growth theory; The generation and development of border trade theory, in which two effects of The border effect theory Shielding effect and Mediating effect are the focus; and Analysis researches of the Chinese border trade and the promotion strategy. After that, **Chapter 3** focuses on providing an overview of the Macroeconomic and Trade patterns of China and Vietnam, as well as, the Sino-Vietnamese trade relationship. **Chapter 4** provides an overview of different Regional cooperation between the two countries involved: GMS and LMS; CAFTA and its upgraded version; TCOB and B&R. After providing a full analysis at the national level, **Chapter 5** introduces and compares the aspect differences of China and Vietnam's border trade policy implementation, as well as comes to the provincial level. **Chapter 6** divides into three parts: Firstly, analyzing the effect of different regional economic cooperation to the development of Sino-Vietnamese border trade, both in facilitating and hindering way; Secondly, based the analysis of provincial level in chapter 5, summarizes the trade structure and balance of Guangxi-Vietnam border trade, and according to the border effect transformation theory, inspected the trade facilitation level and the construction situation of CBEZs (Cross border economic cooperation zones), Dongxing - Mong Cai and Pingxiang - Dong Dang CBEZs; Finally, draws conclusions based on 4 factors that come from the Chapter 2, as well as discussing the study's limitations and proposing suggestions for further research.

1.4 Methodology and Delimation

With the impact of COVID-19 in 2020, conducting a field survey to obtain primary data seems like an impossible task. Therefore, the author decided to conduct a **desk-top study**, based primarily on second-hand data collected, by analyzing flow of Sino-Vietnamese border trade. Given the availability of data, and the lack of third-party data, the paper's data on Sino-Vietnamese border trade were dominated by provincial statistics provided by China's border provinces with Vietnam (Guangxi, Yunnan). For macro data, more data from UNCTAD,World Bank and other authoritative international institutions are used to improve the reliability of research.

Although in order to analyze the impact of regional economic cooperation on border trade (i.e., sub-question 1), it seems more logical to conduct some form of quantitative research. However, due to the limitation of data, the overlapping of the implementation time and content of many economic cooperation, and the large amount of literature, the author has not found an ideal method to separate the effects of various mechanisms. In this paper, the authors choose to discuss this impact in terms of the treaties signed by the economic cooperation mechanisms and the specific projects implemented under these mechanisms.

As for the **time scope** of the study, when describing economic development, the focus is mainly on the time after the two countries start their respective economic reforms. The economic cooperation between China and Vietnam started with the normalization of relations between China and Vietnam in 1991. In addition to providing a brief historical background, the quantitative analysis focuses on the period from 2005 to 2018. On the one hand, due to the continuous and sufficient data in this period, on the other hand, it is conducive to a more complete display of trend changes and current actual situation, so as to facilitate the proposal of follow-up measures.

The **geographical scope** studied are mainly major Border regions, Guangxi and Yunnan of China, as well as As well as Quang Ninh, Lao Cai and Lang Son of Vietnam, as well as two Cross-border Economic Cooperation Zones in the region.

Chapter 2 Literature review

2.1 Theory Framework

Based on the research question of this paper and relevant information, this chapter will from three angles do the literature review, and both include theoretical and empirical literature related to the border trade: Trade (border trade) and economic growth theory; The generation and development of border trade theory; Analysis researches of the world's major border trade and the promotion strategy.

In particular, in the part of the **Trade and economic growth**, this paper will mainly from the perspective of theoretical and empirical, review literature about “Relationship between China's foreign trade and economic growth”; “The influence of different location conditions and trade patterns on economic growth"; "The relationship between the border trade and regional economic growth."

In the part of the **generation and development of border trade**, this paper mainly combines classical theory that explains the causes of international trade with the theory of Trade cost to explain the existence of border effect. Specifically, it can be divided into the shielding effect, which has a negative effect on the development of border trade and the mediating effect, which has a positive effect. Besides, this paper analyzes the role of the **Special Economic Zone** in the transformation of the border effect.

Finally, reviewing the **research of border trade** on the general problems in China's border trade, especially in the Sino-Vietnamese border trade. Based on the experience of the development of border trade and the theory of Sub-regional economic cooperation, combined with the relevant literature on the development of Sino-Vietnamese border trade, **four related determinants** that play a role in promoting or hindering the development of border trade are summarized: Trade pattern factor, Policy factor, Infrastructure construction factor, and Financial factor.

2.2 Definition of the border trade

At present, there are two international definitions of border trade. One is based on the exceptional provisions of the WTO (GATT article.XXIV): "...the provisions of this agreement shall not prevent any contracting state from giving any benefit to its neighbors in facilitating border trade." This means that WTO rules recognize and allow countries to implement specific trade policies in border areas. According to the specific provisions of the

WTO, border trade refers to the trade activities conducted by residents and enterprises in the border areas of neighboring countries within 15 kilometers of each other, so as to facilitate the exchange of needed goods between residents on both sides of the border. The World Bank (2007) defines The Cross-border trade as, "The flow of goods and services across international frontiers within an area of up to thirty kilometers."

By contrast, China's definition of border trade (边境贸易) is much broader, includes trade between border residents, small-scale border trade, and border technical cooperation. China's customs mainly collect data on small-scale border trade, which will be disclosed in the annual statistical reports at the provincial level. In 1996, issued by the Chinese government, "The announcement of issues related to the border trade" (No. 2 Document in 1996 of the State Council) made specific provisions on border trade: "Border trade refers to the frontier trade between the residents of the border region (Traded goods are necessary articles for daily use); and the trade conduct by the approved enterprise at designated state land port in China, with enterprises or other trade agencies from neighboring countries. Border trade activities enjoy unique export controls and tax exemption (within 20 km of each side), which is part of China's opening-up policy.

With China's accession to the WTO, China's border trade rules, in some way, conflict with the WTO rules, thus China has continuously revised its policies. Some provinces and cities, including Heilongjiang, have gradually reduced the subsidies of preferential border trade policies. With the deepening of regional economic cooperation between China and its neighboring countries, the dominant position of border trade policy has declined further.

According to Vietnam, border trade (tiểu ngạch) is (i) Trading activities among border residents; (ii) Trading activities at border markets,crossing-point markets, and markets inside border economic zones; and (iii) The trade that recorded in bilateral trade agreements but not following international rules.

2.3 Trade and economic growth

2.3.1 Relationship between trade and economic growth

Relationship between foreign trade and economic growth theory, most scholars tend to think that trade has a positive effect on economic growth, foreign trade can promote the growth of the economy, including Ricardo (1817) "Comparative advantage"; Heckscher - Ohlin (1933) "Factor endowment "; Keynes (1936) the "Foreign trade multiplier theory";

Krugman (1979) " New trade theory," Rivera-Batiz & Romer's (1985) "Endogenous growth theory" and so on.

However, some scholars argue that trade will hinder economic development from different perspectives. For example, Bhagwatil (1985) proposed the "Impoverished growth model"; Prebisch's (1950) "Central-periphery theory" mainly demonstrated the causes of poverty in Latin America & Rodrik (2013)' s "Endogenous growth theory."These theories are partly borne out by the fact that global trade is exacerbating new imbalances between and within countries.

From an empirical perspective, Clerides et al. (1998) emphasized that the source of productivity growth was export, while Dertouzos et al. (1990) believed that import competition promoted productivity growth. Their empirical evidence supports the positive effect of foreign trade on economic growth. However, some empirical studies do not fully support the hypothesis that trade promotes economic growth. Here, the author selects the four Asian tiger countries, which considered as a favorable example of export-led economic growth. Mahadevan & Suardi (2008) studied the countries and regions of the four Asian tigers and found that under the unstable environment, Japan's growth only depended on imports; both imports and exports have driven Hong Kong's growth; There is no cause-and-effect relationship between South Korea's economic growth and trade; Taiwan's economic growth and trade cause and effect each other.

These empirical findings prove that trade can promote economic growth, but the causal relationship between them is not fixed and will be influenced by different trade patterns and regions, which differ the effect to different degrees and even in different directions.

2.3.2 Relationship between Chinese trade and economic growth

Specific to China's foreign trade, Li & Du (2007) choose two periods respectively, the annual data from 1983 to 2003 and quarterly data from 1995 to 2004, the conclusion is: China's exports and economic growth do not exist between the long-term stability of the dynamic equilibrium relationship, but there are causal feedback links. It demonstrates that China's export and economic growth have a positive effect. Tingvall & Christer (2012) compared the relationship between exports and economic growth in 68 countries and found that China's economic growth depended more on the growth of exports than that of other transition economies. At the same time, studies such as Lardy (2007) point out that China's long-term over-dependence on the external market is fragile and should turn to the domestic market.

At the same time, China's export intensifies the imbalance of its internal development. Liu (2005) analysis of China's trade performance shows a positive correlation between the widening of the regional gap and the expansion of trade scale. The expansion of trade import and export in the eastern region increased the rate of return on factors of labor and human capital in the region. On the contrary, the lower trade dependence in the central and western regions and the more substantial proportion of primary product exports had little effect on the increase of income in the regions. In addition to regional differences, trade patterns have greatly influenced the economic growth patterns of different provinces and cities. Xiong (2008) used the panel data of 12 provinces and cities in China to analyze the impact of processing trade on regional economic growth, found that processing trade has a positive and significant impact on regional economic growth by promoting employment and income growth.

2.3.3 Relationship between Chinese border trade and regional economic growth

The World Bank (2017) believes that border trade can strengthen economic ties, cultural understanding, social communication, and cultivate friendly relations among neighbors. China has fourteen border countries, and the border trade between China and different neighboring countries has a significant difference in the role of economic growth, respectively.

Guo (2012) believes that the direct economic effect of border trade between China and Russia is to boost regional economic growth and promote the adjustment of regional industrial structure. Zhang & Wei (2010) found that for every 1% increase in border trade between Guangxi and Vietnam, Guangxi's GDP would increase by 0.2931%. Li & Li (2011) does the correlation analysis of international openness and economic growth of China's Yunnan province, which shows, Yunnan economic growth mainly relies on investment, especially those investments in fixed assets and labor input. However, Yunnan's dependence on trade, foreign investment, border trade, and other determinants of production, such as human capital, is relatively low, which means that the role of border trade in Yunnan province has not reflected.

According to the above research, compared with other emerging economies, including Vietnam, China's exports play a substantial role in driving economic growth, which may cause an unbalanced phenomenon. Among the different trade modes, the effect of processing trade on Chinese economic growth is more prominent. Within China, the contribution of exports to the economy varies significantly among different regions. Guangxi and Yunnan provinces, which border Vietnam, are both in China's central and western regions that are relatively underdeveloped in terms of trade. Given the practical effect of border trade on China's economic development, Sino-Vietnamese border trade also has the potential to drive the development of the border economy. In terms of the current development, the border trade of Guangxi has a higher role in the provincial-level economic development than Yunnan.

2.4 The generation and development of border trade

For the generation of international trade, Eaton & Kortum (2002)'s Ricardian model, Anderson & Wincoop (2003)'s Gravity model, Melirz & Ottaviano's (2008)'s Heterogeneity of the enterprise model, respectively from the aspects of comparative advantage, the geographical position, enterprise efficiency are expounded. The geographical position and natural resource endowment will directly determine the development level of the economy, or at least can explain the reason of unfortunate occurred, Bosker & Garretse (2012) by using the model of new economic geography (NEG), examine the importance of market entry, and explain the differences in development in Sub-Saharan Africa; by using the dependence on national manufacturing trade data they also reveal the importance of trade costs and market size in determining market entry.

Other studies have also confirmed that **trade costs** (such as cross-border transaction costs) influence the intensive and extended margins of trade flows. Persson (2013) analyzed the data of products exported from developing countries to the EU, and the test results showed that if the export transaction cost decreased by 1%, the export of different and similar commodities would increase by 0.7% and 0.4%. If all countries were developing at the same level of border efficiency as the most efficient countries, the exports of different categories of goods and congeneric goods would increase by 64% and 29%.

2.4.1 Border effect theory

The theory of border effect can illustrate the representation of transaction cost in border trade. Sandler & Cauley (1980) pointed out that the closer the international exchanges were, the higher the transaction costs between economies caused by the border **shielding effect**. The border shielding effect mainly comes from the instability of the border environment, including the uncertainty and asymmetry of information. Li & Yuan (2004) argued that the existence of the concept of border leads to the emergence of "Cognitive boundary," hinders the economic actors' acquisition of the subjective perception of the other party, and increases the imperfection and asymmetry of information; The emotional attribute of the boundary reduces the sense of identity and trust between each other, increases the sense of insecurity, and correspondingly increases the transaction cost.

Some actual border cooperation study also confirmed the existence of this effect, Hutchinson & Chong (2016) argues that in Singapore, Malaysia, and Indonesia's SIJORI cross-border sub-regional economic cooperation, the three border region has deep ethnic contradictions and ethnic grievances. Different language, culture, and history significantly improve the boundary transaction cost, which raises the shielding effect. Chen (2008) found in his research on the Guangdong-Hong Kong-Macao economic cooperation zone that the boundary shielding effect brought by cognition almost does not exist due to the universal language, history, and politics.

Bröcker (1984) made a quantitative analysis of the shielding effect of borders between Western European countries, and he correlated the shielding effect of borders with the attenuation of spatial interaction. In the statistical study of trade flows between western European countries, he suggested that the shielding effect of borders was equivalent to a space of 375 kilometers between economic actors, reducing trade by one-sixth. He also believes that the lack of infrastructure in border areas increased costs (such as inspection fees), and delays in the passage of goods and people through border ports have also increased transaction costs. Guo (2012) also points out that there is a difference in gauge between the railway connecting China and Russia, so the goods need to be changed to another train while crossing the border, which increases the transaction cost and leads to the shielding effect.

Besides, due to the unique geographical location, the border also has an **intermediary effect**, serving as a spatial intermediary function for the communication and contact between the two countries. According to Li (2004), this mediating effect is generated for the following reasons: (i) Continuity and similarity of natural and human geography; (ii) In terms of economic complementarities, there is a big difference in the endowment of resource factors on both sides of the border or in the level of economic development; (iii) Transit demand arising from the links between border gates and economic hinterlands.

In some way, the border intermediary effect can explain the generation of the border trade. Therefore, how to weaken the shielding effect of the border and strengthen the intermediary effect is very important to promote the development of border trade.

2.4.2 Transformation of the border effect

For how to reduce the shielding effect, which is unfavorable to the border trade and to strengthening border trade intermediary effect which is conductive, Fujita (1999) under the framework of new economic geography (NEG), thought in the development of regional economic integration, the border region has gathered to form a new center to take advantage of the cross-border supply and demand, will be merged both sides of the border into one big market, form the industry gathered across the border. The so-called cross-border clustering is, in some ways, consistent with the purpose of building **Cross-border economic cooperation zones (CBEZ)**.

UNCTAD (2019) regards cross-border economic cooperation zones as a new feature of regional economic cooperation and a type of special economic zone (SEZ). Through appropriate policy guidance, its construction can promote participation in global value chains (GVCs), industrial upgrading, and diversification. Krainara & Routray (2015) believed that the development of border economic cooperation zones is a good development strategy to narrow the gap within a country and promote regional integration. Tao & Lu (2018) studied the construction and development path of China's exclusive economic zone, an essential part of the reform and opening-up policy, and pointed out that the construction of China's SEZs is closely related to the development of China's economy. The construction of cross-border economic cooperation zones has also injected impetus into the less developed border areas.

However, although the number of SEZs in the world is vast, at present, the development speed and achievements of SEZ vary greatly. This is mainly because, based on the observation of successful cases, the model of SEZ results have a high requirement on the consistency of regulators, organizations, and corresponding policies (UNCTAD, 2019). Moberg (2015) believes that SEZ, which will easily induce rent-seeking, can only develop under a sound organizational environment and policies. Wong & Buda (2017) believed that SEZs' spatial aggregation had a noticeable effect on reducing transaction costs. Nevertheless, they also believe that the development of SEZ of great difficulty, based on the analysis for data of 22 countries 346 zones, they several conclusions: (i) the growth of the SEZ is often challenging to maintain, due to its implementation is based on the country or the region's actual background, the succeed of SEZ often depends on the policy of a country (or a region), that is, for the development of SEZ, national structural reform has a more significant effect than SEZ's specific tax cuts policy; (ii) the size of SEZs is more important than the industry it is engaged in; (iii) the economic vitality of SEZ is often strongly related to its connectivity with surrounding developed countries or regions. Khon (2018) found through interviews that most of the SEZs in the greater Mekong subregion were in a slow stage of development due to the uncertainty of cooperation mode and coordination, as well as the consideration of trade imbalance.

These difficulties in development also pose problems in the development model for reducing the boundary shielding effect through the construction of SEZ or cross-border economic cooperation zones, which requires both policy level and infrastructure level contribution.

2.5 The promotion strategy for border trade

Through the previous section, this paper obtained from the literature review that regional economic integration, especially SEZ, plays a promoting role in weakening the border shielding effect and stimulating the development of border trade. Li (2006) by observing the border economic cooperation of different regions in the world, drew that, the development of border trade is generally experienced the path of scattered trade - frontier trade zone - cross-border economic cooperation zone. Moreover, the cooperation form always evolves from barter trade - border trade - processing trade. Which once again, proved that the border trade triggered by the role of border intermediation would continue to transform into the geo-economic cooperation development zone that "promotes trade by production." In the following chapters, the author will briefly summarize the development and characteristics of border trade in major regions of the world.

2.5.1 Chinese border trade

The development of **China's border trade** and its role in the economy are not discussed here. Just to add some discussions of the current problems in border trade. Su (2012) pointed out that Xinjiang's border trade quickly promoted local economic development, and it was also urgent to reform the management system and establish cross-border economic cooperation zones. Sun (2012) found that the main problems in border trade between Xinjiang and Central Asian countries were as follows: Unbalanced trade development, Low quality and efficiency, Simple product structure, and the Customs union between Russia and Central Asian countries that make border trade less attractive. Tian & Zhong (2007) believed that the phenomena of the border trade between China and Vietnam were mainly as follows: The border trade policy was unstable; The tax policy is not sound; Simple and homogeneous export commodities; Inadequate infrastructure. Guo (2017) conducted an empirical study on the issue of currency payment for trade between China and Russia and found that in the border areas, the Ruble was permanently replaced by RMB, and there was a phenomenon of "bad currency chasing good currency." Besides, in terms of political cooperation, Shi & Liu (2012) believes that China's border trade also faces the problem of communication between the two governments, that is, China's funds are always timely in place, but the period from planning to implementation of the other country is too long, which makes the logistics and transportation network along the border continue to be not smooth.

Through the study of Chinese border trade, it is found that the trade cost is high, and the trade barriers are widespread. Despite the rapid development of border trade with its neighbor countries, the development still hinders by the problems of the low level of trade facilitation, interference and obstruction from political factors, and backward infrastructure.

From studies on the Chinese border trade, the author draws the following **conclusions**: (i) the development of border trade in border areas, beyond the scope of the economy, has a promoting effect on social equity and regional stability; (ii) the development of border trade is greatly affected by the level of trade facilitation, especially the infrastructure and customs in border areas; (iii) good regional trade agreements can vigorously promote the development of border trade. The high level of regional economic integration is not only the product of the full development of border trade but also will promote the transformation of border trade into a higher level of cross-border economic cooperation zone; (ix) respective governments should take active promotional policies, give full attention to the border trade. The coordination of policies is a sufficient guarantee for the regular operation of the construction plan and the demonstration of the economic and social functions of border trade.

2.5.2 Determinants and Research guideline

Base on the literature review above, the author selects four main determinants that influence the development of Sino-Vietnamese border trade as the focus of this paper.

(i) **Trade patterns Determinants**, including the quantitative and structural imbalance of bilateral trade. This is based on the condition of the border mediation effect and the trend of border trade developing into the processing trade.

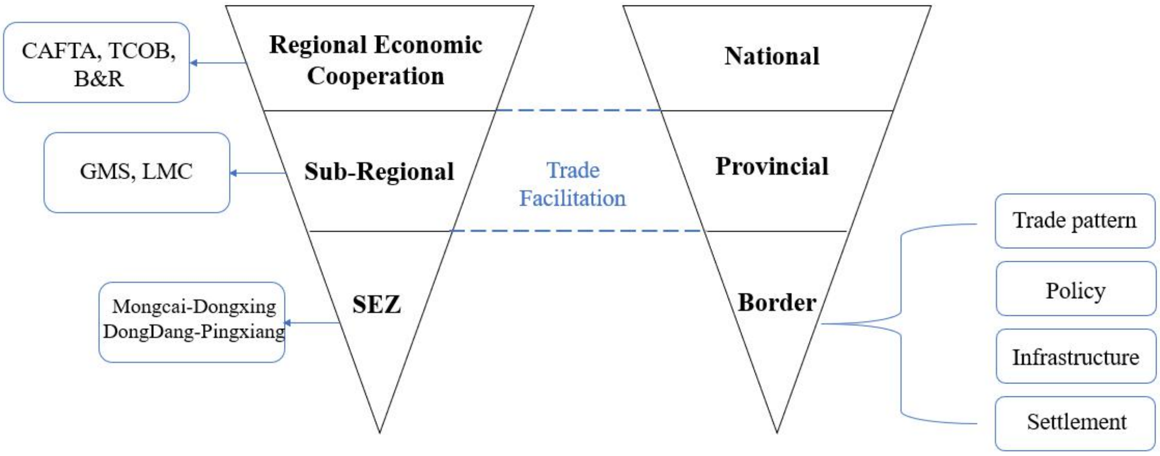
(ii) **Policy Determinants** mainly include macro-political cooperation, strategic policy alignment on border trade between the two countries, and preferential border trade policies, respectively. This is mainly based on the observation of the obstacles in the development of border trade, as well as the political demands of SEZ construction.

(iii) **Infrastructure Determinants**, including the connectivity of road infrastructure in border areas, the level of infrastructure in cross-border economic cooperation zones, and relevant trade facilitation measures. This is based on the conditions of SEZs developing, and the purpose of reducing the cost of trade, e.g., the border shielding effect.

(ix) **Financial Determinants**, this last point is based on the existing literature on significant issues in China's border trade.

According to the Research Questions and literature review, as a result of this comes the guideline of this paper which narrows from national-level to provincial-level and then focus on the border trade between Vietnam and Guangxi, in the context of regional economic cooperation and construction of Cross-border economic cooperation zones (CBEZs).

Figure 1: Research guideline[1]



Source: Author's own elaboration

Specifically, the structure of this paper is used to answer the two sub research questions in this paper, eventually answers the main one.

At the **national level**, through the analysis of China-Vietnam trade relations, along with the context of Regional (also sub-regional) economic cooperation mechanism frameworks involved by the two countries, the first sub-question, how does different regional economic cooperation affect Sino-Vietnam border trade, will be answered?

At the **provincial level**, although economic cooperation directly affecting the sub-regions may have a more direct stimulative effect on the border provinces of the two countries, this comparison diverts the focus of this paper, so the authors blur the line here. Specifically, at the provincial level, the author pays more attention to the resources, economic development and infrastructure construction of several major provinces along the border.

At the **border level**, the author not only keeps the continuity with the previous work, that is, the importance of Special Economic Zones built under the framework of economic cooperation (or in planning) is given sufficient attention. Meanwhile, the four factors summarized in the literature review above will also be discussed in depth here. Hence, the second sub-question, what factors have an impact on the development of Sino-Vietnam border trade, will be answered.

Chapter 3 Macroeconomic of China and Vietnam

3.1 China Macroeconomic

China's economy has changed dramatically in the last 40 years, both in terms of quantity and scale. At the beginning of reform and opening up, in 1978, China's GDP was only 367.9 billion yuan. By 2018, China's GDP has reached 90.03 trillion yuan. China contributed 27.5 percent to world economic growth in 2018, up 24.4 % points from 1978, meanwhile, China's GDP accounted for 15.9 percent of the world's total in 2018. Among them, in addition to the economic growth brought by foreign trade and FDI, the proportion of consumption in economic growth has also increased significantly due to the continuous increase of China's per capita disposable income (NBS of China, 2019).

3.1.1 China trade overview

The development of China's economy is inseparable from the rapid development of China's foreign trade. Here, the author will briefly describe the changes in China's trade situation from the beginning of China's reform and opening up. Since the starting point of this paper is from the view of China, and also due to China's dominant position in the current Sino-Vietnamese trade, including the border trade (this will be analyzed in detail later), an historical analysis of Chinese trade will be helpful to understand the potential consistency between two countries.

Since China began its reform and opening up in 1978, the trade economy has been placed in an extremely important position. The corresponding supporting facilities were also built, and various policies to attract foreign investment and encourage import and export were constantly promulgated. The deepening development of China's foreign trade in the 1990s mainly benefited from the promotion of the world economic development trend and the market-oriented reform of China's foreign trade system in accordance with international rules. With the deepening of opening, China's economic growth of foreign trade dependency from 33% in 1992 has increased to 43.9% in 2000, which also means 10% of China's export growth can drive 1% of total GDP growth (Lin & li, 2003). As well as attracting FDI technology and other tacit resources such as human capital, management ability was also been attracted which help with promoting the Chinese industry and the trade structure upgrade (Jiang, 2002). However, it is worth mentioning that the development of China's foreign trade is also a very serious regional imbalance. From 1992 to 2000, about 40% of the country's total exports have been concentrated in Guangdong, Shanghai, Jiangsu, Zhejiang, and other coastal provinces generally accounted for 4% ~ 10% of exports, inland provinces accounted for only about 1% of exports. Moreover, Yunnan and Guangxi provinces located in China's border areas lack trade participation, and the trade volume of border smuggling may even be the volume of trade larger than that recorded by the official records, which further intensifies the differences in China's regional economic growth rate (Shen & Ma, 2002).

Figure 2: Chinese merchandise trade volume and share of the world, Value in USD thousand and percentage[2]

Source: UNCTAD, 2019

Since China formally joined the world trade organization (WTO) in 2001, the volume of merchandise trade has been growing rapidly at an unprecedented scale and speed. In just six years, the volume of goods import and export has soared from 509.65 billion US dollars in 2001 to 2176.57 USD Billion in 2007, with an average annual growth rate of 27.4% (as shown in the chart). During this period, China rapidly grew into the world's second-largest exporter and third-largest importer of goods, becoming the "factory of the world".The trade structure has been further optimized. In addition to traditional mechanical and electrical products, high-tech products have started to rise in the import and export trade. The main body of trade is dominated by foreign enterprises, but the contribution of private enterprises is increasing. The distribution of trade markets has realized globalization, mainly in Asia and North America, while the growth is obvious in Africa and Latin America (Mofcom, 2008).

However, China's trade development model, which relies heavily on quantity rather than quality, is vulnerable to changes in external demand, trade protectionism, and rising costs. This was amply demonstrated during the 2008 global financial crisis. In the face of the severe contraction of external demand, China's foreign trade has seen drastic fluctuations. In 2009, China's import and export trade has seen a negative growth of 13.9%, a year-on-year decrease of 355.7 billion US dollars.

In response to the financial crisis on the negative impact of the foreign trade development, China's rapidly adopted raised export tax rebates, promoting trade facilitation and a series of stimulus measures, to quickly return to growth, China's foreign trade in 2010-2012 three consecutive years to keep the world's largest exporter and second-largest importer of status (Mofcom, 2013). Since then, the growth rate of China's foreign trade has moderated. From 2008 to 2012, the growth rate of China's total import and total export was 12.6% and 9.4% respectively, while the total of trade rose from 2563.26 to 3867.12 billion US dollars.

Even the negative growth occurred in 2015 and 2016, from 2013 to 2018, China remained the world's largest exporter and the second-largest importer's importing country for 5 consecutive years and surpassed the United States as the world's largest trader of merchandise for the first time in 2014 (Mofcom, 2018). The average annual growth rate of imports and exports from 2013 to 2018 was 1.8% and 2.4%.

3.1.2 The trade composition of China

Figure 3: China's major trading partners, Value in USD Billion and percentage[3]

China trading partners											
Top 5 Import Partners						Top 5 Export Partners					
2001		2010		2018		2001		2010		2018	
World	100%	World	100%	World	100%	World	100%	World	100%	World	100%
Japan	17.6%	Japan	12.7%	EU	13.8%	USA	20.4%	EU	19.8%	USA	19.2%
EU	15.0%	EU	12.1%	Korea, republic of	10.2%	Japan	16.9%	USA	18.0%	EU	16.4%
USA	10.8%	Korea, republic of	9.9%	Japan	9.1%	EU	16.8%	Japan	7.7%	Japan	5.9%
Korea, republic of	9.6%	USA	7.4%	USA	7.9%	Korea, republic of	4.7%	Korea, republic of	4.4%	Korea, republic of	4.4%
Russian Federation	3.3%	Russian Federation	1.9%	Australia	5.3%	Singapore	2.2%	India	2.6%	Vietnam	3.4%
Vietnam	0.4%	*Vietnam*	0.5%	Vietnam	3.2%	*Vietnam*	0.7%	*Vietnam*	1.5%		
Total	243.55	Total	1396	Total	2135.74	Total	266.1	Total	1577.76	Total	2486.72

Source: Author's own elaboration based on UNCTAD, 2020

Excluding Hong Kong, Macao, and Taiwan. Vietnam except in 2018 export data does not represent the sixth place but is only used for display comparison.

First of all, from the perspective of the structure of import and export markets, we can see from the figure 3 that Chinese export market has changed from the USA, EU, and Japan as the most important export places to the export pattern with both emerging market economies and traditional markets. In 2001, China exported 54.7% of its goods to the United States, Europe, and Japan, compared with 41.5 % in 2018. On the other hand, China's share of exports to emerging market economies such as ASEAN countries continued to rise over the same period, creeping up from 28.1% to 47.31% (ibid). Similarly, China's import market has increased the share of emerging market economies. Specifically, the share of imports from emerging market economies rose from 52.73% in 2001 to 72% in 2018 (ibid), while the share of imports from the US, EU, and Japan has been falling, according to the Figure 3, from 43.4% to 20.8% of China's imports during 2001-2018.

The importance of emerging economies in China's foreign trade is growing both in terms of imports and exports, and Vietnam, which is geographically close to China, shows the same trend in its trade with China. Vietnam increased its import purchases from China at the fastest rate, up 16.6% from 2018 to 2019 (OECD, 2020).

According to the above, we can observe that the growth rate of China's trade is slowing down, but it is accompanied by the continuous optimization of trade structure. On the one hand, import and export commodities continue to be dominated by mechanical and electrical products and high-tech products, and the proportion of imports and exports of private enterprises continues to expand. On the other hand, the proportion of China's general trade exports increased from 46.4 % in 2008 to 48.2 % in 2012, and the proportion of processing trade exports decreased from 47.3 % to 42.1 % (Antras & Chor, 2017). The importance of the processing trade to the Chinese economy also shown in the relatively supportive policy.

Figure 4: China's Merchandise composition, Value in USD Billion and percentage[4]

Chinese Merchandise exports by product groups			
	2001	2010	2018
Total	470.39	2948.57	4646.72
Manufactured goods by degree of manufacturing	50.0%	50.0%	50.0%
Labour-intensive and resource-intensive manufactures	17.3%	11.7%	11.5%
Low-skill and technology-intensive manufactures	5.1%	5.8%	5.5%
Medium-skill and technology-intensive manufactures	5.1%	5.8%	5.5%
High-skill and technology-intensive manufactures	16.1%	20.7%	19.5%

Chinese Merchandise imports by product groups			
	2001	2010	2018
Total	378.33	1779.5	2464.01
Manufactured goods by degree of manufacturing	50.0%	50.0%	50.0%
Labour-intensive and resource-intensive manufactures	6.1%	2.2%	2.6%
Low-skill and technology-intensive manufactures	4.0%	2.5%	2.2%
Medium-skill and technology-intensive manufactures	14.3%	15.1%	13.0%
High-skill and technology-intensive manufactures	25.7%	30.2%	32.3%

Source: Author's own elaboration based on UNCTAD, 2020

From Figure 4, a trend of optimization and improvement of China's trade commodity structure is reflected, which can be interpreted in the following two aspects. First, the new advantages of comprehensive commodity competition, which are based on technology, brand, quality, and service, have been continuously improved, gradually replacing the processing and assembly links that only rely on the advantages of labor resources to engage in the international industrial division, and promoting foreign trade to move towards the middle and high end of the global value chain. Reflecting from Figure 4 is the increasing of the High-skill and technology-intensive manufactures and the decreasing of the Labour-intensive and resource-intensive manufactures in the merchandise structure indicating that China's position in the global value chain division of labor has been improved. China's ability to supply intermediate inputs in the global production network continues to increase, and it will completely replace Japan as the core of the East Asian value chain in 2017 (Meng et al., 2018).

Second is to actively explore new market space cooperation, it is embodied in the latest three years between China and the "B&R area" along with the country's imports and exports accounted for the proportion of China's total import and export by 25. 1% increase to 27. 4%, with the average annual growth of 15. 7% (B&R database, 2019), which is important for the dispersion market concentration risk.

3.2 Vietnam Macroeconomic

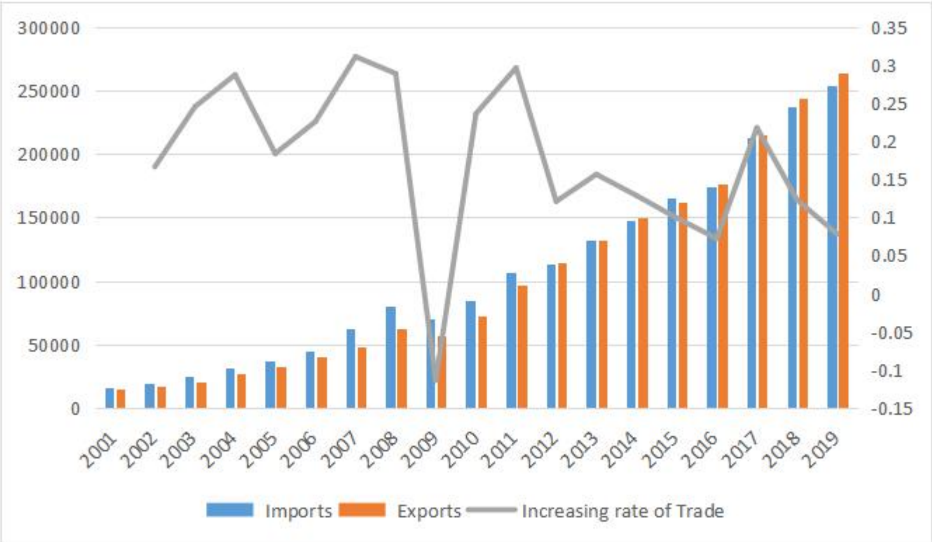
Vietnam belongs to Southeast Asia geographically and has abundant natural conditions and resources, which are favorable for economic development and also foreign trade. Since 1986, Vietnam has pursued reform and opening-up, focused on economic development, and accelerated its integration into the international community. In particular, after Vietnam joined the world trade organization in November 2006, it granted national treatment to foreign-funded enterprises. In order to further strengthen international trade, Vietnam has also accelerated the process of economic integration. In addition to joining the WTO, at the same time, Vietnam has successively participated in the Asia-pacific economic and trade cooperation (APEC), the Mekong river sub-regional economic cooperation (GMS), the Asian conference (ASEM), and the China-ASEAN free trade area (CAFTA).In addition, at present, Vietnam has 12 free trade agreements in force and 5 free trade agreements under negotiation or awaiting signature. This is an expanding pattern of opening up to the outside world. Especially The “Comprehensive and Progressive Agreement for Trans-Pacific Partnership” (CPTPP), “Vietnam - the European free trade agreement”, “Vietnam - the Eurasian economic union free-trade agreement set” are coming into force, which would give Vietnam free trade channel actually get through to Europe and the United States, Europe Asia, and other important economies. This brings to the Vietnamese companies’ enormous opportunities for

Development (World Bank, 2019a).

Vietnam's economy has grown well since the Communist Party of Vietnam (CPV) adopted the policy of reform, opening up and transforming from a planned economy to a market economy. From 2000 to 2007, before Vietnam joined the WTO, its GDP basically maintained a high growth rate of over 7%. After 2008, affected by the global financial crisis, Vietnam's economic growth rate fell to 5-7%. In 2018, Vietnam's GDP reached USD 245.2 billion, with per capita GDP reaching USD 2,617 with a GDP growth rate of 7.08% (World Bank, 2019b), the highest one since 2008. Positive economic growth is creating favorable conditions for foreign trade in Vietnam. At the same time, the role of foreign trade in Vietnam's GDP growth is also gradually strengthened. In 2018, Vietnam's total trade volume accounted for 190% of the same year's GDP, making Vietnam one of the most open countries in the world (World Bank, 2019a).

3.2.1 Trade overview of Vietnam

Figure 5: Vietnamese merchandise trade volume and Increasing rate of the total trade, Value in USD thousand and percentage[5]



Source: UNCTAD, 2019

In general, since the 21st century, especially since the CAFTA was formally established in 2010, Vietnam's economic and trade growth rate has been relatively fast (10% to 30%). The total amount of Vietnam's import and export has been in a large deficit from 2001 to 2012. The largest deficit was in 2008, a deficit of USD 18.028.7 billion in which the amounts of imports reached USD 80.713.8 billion while the amounts of exports were USD 62.6851 billion. After 2012, however, Vietnam gradually narrowed its trade deficit (except in 2015) and achieved a trade surplus. By 2018, Vietnam's foreign trade volume had exceeded 480 billion US dollars achieved a growth rate of 12.2 %which is 4.8 times that of 2007 when Vietnam entered the WTO. Exports reached USD 242.97 billion, raised 12.95% compared to 2017.with a surplus of USD 6.1 billion. Vietnam's import amounts reached USD 236.83 billion which is an 11.1% growth (UNCTAD, 2019). In general: Vietnam functioned well since the reform and opening up in 1986 to now, their economy and trade have been continuous development and made relatively great achievements. So that the level of domestic productivity has been constantly improved, it also promoted the competitiveness of the domestic industry.

3.2.2 Trade composition of Vietnam

Figure 6: Vietnam's major trading partners, Value in USD Billion and percentage[6]

Vietnam trading partners											
5 major Import Partners						5 major Export Partners					
2001		2010		2018		2001		2010		2018	
World	100%	World	100%	World	100%	World	100%	World	100%	World	100%
Japan	13.4%	China	23.8%	China	28.3%	EU	21.1%	USA	19.7%	USA	19.9%
Korea, republic of	11.7%	Korea, republic of	11.5%	Korea, republic of	20.5%	Japan	16.7%	EU	15.8%	EU	17.5%
China	9.9%	Japan	10.6%	Japan	8.2%	China	9.4%	China	10.71%	China	17.3%
EU	9.7%	EU	7.5%	EU	6.0%	USA	7.1%	Japan	10.70%	Japan	7.9%
USA	2.5%	USA	4.5%	USA	5.5%	Korea, republic of	2.7%	Korea, republic of	4.3%	Korea, republic of	7.6%
Total	16.22	Total	84.84	Total	237.41	Total	15.03	Total	72.24	Total	243.58

Source: Author's own elaboration based on UNCTAD, 2020

As can be seen from the above, since the 21st century, the total amount of Vietnam's exports to the world has been growing, the export growth rate is fast, and the types of exports are becoming more and more diversified, including crude oil, clothing and textiles, aquatic products, shoes, rice, timber, electronic products, and coffee(HKTDC, 2020). As can be seen in figure 6, the main export markets are the European Union, the United States, Republic of Korea, Japan, and China, while, at the same time, China's position is growing. Vietnam's main import partners, as shown in the figure, are less relevant to the topic of this article, which is not covered here. Vietnam's trade with its important trading partner, the Association of Southeast Asian Nations (ASEAN), will be discussed separately in the next chapter.

Figure 7: Vietnam's Merchandise composition, Value in USD Billion and percentage[7]

Vietnamese Merchandise exports by product groups			
	2001	2010	2018
Total	15.03	72.24	243.58
Manufactured goods by degree of manufacturing	45.1%	64.0%	80.8%
Labour-intensive and resource-intensive manufactures	30.9%	33.5%	29.5%
Low-skill and technology-intensive manufactures	2.9%	5.1%	4.8%
Medium-skill and technology-intensive manufactures	5.1%	5.1%	4.8%
High-skill and technology-intensive manufactures	6.1%	15.5%	36.8%

Vietnamese Merchandise imports by product groups			
	2001	2010	2018
Total	24.08	122.07	376.78
Manufactured goods by degree of manufacturing	50.0%	50.0%	50.0%
Labour-intensive and resource-intensive manufactures	11.5%	9.1%	6.9%
Low-skill and technology-intensive manufactures	9.5%	8.5%	5.5%
Medium-skill and technology-intensive manufactures	13.5%	8.5%	5.5%
High-skill and technology-intensive manufactures	15.5%	17.9%	24.2%

Source: Author’s own elaboration based on UNCTAD, 2020

Figure 7 demonstrates that In Vietnam's exports, the proportion of labor-intensive and resource-intensive labor products has gradually declined, while the proportion of high-tech and technology-intensive labor products has been on the rise, especially from 2010 to 2018, which has nearly doubled.

Specifically, Vietnam has rich mineral resources, species diversity, and at the same time is a traditional agricultural country. Thus, Vietnam has a comparative advantage of agricultural products and primary processed products. Vietnam also has a very strong labor cost with footwear, clothes and other kinds of labor-intensive products are important parts of Vietnam export (Mofcom, 2019). Therefore, Vietnam's resource endowment makes its main export products labor-intensive and resource-intensive.

Since Vietnam became a member of the WTO in 2007, its foreign trade has been increasing. There are new products with high technology content, such as electronics, computers, electronic parts, Wires and Cables, Transportation Tools, Soft Fabrics, becoming Vietnamese major exports (Trade Map,2019). The optimization of export structure gives credits to subsequent industrial upgrading and continuous progress in the division of labor of Vietnam engaging in the global value chain which is, in some way, similar to China's trade development path.

Under the requirements of industrialization and modernization, the proportion of technology-intensive products in Vietnam's import structure is gradually increasing (See Figure 7). The reason why the proportion of other categories of imported products is relatively stable shows that Vietnam, as a consumer market, has not changed significantly.

At the same time, according to the relevant report of China's Ministry of Commerce, Vietnam's import structure is gradually changing from products that meet the needs of national life to products that meet its production needs. Vietnam has been improving its Competitiveness by importing equipment from more developed economies and industrial semi-finished products for higher value-added production (Mofcom, 2019).

3.3 Sino-Vietnamese trade relation

Since the normalization of Sino-Vietnamese relations in 1991, the two countries' economies have recovered and developed rapidly. China's investment in Vietnam and bilateral trade between the two countries have grown steadily in the past 25 years. In 2018, the amount of Chinese (excluding Hong Kong and Macao) enterprises investing in Vietnam totaled USD 2.465 billion, up 13.67% year on year, ranking China the fifth-largest source of FDI in Vietnam. By the end of 2018, Chinese companies had invested in 2,149 effective projects in Vietnam with a total contract value of USD 13.35 billion. According to incomplete statistics, more than 130,000 Chinese are engaged in business and other activities in Vietnam. More than 60% of China's investment in Vietnam is concentrated in the processing and manufacturing industry, which is mainly labor-intensive (Mofcom, 2019). Base on the trade creation effect that the FDI has, the trade opportunities between home and host countries will emerge (Kojima,1988) Since China's outbound investment has an obvious export creation effect (Guo, 2019), according to Figure 8, China's growing investment scale in Vietnam also explains the growing trade scale between China and Vietnam to some extent.

Figure 8: OFDI from China to Vietnam, Value in USD Billion[8]

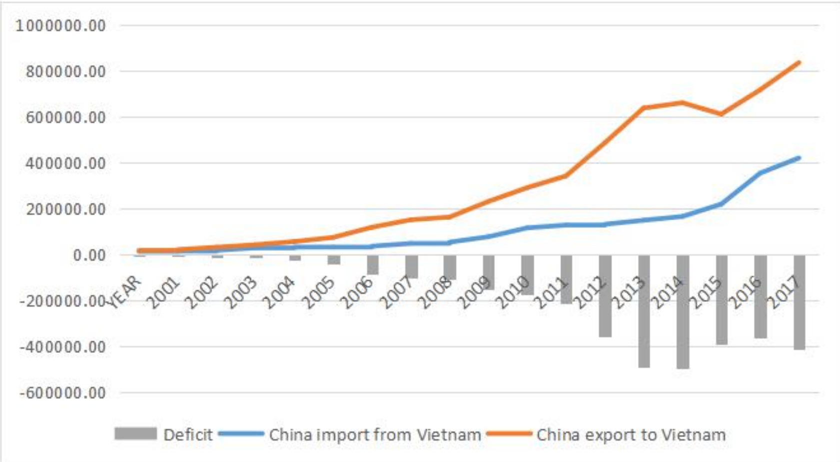
2010-2018 FDI from China to Vietnam		
Year	Amount	Stock
2010	3.05	9.866
2011	1.89	12.91
2012	3.49	16.04
2013	4.81	21.67
2014	3.33	28.66
2015	5.6	
2016	12.8	49.84
2017	7.71	57.55
2018	24.6	56.05

Source: China's OFDI Communique (2010-2018)

3.3.1 Sino-Vietnamese Trade overview

Since the normalization of Sino-Vietnamese relations in 1991, trade cooperation between the two countries has developed rapidly. Since 2000, the two countries have successfully joined the world trade organization, meanwhile, China-ASEAN free trade area agreement (CAFTA) was signed and implement, is conducive to deepening bilateral trade cooperation level (Yuan, 2019), except in 2008. The bilateral trade relationship has been on a rapid development track. In 2000, China's total trade volume with Vietnam reached USD 2.466 billion. On this basis, the leaders of the two countries set the target of bilateral trade volume reaching USD 5 billion by 2005. However, in 2003, the trade volume between China and Vietnam reached USD 4.634 billion and reached USD 8.19 billion by 2005, which is more rapid than expected. In 2015, Vietnam joined the CAFTA as a new member of ASEAN, which further promoted the bilateral trade liberalization between China and Vietnam. Under the tariff reduction arrangement of the agreement on trade in merchandise, tariffs of most import and export products between China and Vietnam reduced to 0 (Foreign ministry of China, 2019).

Figure 9: Bilateral trade of China and Vietnam, Value in USD Billion[9]



Source: Author's own elaboration based on UNCTAD, 2020

Since there are major discrepancies in phase, the author uses an authoritative third-party data to reduce the impact of the discrepancies.

As a result, the total volume of Sino-Vietnamese trade in 2018 reaching 147.86 billion US dollars, rising 21.2 %. Of this, China's exports reached USD 83.9 billion, up 17.2%, and imports reached USD 63.96 billion, up 27%. As can be seen from Figure 8, Vietnam's trade deficit with China shows a trend of growth.

3.3.2 Sino-Vietnam trade composition

In general, from 2001 to 2018, bilateral trade between China and Vietnam showed a healthy development trend. As a result of the co-existence of CAFTA and China's "One Belt And One Road" initiative in recent years, the two countries have become increasingly economically integrated and trade ever closer.

Figure 10: Merchandise Trade composition, Value in USD Billion and percentage[10]

China exports to Vietnam		Year	2001	2002	2003	2004	2005	2006
Total	STIC	Value	1.80	2.15	3.18	4.26	5.64	7.46
Food and live animals	0		3.67%	6.40%	7.74%	4.11%	3.94%	3.77%
Beverages and tobacco	1		1.21%	0.74%	0.63%	0.39%	0.19%	0.10%
Crude materials, inedible, except fuels	2		1.42%	2.13%	1.83%	1.56%	1.68%	1.46%
Mineral fuels, lubricants and related materials	3		13.30%	18.59%	22.76%	15.07%	16.43%	10.60%
Animal and vegetable oils, fats and waxes	4		0.00%	0.00%	0.00%	0.00%	0.03%	0.00%
Chemicals and related products, n.e.s.	5		13.29%	13.47%	16.20%	18.17%	13.42%	12.39%
Manufactured goods	6		19.41%	23.25%	22.54%	31.98%	36.27%	41.33%
Machinery and transport equipment	7		44.57%	28.73%	20.48%	22.80%	22.68%	25.31%
Miscellaneous manufactured articles	8		3.14%	6.69%	7.81%	5.92%	5.35%	4.94%
Commodities and transactions, n.e.s.	9		\	\	0.01%	0.00%	0.00%	0.11%

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
11.89	15.12	16.30	23.10	29.09	34.21	48.59	63.73	66.02	61.09	71.62	83.50
3.08%	3.52%	4.76%	4.99%	6.18%	4.69%	3.98%	3.97%	4.55%	5.62%	5.57%	5.09%
0.09%	0.13%	0.13%	0.08%	0.12%	0.11%	0.06%	0.06%	0.07%	0.09%	0.06%	0.08%
1.20%	1.32%	1.34%	1.55%	1.61%	1.40%	1.12%	0.92%	0.80%	0.95%	1.22%	1.03%
6.67%	6.53%	10.03%	8.01%	6.36%	5.39%	4.36%	3.99%	2.51%	1.66%	1.68%	2.31%
0.02%	0.27%	0.01%	0.04%	0.04%	0.03%	0.01%	0.01%	0.01%	0.02%	0.02%	0.01%
11.60%	10.66%	10.30%	9.08%	8.81%	7.83%	6.84%	6.00%	6.42%	7.14%	7.87%	7.43%
41.33%	35.22%	26.91%	31.96%	31.46%	31.00%	30.81%	32.59%	36.69%	36.93%	30.62%	35.74%
31.07%	35.33%	35.48%	32.82%	32.38%	31.28%	34.18%	34.88%	33.39%	33.67%	39.13%	35.38%
4.92%	6.96%	10.89%	11.47%	13.04%	18.27%	18.62%	17.58%	15.44%	12.06%	12.84%	12.93%
0.02%	0.06%	0.15%	0.00%	0.01%	0.00%	0.00%	0.00%	0.11%	1.86%	1.00%	0.00%

(a)

Vietnam exports to China		Year	2001	2002	2003	2004	2005	2006
Total	STIC	Value	1.42	1.52	1.88	2.90	3.25	3.24
Food and live animals	0		35.27%	21.58%	13.16%	9.75%	11.08%	13.65%
Beverages and tobacco	1		1.35%	2.74%	4.48%	3.08%	2.45%	0.91%
Crude materials, inedible, except fuels	2		8.94%	10.09%	12.68%	12.62%	19.40%	33.77%
Mineral fuels, lubricants and related materials	3		45.67%	50.28%	49.58%	56.43%	50.72%	32.17%
Animal and vegetable oils, fats and waxes	4		0.43%	0.14%	0.07%	0.08%	0.04%	0.11%
Chemicals and related products, n.e.s.	5		3.48%	2.49%	3.51%	2.41%	2.50%	4.39%
Manufactured goods	6		2.08%	2.46%	5.44%	6.03%	3.34%	3.78%
Machinery and transport equipment	7		1.12%	2.40%	3.82%	4.00%	5.05%	4.31%
Miscellaneous manufactured articles	8		1.45%	1.55%	1.92%	1.70%	1.91%	2.85%
Commodities and transactions, n.e.s.	9		0.22%	6.28%	5.34%	3.89%	3.51%	4.06%

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
3.65	4.85	5.40	7.74	11.61	12.84	13.18	14.93	16.57	21.95	35.39	42.03
15.12%	11.92%	15.43%	11.60%	14.62%	21.07%	21.56%	19.48%	19.45%	20.38%	16.90%	18.30%
0.61%	0.68%	0.82%	0.62%	0.62%	0.71%	1.08%	1.18%	0.85%	0.62%	0.28%	0.54%
31.49%	27.54%	20.02%	22.29%	21.86%	15.15%	17.78%	12.39%	10.43%	9.44%	7.58%	8.50%
26.84%	28.30%	29.00%	22.33%	24.59%	17.42%	9.65%	11.50%	6.11%	6.80%	3.51%	6.75%
0.51%	0.70%	0.37%	0.23%	0.29%	0.31%	0.32%	0.21%	0.28%	0.09%	0.04%	0.10%
5.02%	4.30%	5.33%	6.26%	5.64%	7.81%	7.74%	7.07%	6.96%	4.46%	3.21%	4.37%
5.90%	8.44%	9.69%	14.12%	10.51%	9.66%	10.14%	11.87%	13.38%	11.20%	8.99%	10.35%
6.09%	8.96%	9.06%	13.65%	13.28%	20.03%	24.62%	26.37%	27.30%	29.97%	44.34%	36.50%
3.60%	3.95%	3.50%	4.03%	4.93%	5.58%	7.10%	9.94%	15.24%	17.03%	15.14%	14.60%
4.84%	5.22%	6.77%	4.87%	3.66%	2.26%	0.00%	0.00%	0.00%	0.00%	0.00%	\

(b)

Source: UNCTAD, 2020

According to Figure 10 (a), the main types of Chinese exports to Vietnam in 2001 were mechanical devices (STIC 7), Manufacture Goods (STIC 6), chemical products (STIC 5), and mineral fuels (STIC 3). Machinery and equipment and manufactured products occupy the most important position, accounting for more than 70% of China's exports to Vietnam. Over time, the proportion of manufactured goods in exports has shown a rising trend, rising from 19.41 % in 2001 to 35.74 % in 2018, with a peak of 41.33 % in 2006 and 2007. The export of machinery and facilities products is relatively stable, with an average of 35%. Over time, the share of exports of chemicals and fossil fuels has fallen, dropping from 13.29% and 13.30%

in 2001 to 7.43% and 2.31% in 2018, respectively.

In general, the product structure of China's exports to Vietnam is roughly consistent with the trend of increasing the proportion of high-skill and technology-intensive products shown in Figure 4. As shown in Figure 3, Vietnam's status in China's export partner keeps improving, and China will export more and more products to Vietnam, with high value.

Next, according to Figure 10 (b), Vietnamese exports to China mainly included food and living animals (STIC), mineral fuels (STIC 3), Crude Materials (STIC 2), manufactured products (STIC 6), and machine tools (STIC 7). Compared with the structure of China's exports to Vietnam, Vietnam's exports to China have changed dramatically over the past 20 years. Due to Vietnam's comparative advantages in agriculture and China's expanding domestic market demand, the proportion of food and live animals has decreased, from 35.27% in 2001 to 18.30% in 2018, showing a trend of decline and then increase, while still keep being one of Vietnam's main exports to China.

On the contrary, the proportion of Vietnam's Crude materials exported to China in the export structure rose first, peaked in 2006, and then gradually declined. In 2017, it only accounted for 7.58%, reaching the bottom. At the same time, Vietnam's mineral fuel exports to China have fallen sharply, from a dominance position of around 50 % to 6.75% in 2018, and below an average of 10% in recent years.

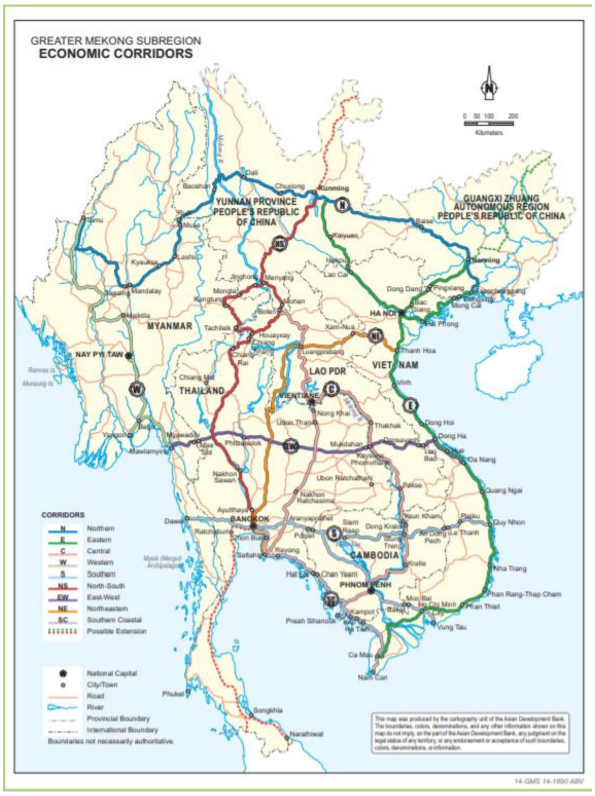
Instead, Vietnam's exports of manufactured goods and machinery to China have risen sharply in the past 20 years, from 2.08 % and 1.12% in 2001 to 10.35 % and 36.50 % in 2018, respectively. Machinery and equipment, in particular, now ranks first among Vietnam's exports to China, peaking at 44.34% in 2017.

Chapter 4 Regional economic cooperation

4.1 China, Vietnam, GMS, and LMC

The Greater Mekong subregion is the Lancang-Mekong river basin area, which spans southwest China (mainly Yunnan and Guangxi province) and five countries in Southeast Asia, namely Vietnam, Laos, Cambodia, Thailand, and Myanmar. According to the Asian Development Bank calculation, during 2010-2020, the investment requirement of infrastructure in these six countries is 4.7 trillion US dollars, which accounts for 57.12% of the total investment demand in Asia (ADB,2015). The economic cooperations in this area are mainly, **The Greater Mekong Subregion Cooperation (**GMS) & **Lancang-Mekong sub-regional cooperation** (LMC).

Figure 11: Map of Greater Mekong Subregion[11]



Source: ADB, 2015

4.1.1 GMS

Since the 1980s, the gradual prevalence of economic globalization and regional cooperation has led to the rising voice of regional cooperation based on the Lancang River and Mekong River. It is the common aspiration of all countries in the region to expand international economic and trade exchanges to promote residential development, enhance the country's comprehensive strength, reduce the possibility of military confrontation, strengthen economic ties and interdependence among countries, and form common security interests. In the 1990s, China and Mekong countries, as developing countries, lacked competitiveness in terms of economic strength and international status, which makes their mutual economic and trade assistance and resource complementarity were more needed to accelerate the development pace of their own countries and also of the region (Li, 2012).

In 1992, the Asian Development Bank helped to set up multilateral cooperation among the nations of the Mekong river basin platform and has played a decisive role in the establishment of **The Greater Mekong Subregion Cooperation (GMS)**. After more than 20 years of unremitting efforts, the GMS has become one of the most successful projects of

ADB, making an essential contribution to peace and development of the subregion (Rui, 2009), and also laid a foundation for the further cooperation between China and ASEAN in the future.

GMS mainly treats the project as the leading factor, and it aims to strengthen the regional infrastructure to improve trade and investment cooperation and to promote the development of the regional resources, alleviate the shortage of capital in the development. GMS trying to help the sub-region countries, can in a relatively short period to obtain the economic level of ascension, with advancing the reform of the economic system and continuously adjust their industrial structure, continuously opening to the world, gradually realizing the transformation from a planned economy to a market economy, and from a single agricultural economy to an industrial economy. Furtherly, GMS improved the flexibility and efficiency of the market, to speed up the development of their integration into the global economy. (Zhou, 2018). Since many projects in the GMS aimed at accelerating regional economic cooperation, such as infrastructure, logistics, the GMS has played a significant role in promoting the economic and trade development of the countries in the region.

Since the implementation of the GMS, Vietnam's participation has contributed to regional economic growth. By February 2017, the GMS partnership program in Vietnam had reached about $6 billion, accounting for about 30% of GMS's total borrowings. Among them, the transportation sector accounted for 87%; Market development accounted for 7.9%; Health and social security accounted for 2.7%; Agriculture and natural resources accounted for 3.7%; Industry and trade accounted for 0.4%; Transport and trade accounted for 0.2% (Zheng, 2018). Under the framework of GMS, the financially supported North-South economic corridor, East-West economic corridor, and South coastal economic corridor help Vietnam maximize economic benefits from transportation hubs and strengthen trade volume and investment in various regions in the economic corridor (Li, 2017). The Vietnamese government also indicated that it would expand cooperation with countries in the region (Vov, 2018).

In 2017, the total trade volume among Lancang-Mekong sub-region countries had exceeded 500 billion us dollars, of which the total trade volume between China and the five Mekong countries has exceeded 200 billion us dollars. The importance of Chinese investment in the economic growth of Mekong countries is becoming increasingly prominent (Li, 2017).

4.1.2 LMC

Thailand first proposed the idea of **Lancang-Mekong sub-regional cooperation (LMC)** in 2012, and it formally emerged as the first multinational foreign ministers' meeting on the theme of Lancang-Mekong cooperation mechanism held in Yunnan province of China on November 12, 2015. After consultations, it officially launched on March 23, 2016. Similar to GMS, the participating countries are still six countries in the region. However, LMC expands the scope of cooperation in GMS to cover more aspects such as water resource protection, ecological and environmental protection, risk assessment, poverty reduction, disaster prevention, disease prevention, tourism, and capacity building based on the primary purpose of economic cooperation (Liu, 2018). Especially, LMC set a "3+5+X" cooperation framework, e.g., Politic & Safety, Economy & Sustainable Development, Society & Humanity as three core conceptions; And give priority to cooperation in five areas: connectivity, cross-border economy, water resources, agriculture, and poverty reduction; Finally on this basis expand cooperation in more areas such as the digital economy and environmental protection (LMC Secretarial, 2018a).

4.1.3 Connection of GMS and LMC

In terms of the relationship between international cooperation mechanisms, the GMS and the LMC fully embody the characteristics of Nested Type, that is, the member states are identical, the geographical scope is overlapping, and the topics are overlapping (Alter & Meunier, 2009).

From the difference in emphasis between GMS and LMC, it can be seen that the cooperation mechanisms in Asia (More precisely, Greater Mekong subregion) characterized by more diversified cooperation areas, more profound cooperation degrees, and increasingly strengthened awareness of cooperation and protection of natural ecology. As LMC pays more attention to ecological and social responsibilities, the cooperation based on LMC framework will provide much long-term help to the healthy development of the region.

Moreover, since the GMS is dominated by the Asian development bank, while six countries in the region dominate the LMC, the LMC can also be regarded as an upgraded version of the GMS from exogenous power to endogenous power.

However, the emergence of a high level or new cooperation mechanisms does not mean the death of low level or old cooperation mechanisms. As a result, multiple overlapping mechanisms often adapt to each other and coexist for a long time (Keohane, 1984). Evidence can be found in the future development plans of both GMS and LMC.

Through the **“Strategic framework for the new decade (2012-2022)”**, GMS provides a clear direction for the cooperative development plan for the third decade and establishes three strategic objectives: To promote the process of sub-regional integration; Improving infrastructure connectivity and creating a favorable policy environment; promote sustainable development in the subregion. The GMS lists infrastructure connectivity, trade, investment, human resources development, and information and communication technology as eight priority areas for cooperation. Against the background of the sluggish world economy and the challenges facing the regional development, the new strategic framework also fully demonstrates the willingness of the countries in the sub-region to deal with the challenges through "closer cooperation, more targeted and innovative approaches" (GMS, 2011). In March 2018, the joint declaration adopted at the sixth GMS leaders' meeting proposed to strengthen coordination and cooperation with the "UN 2030 agenda for sustainable development", ASEAN, the "One Belt And One Road initiative," "LMC" and other relevant development initiatives (GMS, 2018), which shows a strong willingness of compatibility.

Meanwhile, the **“LMC's five-year action plan (2018-2022)”** clearly states that it will "strive to build a new type of sub-regional cooperation mechanism with unique features, internal driving force, and incentives from south-south cooperation, to contribute to the ASEAN community building and regional integration process, and promote the implementation of the UN 2030 agenda for sustainable development. During these five years, in 2018-2019 as the foundation stage, LMC will focus on strengthening cooperation plans in various fields and promoting the implementation of small and medium-sized cooperation projects. To consolidate and deepen the promotion stage, LMC will focus on strengthening cooperation in priority areas, expanding new cooperation areas, improving cooperation mode, and exploring and promoting large-scale cooperation projects (LMC courses, 2018b).

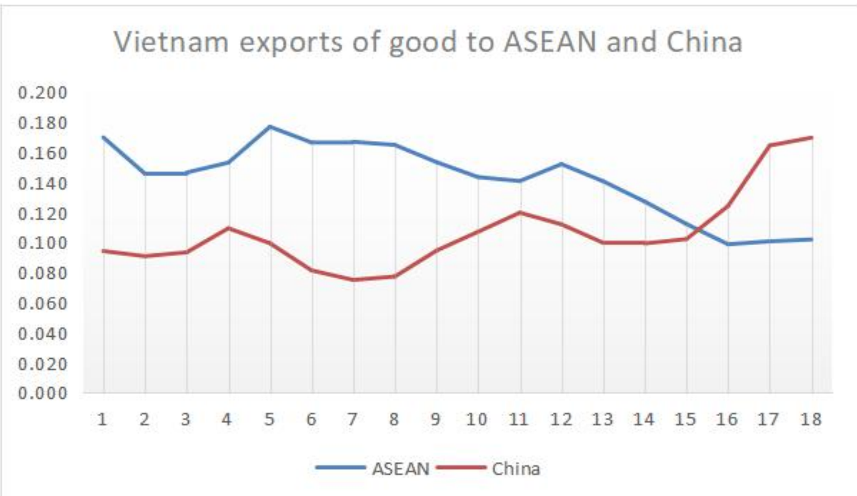
In summary, the development modes of GMS and LMC have common points and converging points in time planning, cooperation priorities, cooperation concepts, and other aspects. The development plan of GMS also clearly states its willingness to be complementary and coordinated with "other Mekong sub-regional mechanisms." How the countries in the Mekong region deal with the two cooperation mechanisms is crucial to achieving regional prosperity and stability.

4.2 China, Vietnam, and CAFTA

4.2.1 Vietnam and ASEAN

The Association of Southeast Asian Nations (ASEAN) first proposed in 1967. Through negotiations and consultations, five Southeast Asian countries -- Indonesia, Singapore, Malaysia, Thailand, and the Philippines -- signed the ASEAN Declaration (Bangkok Declaration), which proposed the establishment of ASEAN in Bangkok, Thailand. Its secretariat located in Jakarta, the capital of Indonesia. Since then, new members have joined in succession, with a total of 10 (Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand, and Vietnam), with a population of 642 million (as of 2017) (ASEAN Statistic, 2018). Vietnam formally joined ASEAN in 1995, marking further cooperation with other southeast Asian countries in economic cooperation and trade liberalization (ASEAN Secretariat, 2012). As can be seen from the figure 12 below, ASEAN is a valuable trading partner of Vietnam. Until 2010, ASEAN always accounted for a large proportion of Vietnam's trade (over 15% of exports and over 20% of imports). In recent years, however, ASEAN's importance to trade with Vietnam has declined as the country's economy has opened up, and its cooperation with more economies has deepened. The import share has declined significantly, to 13.4% in 2018, and the export share to 10.2%. In sharp contrast to this is Vietnam's foreign trade, China's share. As mentioned above, China is Vietnam's largest trading partner. In 2018, Vietnam's exports to China accounted for 17.0%, and imports accounted for 27.4%, up 7.5%, and 17.7% respectively from 2001.

Figure 12: Vietnam trade Proportion with ASEAN and China[12]



Source: TradeMap, 2019

4.2.2 CAFTA

Figure 13: Map of CAFTA[13]

Source: Geocurrents, 2010

ASEAN-China Free Trade Area (CAFTA), which is composed of China and ten ASEAN member countries, is one of the three free trade areas in the world in terms of the scale of trade, which is equal to the European FTA and the North American FTA (Park, Park & Estrada, 2009). The CAFTA first proposed in 2001 to establish a China-ASEAN free trade area. In 2002, the framework agreement formally signed. At the sixth meeting of China-ASEAN leaders, all countries signed the framework agreement on comprehensive economic cooperation between China and ASEAN. The agreement's main content is to propose a China-ASEAN free trade area, and the deadline is 2010 (Sheng, 2003). By January 1, 2010, the CAFTA formally established. After establishing, the free trade area became a cooperative organization with 11 countries with a total population of 1.9 billion and a GDP of 6 trillion us dollars (2010). Bilateral trade between China and ASEAN accounted for 13% of the total world trade (CN-ASEAN web, 2019). Therefore, no matter from the perspective of the total population or territorial area, the China-ASEAN free trade area is currently the largest in the world in terms of population and consumption potential.

Since China and Vietnam both engaged in the CAFTA, which will facilitate the economic cooperation between the two countries, below, the author will introduce the framework and the agreements of the CAFTA relevant.

"China-ASEAN framework agreement on comprehensive economic cooperation" is a framework agreement, the signed date is November 4, 2002, and the effective date is July 1, 2003. The terms of the agreement divided into 16 specific areas, which agree on a fundamental law to deal with the Chinese association of Southeast Asian Nations (ASEAN) (Wang, 2010). The main content of the CAFTA framework agreement has the following several aspects.

First of all, the main content of the agreement provides the core of the CAFTA around the trade of goods, trade in services, investment projects, and economic cooperation in any other way. Among all, the **core mission is to promote trade in goods** (except for a few sensitive products), requiring tariffs of all products to phase out following the relevant provisions and reduce, in order to promote bilateral trade.

Secondly, **the deadline for the agreement varies** from country to country. The agreement stipulates that from 2003 to 2004, the two sides should reach agreements on economic cooperation within agriculture, industrial manufacturing, and financial investment as the main focus, and then gradually expand into other fields, which suppose to eventually almost covered every area of economic activities. Since 2005, China and ASEAN have implemented tax reduction measures on regular track products in accordance with the agreement. Some ASEAN members (Thailand, Indonesia, Malaysia, Brunei, Singapore, and the Philippines) have a final date of 2010. Finally, through the process that China and ASEAN 10 member states support for the construction of the free trade area, finally, cancel non-tariff measures, realize **zero tariffs, and trade liberalization** on a vast majority of products. In order to keep the agreement is valid and able to perform, both sides according to the agreement, following the rules of origin, anti-subsidy and anti-dumping trade negotiation, the dispute settlement mechanism, and, to maintain the basic rules for trade (CN-ASEAN web, 2019).

In addition to the frame agreement, the "Agreement on trade in goods" is a normative document concerning the goods trade between China and ASEAN. The main content is the tariff arrangement, including tariff reduction, concessions, amendment, quantitative restriction and elimination of non-tariff barriers, the establishment of general exceptions, and security exceptions (Mofcom, 2014), providing a detailed guide to fulfill the core mission of CAFTA: promoting trade of goods.

The "China-ASEAN framework agreement on comprehensive economic cooperation on trade in services," on January 1, 2007, signed at the 10th China-ASEAN summit and sets out detailed rules on how to lower tariffs trade in services and when. The agreement on trade in services also defines the rights and obligations of China, and ASEAN member states of trade in services under the framework. According to the agreement, both sides must reduce tariffs on trade in services and further open up to related service sectors (Chen, 2011). The agreement expanded the scope of trade liberalization from trade in goods to trade in services, further raising the level of trade liberalization and providing a prerequisite for the growth of trade between China and ASEAN.

In 2009, “the Agreement of the investment between China and ASEAN" was signed at the 8th China-ASEAN economic and trade ministers' meeting. The agreement aims to create an open, transparent, and fair investment environment. Under the framework of CAFTA, the safeguard national treatment and most-favored-nation treatment, ensuring fair treatment, improving the transparency of investment laws and regulations, and providing sufficient legal protection for investors of both sides. At the same time, the agreement gives both favorable investment conditions, creates a pleasant investment environment, promotes capital circulation between countries, and promotes investment facilitation and liberalization (Yang, 2016).

Therefore, it can be seen that under the framework of economic cooperation, the China-ASEAN free trade area has carried out detailed regulations on trade in goods, trade in services, and FDI, which has played a significant role in promoting economic integration cooperation of the whole region. By the end of 2010, China's average tax rate on ASEAN is 0.1%, while ASEAN's tax rate on China is 0.6%, achieving the CAFTA's goal of overall tax reduction (You, 2017).

4.2.3 CAFTA upgraded

Moreover, based on all tariff reduction requirement under CAFTA has fulfilled, in September 2013, on the 10th China -ASEAN Expo, China's prime minister, Li Keqiang, put forward building the CAFTA upgraded version, with updated and expanded the content and scope of the free trade agreement (Datuk, 2014). Eventually, to get a result of enhancing the level of trade and investment liberalization and facilitation. In November 2015, Premier Li Keqiang signed the “Revised China-ASEAN comprehensive economic cooperation framework agreement” with ASEAN leaders in Singapore and Malaysia (CAFTA secretarial, 2015). In May 2016, the upgraded CAFTA took effect (CN-ASEAN web, 2019).

Compared with the original CAFTA, this upgraded version updates and expands the content and scope of the original agreement to a great extent reduces non-tariff restrictions on ASEAN countries, stipulates specific market access conditions, and improves the investment cooperation mechanism of both sides, thus playing a role in improving the current trade imbalance. In addition, the upgraded CAFTA has promoted a new round of infrastructure construction and launched a new batch of service trade negotiations (Huang, 2019).

Table 1: Comparison between the CAFTA original and the upgraded version of CAFTA[14]

	CAFTA Upgraded	CAFTA Origin
Trade of goods	The rules of origin shall be subject to substantive change criteria, including "40% of the value of the region" or "change criteria of tax classification," which shall be freely selected by enterprises	The rule of origin of goods trade is "the proportion of regional value shall account for 40%."
Trade of service	Allow the other party to set up wholly-owned or joint venture enterprises in the field of service trade, relax the equity ratio and expand the scope of business	Basically, consistent with commitments to WTO
Customs and trade facilitation	On the negotiating agenda	Not included
Cooperation	Cooperation in agriculture, forestry and fisheries, information industry, tourism, transportation, and intellectual property	Not included
Cross-border E-commercial	On the negotiating agenda, as an important driving force for the development of trade and investment	Not included

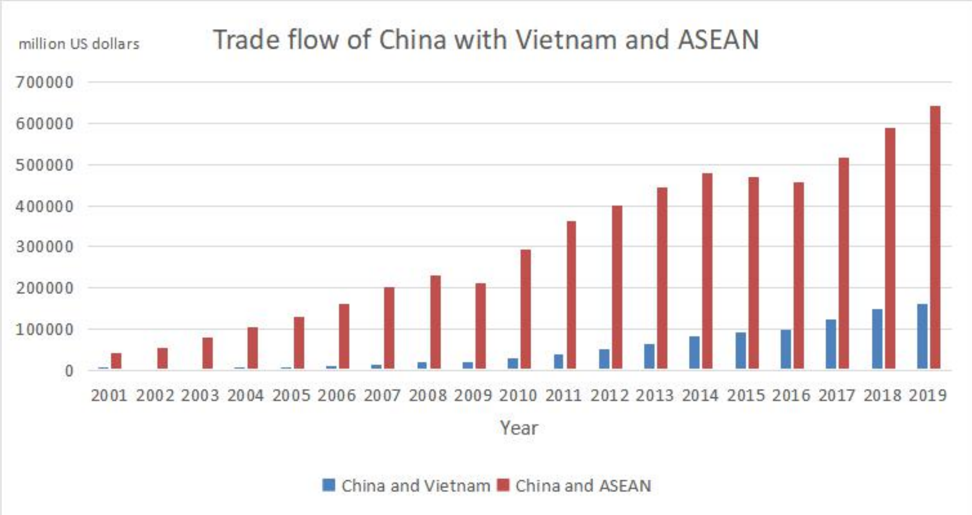
Source: Author's own Elaboration based on CAFTA agreements

From the development of trade between China and ASEAN and the changes of the origin and upgraded CAFTA, it can be seen that the willingness of economic cooperation between the two sides keeps a good momentum with their economic development, respectively. As the details of the treaty continue to improve, regional economic cooperation will further be strengthened.

As a result, the bilateral economic exchanges have greatly improved, so it can confirm that the FDI creation effect and trade creation effect brought by CAFTA is manifested.

In terms of FDI, the cumulative two-way investment between China and ASEAN reached \$205.71 billion by the end of 2018, of which China's cumulative investment in ASEAN was \$89.01 billion, and ASEAN's cumulative investment in China was \$116.7 billion. The stock of two-way investment has increased by 22 times in the past 15 years. In 2018, China's non-financial direct investment in ASEAN reached \$9.95 billion, up 5.1% year-on-year. ASEAN investment in China reached \$5.72 billion, up 12.5% year on year (Mofcom, 2019c).

Figure 14: Trade flow of China with Vietnam and ASEAN[15]



Source: China-ASEAN Centre, 2019

In terms of trade, ASEAN became China's second-largest outbound investment destination for the first time in 2018. In 2018, the China-ASEAN trade volume reached $587.87 billion, up 14.1 percent year on year. The growth rate exceeded the average level of China's foreign trade and was the fastest among China's top three trading partners (10.6 percent increase with the European Union and 8.5% increase with the United States). Of this, China's exports to ASEAN reached $319.24 billion, rising 14.2% over the previous year. Imports from ASEAN reached $268.63 billion, with an increasing rate of 13.8%. China has been ASEAN's largest trading partner for ten consecutive years, and ASEAN has been China's third-largest trading partner after the EU and the US for eight consecutive years (China-ASEAN Centre, 2019). Notably, since 2018, Vietnam has become China's largest trading partner in ASEAN (CAEXPO, 2018). The proportion of the total trade volume between China and Vietnam in that of China and ASEAN countries had increased from 5.95%, at the beginning of the establishment of CAFTA in 2002, to 10.27% when the CAFTA was fully completed and started to upgrade in 2010. By 2019, China's total trade with Vietnam accounted for 25.25% of China's total trade with ASEAN.

4.3 B&R, and TCOB

4.3.1 TCOB

In addition to the regional economic cooperation frameworks: GMS and CAFTA, in which Vietnam and China participate, there are also direct cooperation projects between the two countries. As early as May 20, 2004, Vietnam proposed to China that the two countries jointly build "**Two Corridors & One Belt**" (TCOB), which has received a prompt and positive response from China. On October 8, 2004, the two sides proposed in the joint communique to set up an expert group under the framework of the economic and trade cooperation committee of the two governments to build TCOB (Gu,2005).

"Two corridors & One Belt" in which the "Two corridors" refer to the corridor through "Kunming -Lao Cai - Hanoi - Hai Phong - Quang Ninh," and the one through "Nanning - Lang Son - Hanoi - Hai Phong - Quang Ninh." Moreover, the "One belt" (or One Ring) refers to the Beibu Gulf economic circle. The cooperation covers Guangdong, Yunnan, Guangxi, and Hainan provinces in China and Lao Cai, Lang Son, Quang Ninh, Hanoi, and Hai Phong provinces in Vietnam, covering an area of 869,000 square kilometers (Zhang, 2009). In 2008, the Vietnamese government approved the decision on the Lang Son - Hanoi - Hai Phong - Quang Ninh economic corridor development plan by 2020 (decision 98/2008 / QD-TTG).

On March 2, 2009, the Vietnamese government approved the "Decision on the development plan of the Beibu gulf coastal economic circle by 2020", which made the two economic corridors of Vietnam and China and the Beibu gulf coastal economic zone realize the connecting(CGTN, 2017), which created favorable conditions for the trade of Vietnam and development cooperation with China and ASEAN. It also lays a good foundation for the future connecting between TCOB and China's B&R plan.

From the perspective of Vietnam, the goal of developing TCOB is to build the Vietnam-China cooperation to promote the development of the economically backward areas in the north of Vietnam through the trade and other kinds of economic cooperation. The region's potential and advantages will be exploited to promote the economy of provinces and cities in the north of Vietnam, and the border trade will become a regular trade step by step (Nguyen, 2019), which is an essential driver of Vietnam's future economic growth.

On the Chinese side, the two economic corridors of TCOB mainly involve Yunnan province and Guangxi Province. Yunnan is along the Kunming - Hanoi -Hai Phong line, while Guangxi is along the Nanning - Hanoi - Hai Phong line (CGTN, 2017). The purpose of TCOB is to promote southwest China's development and regional integration based on the cooperation and development between North Vietnam and southwest China. As the northern region of Vietnam, Yunnan and Guangxi are both relatively underdeveloped provinces in China, and a large part of their trade is border trade generated by their geographical location. Meanwhile, Guangxi and Yunnan are important entry points connecting China and ASEAN, thus play essential roles in the construction of the China-ASEAN Free trade area. TCOB cooperation is the regional cooperation under the framework of the China-ASEAN free trade agreement, which can regard as the pilot area of the China-ASEAN free trade area. Therefore, China is actively building expressways and railways connecting the two countries. (Li, 2016).For China, whose economic growth rate is slowing, the construction of the southwest region is equivalent to the construction of a new economic growth pole.

It is important to note that China emphasizes that the TCOB is the cooperation between Vietnam and China, and which will not develop into a multilateral relationship. China wants to show the demonstration of border trade fully and does not encourage swift border trade to the regular trade while the Vietnam government does (Ruan, 2019). This reflects not only the differences in the cognition of border trade between China and Vietnam but also relates to the differences in their border trade policies, which will discuss further in the next chapter.

4.3.2 B&R

The One Belt And One Road（B&R）initiative was put forward by China in 2013 and had far-reaching strategic significance for China's economic development (Xinhua Net, 2013). The "One Belt And One Road" initiative is a new platform for international cooperation in meeting the common needs of countries along with the project, complementing each other's advantages and building a prosperous road with other countries along the Belt and Road (Zhang, 2017). B&R includes five routes:

The northern line A: North America (the United States, Canada) - Japan - South Korea - the North Pacific sea - Vladivostok (Rubino port, Slavic Yang card) - Hunchun - Yanji - Jilin - Changchun (i.e., ChangJiTu development pilot area) - Mongolia - Russia - Europe;

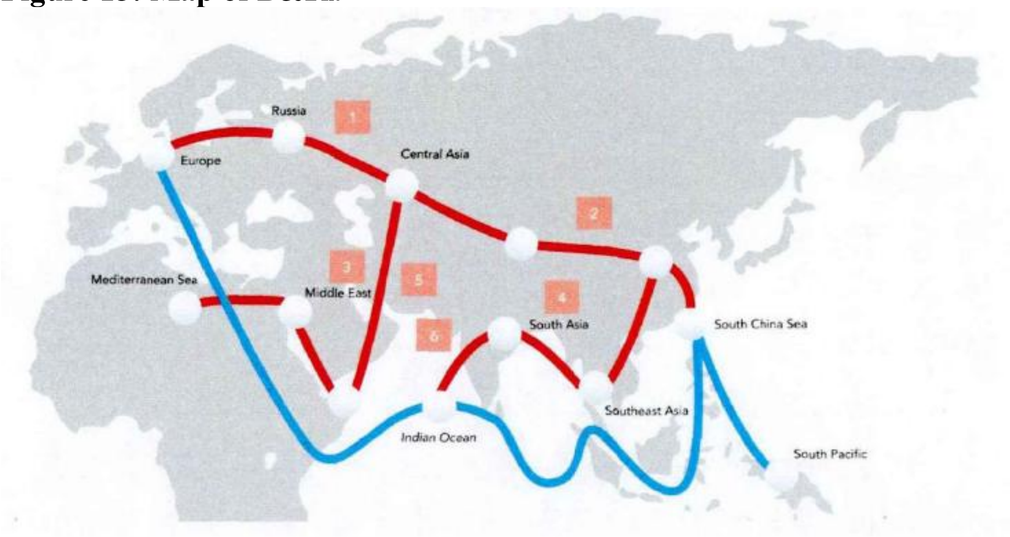
The northern line B: Beijing - Russia - Germany - Northern Europe;

Central Line: Zhengzhou - Xi 'an - Urumqi - Afghanistan - Kazakhstan - Hungary - Paris;

The southern line: Quanzhou - Fuzhou - Guangzhou - Haikou - Southern China coastal area - Hanoi - Kuala Lumpur - Jakarta - Colombo - Calcutta - Nairobi - Athens - Venice;

And the centerline: Lianyungang - Zhengzhou - Xi 'an - Lanzhou - Xinjiang - Central Asia (Xinhua Silk Road, 2019). Among them, Vietnam is on the southern route.

Figure 15: Map of B&R[16]



Source: B&R portal, n.d.

An essential part of the One Belt And One Road plan is to raise the infrastructure level of countries along the road through the Asian infrastructure investment bank (AIIB), so as to form a more secure and efficient logistics network among regions, eventually to achieve the fundamental goal of promoting investment and trade facilitation (Hu, Fu & Zhang, 2019). In terms of its purpose and realization method, it coincides with the TCOB proposed by Vietnam, so it is highly necessary and feasible to combine the two.

4.3.3 Strategic connecting of B&R and TCOB

As mentioned above, in 2009, Vietnam decided to align the TCOB program with China's Beibu Gulf economic zone program, strengthening the economic cooperation between the two countries. Guangxi Beibu Gulf economic zone development plan was formally approved and implemented by the state planning commission of China on January 16, 2008. In the plan, the state planning commission proposed to develop the Guangxi Beibu Gulf international economic zone into China's first international critical regional economic and technological cooperation zone, which is also the only coastal Economic Zone in Southwest China (Zhou & Yang, 2009). The Guangxi Beibu Gulf Economic Zone located in the area where the south China Economic circle, Pan-pear River Delta Economic Cooperation Zone, and the China-ASEAN Economic circle overlap each other, and it is the only ocean channel connecting China and ASEAN countries. Therefore, it has distinct geographical advantages and has obtained a series of preferential policies, including financing, infrastructure construction, tax reduction, and exemption (XinHua News, 2016). In 2018 in the "Southwest land and sea corridor planning," China involved the Beibu gulf economic zone as an important part of the B&R plan (Guangxi Beibu gulf development research institute, 2019), and has played an important role of the strategic connecting of TCOB and B&R (Chen, 2016). It can say that the Beibu Gulf economic zone is not only a foundation for the economic cooperation between China and Vietnam but also one of the focuses under the joint development plan of TCOB and B&R.

The TCOB plan achieves achievements since its implementation has provided a solid foundation for the cooperation between TCOB and B&R. For attracting *FDI*, the Vietnamese government has formulated several measures to promote investment since 2013, including improve the investment law and political system and enact preferential policies that are superior to those of other countries in the region. The Vietnamese government also improves the effectiveness of the *approval process* of TCOB related projects and has achieved breakthroughs in the reform of the management system (Li, 2016). In terms of *trade facilitation*, Youyi Guan border gate, on the border of China and Vietnam, has adopted an e-port system since 2006 to improve the speed and efficiency of customs clearance, but the e-port system in both countries does not use a shared database. Simultaneously, cooperation between the two countries in the areas of financial services, inspection and quarantine, warehouses, and information verification has continuously strengthened. Also, a *visa-free policy* has been implemented in the border areas. Vietnamese traders and tourists can stay in Guangxi and Yunnan provinces for seven days without a visa, and Chinese businesspeople can enjoy the same treatment in the border areas of Vietnam. Other measures like high-quality training talents are also including (CNR, 2008). These measures have provided a boost to the development of bilateral trade, especially the border trade.

In terms of communication between the two governments, during the meeting among leaders of China and Vietnam in 2015, both sides expressed the willingness to speed up the connecting of "Two corridors and One belt" with "One Belt And One Road" and would conduct consultations on documents. The two governments have signed some memoranda of understanding, and some documents still need to be signed through consultation. On November 5, 2015, Vietnam and China issued the China-Vietnam joint statement. In December of the same year, the 7th economic corridor cooperation meeting between the Yunnan province of China and Quang Ninh, Hanoi, Lao Cai of Vietnam, was held in Kunming. The main contents are to promote the interconnectivity between Vietnam and China by strengthening the economic and trade cooperation by combining the two projects. At present, the two countries are negotiating and signing a cooperation document on the alignment of the "One Belt And One Road" initiative and the "Two Corridors and One Belt" development strategy (Le Thi Ngoc Bich, 2017). This is a strategic guidance document that will further enhance bilateral cooperation and bring bilateral economic and trade cooperation to a new level. Vietnam and China signed 12 memorandums and seven documents during President Xi Jinping's visit to Vietnam on November 12, 2017. These 12 memorandums are mainly related to promoting the connection of "TCOB" and "B&R," more specifically, promoting the negotiation of bilateral border trade cooperation framework, e-commerce cooperation, training of talents, strengthening cooperation in electricity and energy, cooperation in culture, sports and tourism, cooperation in treatment, border defense, and put the focus on the five-year plan of China-Vietnam economic cooperation (Scio, 2018).

Above all, it can be seen that China and Vietnam attach great importance to each other's economic cooperation in the region, and hope to expand economic cooperation in more directions such as personnel flow, regional security, and stability. In fact, due to the construction of the China-Vietnam international railway and the China-Vietnam border roads, China regards Vietnam as one of the countries with the highest level of infrastructure connectivity (B&R Portal, 2019).

From the connecting of B&R and TCOB, it can see that the consistency of the two sides' cognition of each other's importance in economic development will provide

a long-term impetus for future economic cooperation. To some extent, the integration of their respective economic construction plans will reduce potential disputes and indicate a notable economic trend and trade development between China and Vietnam.

4.4 Regional economic cooperation development: deepening but uncertain

On the whole, the level of regional economic cooperation between East Asia and Southeast Asia, more specialized, between China and Vietnam, has shown a trend of gradually strengthening. On the one hand, this is consistent with the current trend of regional economic integration in the world, and on the other hand, it also demonstrates the purpose of the countries in this region, as emerging economies, to continuously improve their economic strength. The strengthening of regional economic cooperation has different forms: The expansion of cooperative areas like the LMC adding resource protection and other forms of cooperation compared with GMS. Another way is to improve the existing agreement, which can be seen as a clue by comparing Original CAFTA and Upgraded CAFTA. Finally, an increasingly common willingness from the two sides to cooperate will lead to the organic combination of their economic development plans, such as TCOB and B&R. However, even in the context of strengthening regional economic cooperation, there are still a few problems that should be awarded.

First of all, it is worth noting that some forms of regional cooperation are extremely **fragmented** due to a large number of economies in the region, that is, the overlapping and competition between cooperation mechanisms and the excessive influence of non-economic factors. Taking one of the most complex areas, Mekong river basin, as an example, t there are many kinds of cooperation mechanisms related to the region. The mechanism for water resources and environmental governance issues, at the same time there are: the Mekong river commission (MRC), Lower Mekong Initiative (LMI), and Southeast Asia river Network (LRS); based on connectivity issues mechanism, exist the Lancang - Mekong river cooperation mechanism (LMC), and Japan - foreign ministers' meeting of the Mekong River and the Greater Mekong subregion (GMS). Besides, among the cooperation mechanisms in the Greater Mekong subregion, there are also overlapping mechanisms such as the Golden Quadrangle cooperation mechanism (QEC), the ASEAN-Mekong river basin development cooperation mechanism (AMBDC) established by ASEAN countries and Mekong region countries, which are overlapped on issues such as economic cooperation, agriculture and poverty reduction. (Zhao, Xu, 2019; Chheang, 2010). Although from an idealized perspective, these overlapping international mechanism can be a supplement and promote each other, however, from the reality, because of the differences of development level of countries in the area, the demand of the participants, object, function, and goal of the different mechanism are imbalance. Combined with the intervention from the power outside the region (Like Japan and Korea), the effectiveness of the various mechanisms could increase, but it would have a bigger chance to hinder the regional governance process.

Secondly, the direct **competition of different regional economic cooperation** may evolve into a new type of non-tariff trade barrier. Among all economic cooperations, the most direct influence on Sino-Vietnamese trade should be the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which excludes China. According to the related research, Vietnam joined CPTPP has a direct influence on the trade development, which is not conducive to the stability of bilateral trade development between China and Vietnam (Huang, Chang & Ouyang, 2017). From the previous trade overview part,it can know that although Vietnam has abundant resources, it mainly exports to China agricultural, forestry products, minerals, and other low-technology primary processed products. Meanwhile, Vietnam imports food, machinery, equipment, electronic products, vehicles, and other products from China, which is relatively high technical content (Yuan, 2018). After Vietnam joins the CPTPP, it will affect the import and export structure of commodities between China and Vietnam, and the competitive advantage of some Chinese products will also be lost, such as electronic products. Due to the zero-tariff treatment of CPTPP, Vietnam is likely to turn to Japan to import electronic products. Also, Vietnam's abundant labor resources, after joining the CPTPP, will have more opportunities for alternative processing and expand the production scale of domestic enterprises in Vietnam, which will become a massive competitor to China. Finally, the rules of origin of CPTPP will also impact Vietnam's import of raw materials for export, such as giving up yarn, cotton, and other apparel production raw materials imported from China at a low price obtain subjective preference (Lu, 2018). Once the volume of trade between China and Vietnam reduces, the infrastructure projects that serve the trade will also be affected, sequentially, the implementation of TCOB and B&R plans may delay. From the perspective of economic income, depending on the trade creation effect and trade diversion effect brought by the CPTPP, Vietnam's foreign trade volume may increase in general. However, the result of Vietnam's revitalization of the economically underdeveloped areas in the north by TCOB and the B&R plan may significantly reduce.

At last, **a higher level of regional cooperation** may affect or even wholly replace existing regional cooperation. Unlike what shows in the second point, even if China and Vietnam are in the same economic cooperation agreement, a new, higher-level agreement would challenge the old cooperation pattern. Take the RCEP as an example. The Regional Comprehensive Economic Partnership (RCEP) is the first Regional Economic integration cooperation proposed by ASEAN countries in recent years and led by ASEAN. Significant members of the RCEP are scheduled to include countries with which ASEAN has already signed free-trade agreements: China, Japan, South Korea, Australia, New Zealand, and India (quit in 2019). The RCEP aims to eliminate internal trade barriers, create and improve a free investment environment, and expand trade in services. It will also involve intellectual property protection, competition policy, and other areas, and the degree of liberalization will be higher than the free trade agreement already reached between ASEAN and the six countries (DW news, 2019). From the perspective of China and ASEAN, compared with CAFTA, RCEP has a higher degree of the multilateral trading system, more comprehensive coverage, and a more prominent degree of openness. However, due to the high level of economic development differences among member countries, the voice of different economies will be unbalanced (Hung, Yachin & Granovskaya, 2019). Under the new system, trade cooperation between China and Vietnam will also be greatly affected. In particular, the preferential policies of border trade between China and Vietnam might be weakened by RCEP and causes more border trade is transferred to general trade (the advantages of coastal areas are greater, rather than border area).

Chapter 5 Sino-Vietnamese border trade

5.1 The comparison of Sino-Vietnam border trade policy

5.1.1 Chinese border trade policy

Figure 16: Map of the Border area of China[17]

Source: Asia Society, n.d.

China is a vast country with a land border of 22,800 kilometers, the longest in the world. China also is one of the countries with the most neighbors. China's Heilongjiang, Jilin, Liaoning, Inner Mongolia, Gansu, Xinjiang, Xizang, Yunnan, and Guangxi provinces carry out trade activities in border areas with Vietnam, Laos, Myanmar, India, Nepal, Pakistan, Kazakhstan, Kyrgyzstan, Tajikistan, Russia, North Korea, and Mongolia. Most of those land border areas located in mountainous areas and desert areas, far away from the economic, political, and cultural centers of China (Mofcom, 2011). Therefore, those border areas tend to show the characteristics of a low level of economic construction with a low level of development as the outcome of suffering from wars in history. Since the opening-up policy was implemented in 1978, the Chinese government has included the economic development of border areas into the national development strategy, among which one of the most important policies is opening up through border trade.

The concepts of border areas and border trade are defined in detail in the notice on issues related to border trade (Chinese government [1996] NO. 2 decision). From the perspective of China, border trade includes three forms: **Trade among border residents**, **Small-scale border trade,** and **Foreign economic and technological cooperation in border areas**.

The first type is **Border trade among residents**, which refers to the commodities exchange activities happen in the border region which is located in the designated opening area (not exceed the range of 20 kilometers from borders) approved by the government of the central and also local (GACC, n.d.). This type of border trade has a long history in China. Taking Sino-Vietnamese border trade, for example, since Vietnam's independence in 968 AD, the residents living at the Sino-Vietnamese border area were trading in the border market for a long time. Even before the establishment of diplomatic relations between PRC and Vietnam in 1992, trade between border residents was still in place for a long time afterward. In the early period, when the border management system was not strict, this form of trade was often confused with smuggling (Liu, 2013). Therefore, this type of border trade brings many obstacles to the calculation of the actual trade volume between the border provinces of the two countries.

The second type is **Small-scale border trade**, which refers to the trade activities between enterprises holding the right to operate border trade in China's border cities and enterprises in the border areas of adjacent countries or other types of trade institutions through designated land border gates. This is also the earliest approved form of border trade in China. China, in 1984 formulated the "Interim Measures for the administration of small-scale border trade," which includes encouraging small-scale border trade to drive the regional economy (GACC, n.d.). This kind of border trade has a strong driving capacity for the regional economy, so it occupies the most substantial part of China's preferential policies for the border trade.

The third type is **foreign economic and technological cooperation in border areas**, which refers to the contracted projects and labor service cooperation projects carried out by enterprises in China's border areas with foreign economic and technological cooperation operations approved by the Moftec (ibid). This type of economic cooperation is, in some way, similar to the cooperation under the TCOB framework mentioned in the last chapter, involving both private enterprises and state-owned enterprises. This paper focuses on merchandise trade; hence, the first two forms of border trade are related.

At present, the Chinese government intends to develop border trade to adapt to the need for daily life, improve living standards in border regions, and contribute to the development of the border area economy. Therefore, the Chinese government provides a series of preferential policies related to border trade:

(1) **Entitled local government power**: Allow local governments to directly license border cooperation projects (including trade, investment, infrastructure, movement of labor.) within their jurisdiction. Local governments also have the right to approve projects for importing raw materials and reducing or exempting taxes on firms, correlated to production and business operations, including import and export tariffs.

(2) **Tax incentives for companies and projects**: Tax incentives are provided for all kinds of cross-border projects. For foreign trade investment projects, the investors are entitled to a tax exemption in the first two years, flowing with a 50% reduction in the next three years. The tax rate for companies doing business in the border areas is 24% lower than that paid by ordinary companies in China.

In the case of loss, the enterprise shall calculate the after-tax profit of the previous year and only calculate the tax on the remaining interest.

(3) **Providing support for border cooperation zones**: The central government allows border areas to establish border cooperation zones and encourages them to attract export processing enterprises in the zone. Land rents in border cooperation zones enjoy a 20-30% reduction; The lease term is 70 years for investment, 60 years for office, and 50 years for production and business. Moreover, enterprises in cooperation zones are encouraged to produce goods for export mainly. According to the proportion of the exported goods in the total produced goods, the enterprises shall enjoy extra corresponding tax incentives.

(4) **Providing construction capital**: The national budget allocates a certain amount of funds each year for the construction and upgrading of the infrastructure in border areas. Besides, local governments also encourage the use of fees collected from cross-border cargo transportation for the construction and maintenance of infrastructure in border areas.

(5) **For trading among border residents**, the trading volume, which is less than 8,000 yuan are completely tax-free (Wu, 2013; Mofcom, 2019c).

5.1.2 Vietnamese border trade policy

Figure 17: Map of the border area of Vietnam[18]

Source: ASEAN up, 2018

From the perspective of Vietnam, in addition to border trade with China, Vietnam also has border trade with Laos and Cambodia. However, due to the limited market demand from Laos and Cambodia, the overall level of commodity economic development is weak, and the border infrastructure is not very developed. Thus, the current level is relatively low, which makes the Vietnamese government still focusing on the development of border trade with China. From the perspective of Vietnam, border trade ("tiểu ngạch") is another trade that takes place in the border area and is different from the general trade ("*chính ngạch*") form (Do & Ha, 2008). In practice, the Vietnam border trade consists of the normal trade in the border region, trade in the border gate economic zone (similar to border cooperation zone), and the trade among residents on the border market (Vo Ngoc, 2018). The scope of activities is similar, but a little bit broader than Chinese. Among them, the border sets according to the Vietnamese agreements signed by neighboring governments that decide the border region highway, rail, and inland waterway transportation line. (ibid.)

Vietnam gives a high strategic position and series of preferential policy to support the development of border trade, especially the border gate economic zone: In terms of **tax benefits**, border gate economic zone enterprise receives an income tax rate by 10% within 15 years, the first four years are exempted, income tax of relative individuals can be reduced by 50%. Under the customs supervision, production, sales, and international trade of goods exempt from value-added tax. The consumption tax, import tax, export tax, land rent, land use tax, and a series of other preferential tax implementation are also carried (The Prime Minister of Vietnam, 2013). In addition, the economic zone adopts a unique convenience system to promote the development planning of border trade in terms of the entry and exit process. The purpose of these measures is to build the zone into the dynamic economic zone of border provinces and continuously improve the construction and development quality of the port economic zone (The Ministry OF Finance OF Vietnam, 2008).

5.1.3 Difference of aspects between China and Vietnam

Both countries agree to set a specified frontier market or open point for trade, but the **geographical scope, object of tax exemption and tax regulations** on different: *China* set the market located within 20 kilometers from the border, the maximum of tax exemption is RMB 8000, enjoy by the resident lives in the area; And *Vietnam* does not set a geographical scope of the market, the tax exemption is under 2 million dongs (about RMB 628.81), which enjoy by every Vietnam citizens.

The firm that under the implementation of border trade policy, and the **geographical scope of its business** is also different: *China* requires that all enterprises approved by local governments with the right to operate border trade can only conduct trade and other activities in the prescribed border areas to ensure the accuracy of the beneficiaries of preferential border trade policies; *Vietnam* does not make requirements to the main body engaged in border trade, all companies engaged in border trading activities can enjoy the policy.

It can be seen that China and Vietnam have many differences in the **definition, management methods, and implementation scope of border trade**. In general, China's management methods of border trade are more specific than Vietnam's: the beneficiaries of the policy are more specific; that is, the residents and the economy of the less developed border areas are more focused. On the other hand, Vietnam has adopted a more broadly targeted policy to attract businesses to border areas across the country, and border residents have received less attention. Also, China and Vietnam differ significantly in terms of tax exemption for border residents, which shows that the Vietnamese government places more emphasis on enterprises than on individuals in border trade development. Finally, due to a large number of China's borders, the situation is so different that it is difficult to manage them in a completely unified way. Hence, the role of local governments is more robust than that of Vietnam.

Besides, the **bilateral agreements** involved in border trade are the "Sino-Vietnamese trade agreement; the "Sino-Vietnamese economic cooperation agreement"; the "Border trade agreement (2016)". These agreements laid a legal foundation for the Sino-Vietnamese economic cooperation among the enterprises and among the border provinces (Xinhua net, 2017), which has created favorable conditions for future development.

5.2 Adjacent provinces in Sino-Vietnam border trade

It can be observed from the above that both China and Vietnam attach particular importance to border trade and provide corresponding support policies. However, the economic and strategic significance of border trade is not the same for the economic aggregate of the two countries. Specifically, in China's overall foreign trade, the proportion of border trade is relatively small. This is why the analysis of border trade from the perspective of the whole country is relatively rough. Therefore, in this chapter, the author will take the border provinces of the two countries as the unit to interpret the process and significance of Sino-Vietnamese border trade to the development of these border areas in a more detailed manner.

From China's point of view, the provinces bordering Vietnam are **Yunnan** and **Guangxi**, corresponding to **Quang Ninh province**, **Lang Son province**, and **Lao Cai** province of Vietnam (Chinese Embassy in Vietnam, 2003).

5.2.1 Border provinces in Vietnam

Figure 18: Map of Vietnamese border provinces to China[19]

Source: Author's own elaboration based on Figure 17

On the northern border of Vietnam, seven provinces are bordering China, namely Quang Ninh, Lang Son, Cao Bang, Lao Cai, Ha Giang, Dien Bien, and Lai Chau (General Statistics Office, 2017). In the process of promoting inter-regional economic exchanges, the northern region of Vietnam is in a very advantageous geographical position, whether it is the **inter-regional** economic exchanges within Vietnam or the **economic exchanges with China**.

Domestically, the region's links to Vietnam's crucial economic development hubs, such as Hanoi and Hai Phong, show great potential. In China's case, the northern part of Vietnam is connected with the most developed eastern part of China and the rapidly developing southeast region. Among them, the coastal areas of Guangdong and Guangxi are critical in China's trade in recent years and are also an essential part of the future B&R plan (XinHua News, 2019).

In terms of **natural resources**, the northeastern border area of Vietnam is the most abundant area of mineral resources in Vietnam, which is very beneficial to the development of the mining industry, including charcoal, ash stone, iron, copper, lead, zinc, tin and so on. ***Quang Ninh*** province is Vietnam's largest source of coal, mainly producing high-quality anthracite. The limestone source in ***Lao Cai*** province is the largest mining area in southeast Asia with sufficient reserves to produce phosphate fertilizer for domestic agriculture and export. Copper, lead, zinc, and tin are widely distributed in several provinces in northern Vietnam (General Statistics Office, 2017). These potential mineral resources are an advantage in developing Vietnam's mining and mineral processing industry, which can not only attract FDI to these regions but also be used for export to earn foreign exchange for this region.

In terms of **human resources**, more than 40 ethnic minorities exist in the northeastern border region of Vietnam, which is the most ethnically diverse region in Vietnam (ibid), much like the provinces of Yunnan and Guangxi in China. In the policy implementation, the needs of various ethnic groups need to be taken into account, making the unit policy impossible. The indicators of human resources, such as education level and education level, are not balanced in these provinces. ***Quang Ninh and Lang Son*** have a high level of human resources (but only about the national average). In Lang Son province, there are several vital industrial areas with a large concentration of talented people. However, there are still a few people who are illiterate or have only received a limited education. This part is mainly minority ethnic groups, especially Yao and Miao ethnic groups, whose proportion of dropout school-age children and illiteracy rate is high. In ***Lao Cai*** province, the social division of labor is relatively backward, with a high proportion of labor in the agricultural and forestry industries. However, due to the lack of technology and equipment and the low average education level of residents, labor productivity in Lao Cai province is quite low which leads to the local resource advantages that cannot be fully utilized (Vietrade, n.d.).

In terms of **border trade**, among the northern border provinces of Vietnam, the border trade through the three provinces of Quang Ninh, Lang Son, and Lao Cai accounted for the most substantial proportion of the total turnover of border trade between China and Vietnam. Among them, Lang Son province ranked first with a proportion of about 60%, Quang Ninh province nearly 30%, and Lao Cai province nearly 10% (Vo Ngoc, 2018). Considering the focus of Sino-Vietnamese border cooperation is enhanced integration by building cross-border Economic Cooperation Zones (CBEZ) at the China-Vietnam Border (UNDP, 2007), as well as, the limitation of data, in chapter 6 the author will focus more on the development characteristics of CBEZ in the three provinces.

5.2.3 Yunnan Province overview

Figure 19: Map of Yunnan Province[20]

Source: China Tourguide, n.d.

Yunnan is located in the far south-west of China, accounting for 4.1 %of the country's total area. To the east are the provinces of Guangxi and Guizhou; to the north is Sichuan province, and to the northwest is the Tibet autonomous region. These regions are the primarily residential area of China's ethnic minorities, among whom Yunnan has 26 different ethnic groups. Yunnan has a 4,060-km border with three countries: Myanmar to the west, 1,997 km; Laos to the south, 710 km, and Vietnam to the southeast, 1,353 km (Government Portal of Yunnan, n.d.). Many ethnic groups on the border have similar ones in neighboring countries, such as Miao and Yao, both exist in China and Vietnam.

From an **economic perspective**, Yunnan's GDP reached 2.32 trillion yuan in 2019, with an 8.1 %increasing rate from the previous year and 2 % higher than the national average. From an **investment** perspective, fixed asset investment in Yunnan province rose by 8.5% year on year. Investment in the three major industries increased respectively, with the primary industry experiencing a tremendous growth rate of 25.5%; 11.8% growth of the secondary industry; and the growth of investment in the tertiary industry was 7.0%. Among them, infrastructure investment grew by 6.1%, accounting for 40.5% of fixed-asset investment. From the perspective of **trade**, Yunnan's total annual foreign trade volume in 2019 was 33.692 billion US dollars and increased by 12.8 %from the previous year. Of this, exports reached $15.022 billion, up 17.3%; Imports were $18.67 billion, and up 9.5% of the Imports. From the perspective of **consumption**, the total retail sales of consumer goods reached 753.918 billion yuan, 10.4% over the previous year, and the growth rates of urban and rural areas were 10.4% and 10.6%, respectively. Internet sales reached 4.260 billion yuan, up 28.2% over the previous year (Yunnan provincial bureau of statistics, 2020). On the whole, Yunnan's economy is in a stage of sound development.

From the transportation aspect, during the "Thirteenth five-year plan" period, the Yunnan province's transportation infrastructure conditions continue to improve. While the transportation service level continued ascension, as of October 2018, the total mileage of **road** in Yunnan province, reached 255000 kilometers, the highway traffic total mileage is 5086 kilometers. Among the province's 129 counties, 79 of them connected with the highway, 125 counties have the secondary road; The length of rural roads in the province reached 199,000 kilometers, and by the end of 2017, the target of access to all rural areas had been achieved, mainly covering remote mountainous areas. The total number of **airports** in the province is 18, and the airports' density is far higher than the national level of airport construction and development. In terms of **water transport**, 1,090 km of new navigable waterways were added, bringing the total length to 4,200 km (Yunnan transport department, 2018). The sound level of infrastructure is notable for cross-border trade and logistics. Yunnan province is mountainous, and many remote border areas have lacked transportation links with economically developed areas. Accordingly, the development level of transportation infrastructure in Yunnan province directly restricts the development of border trade.

In terms of **foreign border gates**, there are 23 national border gates in Yunnan, 16 of which are first-class national ports. 2 river ports: Jinghong port, Simao port; Three airport ports: Kunming Changshu international airport, Xishuangbanna airport, Lijiang international airport; 10 land crossings; and seven national grade ii border gates (Kunming customs, 2018). Among the 23 border gates, with the core border gates in Ruili (Myanmar), Hekou (Vietnam), Mohan (Laos), and Kunming (capital city), Yunnan has formed a cooperative pattern of land, water, and air transportation, which significantly promotes and meets the economic demand of Yunnan for passenger and freight transportation to the Southeast and South Asia.

As for the **border trade**, this form of trade between the Yunnan border region and neighboring countries has been carried out in historical time. Now it has become a crucial part of the foreign trade of Yunnan province. However, its expansion process has gone through twists and turns.

(1) **Initial stage**: from the early 1950s to 1985, the main form of border trade in Yunnan was the trade between border residents, while the small-scale border trade was limited to state-owned companies. Influenced by the Chinese planned economy system, the Yunnan's border trade of that period also shows robust planned economy characteristics, embodied in the size of the border trade, object. For example, trading items have strict planning regulations, individuals, or private enterprises were not allowed to participate in border trade. Therefore the main body of border trade is "national brand." This period of border trade is also known as account trade, that is, according to the agreement between countries to a fixed quota of trade. After Sino-Vietnamese relations deteriorated in 1979, Yunnan's border trade with Vietnam was almost entirely disrupted (Zhang & Zheng, 2014).

(2) **Preliminary development stage**: Ever from China's economic reform in 1995, Yunnan province responded to the national policy of reform and opening up by actively exploring border trade. In 1980, the Yunnan provincial government decided first to resume small-scale trade with Myanmar. In 1985, the Yunnan government allowed 27 towns or cities along the border to set a border market for citizens, which injected energy for the border trade. Shown from the amount of border trade, after the border market initiated, the increase of border trade of Yunnan is 6-7 times. By 1992, the border trade volume of Yunnan province had accounted for 43.2% of the province's total foreign trade, of which the import accounted for 55.7%, and the export accounted for 37.15% (ibid). The state council of China continued to grant preferential policies to Yunnan province as support. In June 1992, agreed that Kunming (the capital city of Yunnan) should apply the opening-up policy the same as coastal cities (e.g.,

Shenzhen and Guangzhou). According to the report provided by the Yunnan provincial government from 1991 to 1995, the trade volume between Yunnan and Vietnam, Laos, and Myanmar accounted for 41% of China's trade volume with these three countries. In 1997, the outbreak of the Southeast Asian financial crisis caused the border trade volume of Yunnan to decline significantly. However, since 1998, on the one hand, China's RMB exchange rate has remained stable; On the other hand, the policy of border export tax deduction has gradually improved. As a result, in 1998 and 1999, Yunnan's total border trade grew by 76.43% and 119.52%. Under the high growth rate, Yunnan's total border trade in 2000 reached 2.878 billion yuan (about 348 million US dollars). (Zhong & Wang, 2003).

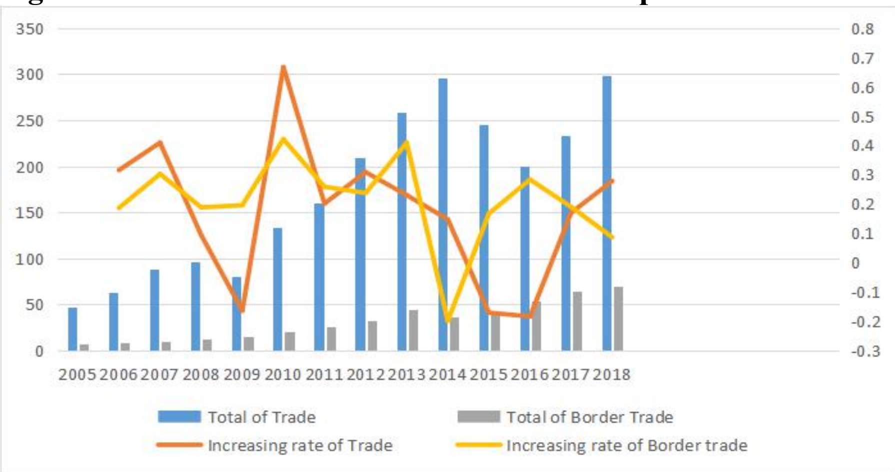
(3) **Steady development stage**: Since 2005, Yunnan's trade policies, especially the border trade policies, have been gradually improved, and the province has a relatively stable internal economic environment. From the perspective of the external economic environment, the construction of **CAFTA** and GMS's formation provide favorable external conditions for the steady development of the Yunnan border trade.

Limitation of the data

Since the statistical yearbook of Yunnan province only publishes the data of small-scale border trade, meanwhile the data of border trade among border residents (of the year 2005-2008, 2014) cannot be found from reliable sources including the calculation and statistics of other relevant studies. Furthermore, even according to the proportion of small-scale border trade in the total amount of border trade from 2009 to 2013, the proportion of small-scale border trade in the total amount of border trade showed the characteristics of gradually decreasing, however, the proportion in 2009 was as high as 87.86%. Therefore, it is reasonable to propose the hypothesis that small-scale border trade was the main body of border trade in Yunnan province from 2005 to 2008. Thus, from 2005 to 2008, the values and growth rates of small-scale border trade were used to replace the total value and growth rate of border trade in Yunnan province.

From the **perspective of data**, the development of border trade in Yunnan province, according to the statistical yearbook of Yunnan province, the total amount of small-scale border trade in Yunnan in 2005 was 655 million US dollars, 13.82% of the total amount of foreign trade in Yunnan province in the same year. By 2009, the total value of Yunnan's border trade had reached $1.435 billion, with an annual growth rate of 19.51% and a growth rate of 42.10% in 2010, which is the peak. From 2011 to 2015, the growth rate of Yunnan's total border trade gradually slowed down and was lower than that of the total trade. In 2015 and 2016, the growth rate of trade in Yunnan province was negative, however, with the increasing importance of border trade among border residents, the growth rate of border trade was 16.72% and 28.30%, respectively. By 2018, the proportion of border trade among residents in the total volume of border trade has exceeded that of small-scale border trade. The total volume of border trade in Yunnan province has reached $6.923 billion, accounting for 23.16% of the total volume. On the whole, the border trade in Yunnan province shows the characteristics of continuously strengthening its effect on the growth of the overall trade volume; the importance of border trade among border residents is improving.

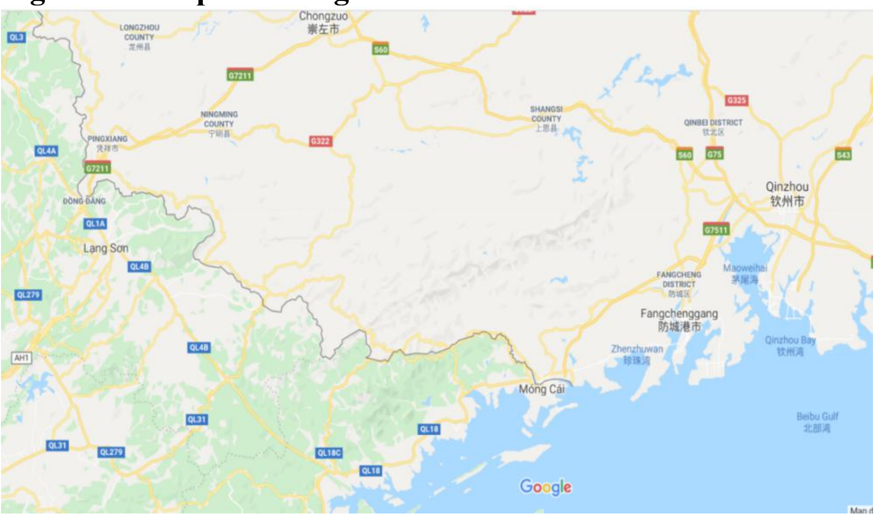
Figure 20: Trade and Border trade of Yunnan province. Value in USD Billion[21]



Source: Statistical Yearbook of Yunnan province

5.2.4 Guangxi Province overview

Figure 21: Map of Guangxi Border[22]



Source: Author's own elaboration based on Google Map

Guangxi is entirely known as Guangxi Zhuang ethnic autonomous region. This is because Guangxi is a multi-ethnic autonomous region where Zhuang, Yao, Miao, Dong, and other 12 ethnic minorities exist. Geographically, Guangxi located in the south-west region of China, besides four provinces of Guangdong, Hunan, Guizhou, Yunnan. Guangxi is also bordering to Vietnam, with an 800 kilometers long border, accounted for **75% of the Sino-Vietnamese border**. Compared with Yunnan, Guangxi has about 1500 km long **coastline** at the Beibu Gulf, the most accessible sea route in south-west China (CN gov portal, 2013). From the perspective of geographical advantages, Guangxi is the only province in China that has a land border and sea passage with ASEAN, which provides a substantial advantage for the development of international trade.

From the perspective of **internal economic conditions**, Guangxi's GDP reached 307.811 billion US dollars in 2018, an increase of 6.8% over the previous year, which is 0.7% higher than China's national average. The added value of the primary industry increased by 5.6%, that of the secondary industry by 4.3%, and that of the tertiary industry by 9.4%. The three industries' contribution to economic growth was 13.1%, 25.4%, and 61.5%, respectively.

In 2018, the total value of Guangxi's foreign trade imports and exports reached 62.34 billion US dollars, with a 7.7% increasing rate, which was 2 % points lower than the overall growth rate of China's foreign trade imports and exports. Of this, exports were 32.8 billion US dollars, raising 16.8%; Imports were 29.54 billion US dollars, decreasing by 0.8%. In 2018, Guangxi imported and exported 33.944 billion US dollars to countries and regions along the "One Belt And One Road" route, which increased 4.6 % than that in 2017. Of this, Guangxi's import and export to ASEAN reached 31.18 billion US dollars, an increase of 6.3%, higher than the overall growth rate of Guangxi's foreign trade. ASEAN has been Guangxi's largest trading partner for 19 consecutive years. In 2018, the total retail sales of consumer goods in Guangxi increased by 9.3% over the previous year to reach 125.402 billion US dollars, of which the urban areas and rural areas increased by 9.1% and 10.6% respectively over the previous year; In 2018, fixed asset investment in Guangxi increased by 10.8 % over the previous year. Among them, the investment of state-owned holding increased by 9.2% while that of private investment rose 12.2 %. In terms of sub-industries, investment in the primary industry increased by 18.6%, increased 13.0% in the secondary industry, of which investment in the manufacturing sector increased by 22.5%. Investment in the tertiary industry increased by 9.9%. Investment in infrastructure construction increased by 9.8%, of which the investment in the transportation sector revealed a steady growth rate of 37.4% (Guangxi bureau of statistics, 2019).

In terms of **transportation**, the operating mileage of high-speed trains in Guangxi reached 1,771 kilometers in 2018, ranking top among China. The length of expressways was 55,63km, and the number of passenger trips reached 360 million, decreased by 5.1% from 2017, and the number of freight trips reached 1.53 billion tons, increasing 9.88%. Waterway passengers and freight traffic reached 6.967 million and 300 million tons, up to 5.99% and 6.05% year on year. (Guangxi bureau of statistics, 2019). However, transportation within Guangxi is still less developed than that in the whole country, which is a heavy restriction on the development of trade.

In terms of **border gates**, there are 25 national border gates in Guangxi, 19 of which are first-class national border gates. One of them is railway border gate: Pingxiang (connecting with Lang Son); 6 road and land border gates; 3 airports: Guilin, Nanning, Beihai; In terms of water transport, there are three inland river ports and six seaports. Besides, there are six secondary border gates in Guangxi, including five road border gates and one inland terminal. (Guangxi academy of social sciences, 2016). Border gate production maintained a tremendous growth, with a cargo throughput of 380 million tons at ports above the designated size, increased 9.9%. Container throughput was 3.957 million TEU, rising 24.2%. An overall annual capacity of 8.5 million tons of coastal and inland waterway goods was added (Guangxi bureau of statistics, 2019).

In terms of **border trade**, since the border of Guangxi province is only connected with Vietnam, the development of border trade in Guangxi province is similar to the development of border trade between Guangxi and Vietnam.

(1) **Initial stage**: Compared with Yunnan, the border trade with Vietnam through Guangxi started earlier. After China's independence in 1949, China and Vietnam began to develop bilateral trade under the political atmosphere of good-neighborliness and friendship. Suffering from war for an extended period, China's economic development had been brought to a standstill or even a setback. Starting from the social level of stabilizing border areas safety and the economic level of developing border areas economy, China has launched a series of policies to promote the development of border areas and decided to develop border trade vigorously. The governments of Vietnam and China have reached many major agreements in this period. Border gates were reopened to allow trade between border

residents. As the geographical advantages of Guangxi are becoming more apparent, the trade scope and scale of border residents' trade are continually expanding, and the small-scale border trade between companies also appears. In particular, in 1952, the "Sino-Vietnamese *resident's border trade* agreement" and the 1955 "protocol on the exchange of goods between the two countries' *border state-owned trading companies*" were signed, which significantly promoted the rapid development of Guangxi border trade.

(2) **Stagnation period**: When the war broke out in Vietnam in 1966, China began to provide various materials and daily necessities to Vietnam free of charge. Therefore, the border trade between Guangxi and Vietnam during this period is symbolic, and the trade volume is minimal. By the late 1970s, Sino-Vietnamese relations began to deteriorate. Thus, the border trade between Guangxi and Vietnam declined rapidly. Throughout the 80 s, the more tension, in the state of hostility, the two governments were prohibited entirely to trade, however, because of their dependence on cross-border trade, border residents kept on trading privately, in the form of smuggling from officials' view. In some of the border areas in Guangxi, there are voluntary border trading points with increased unofficial barter trade.

(3) **Recovering stage**: Since the normalization of bilateral relations in the 1990s, the Guangxi government has soon reopened dozens of border trading points. Right after that, the main body that participated in the border trade and the form of trade also increased. Some private enterprises also began to engage, in addition to the earliest border trade among border residents, in the small-scale border trade among collectives and state-owned enterprises. The transaction form of border trade is expanding, with the emergence of spot and futures trade (Liu, 2013).

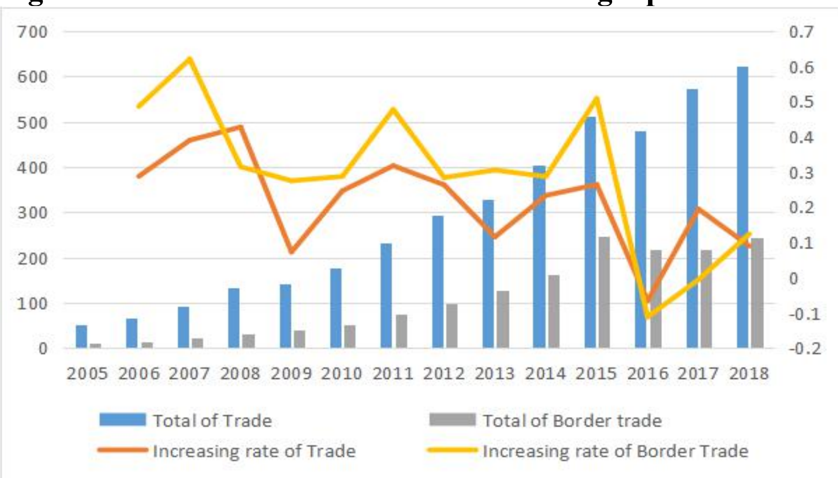
(4) **Rapid development period**: Since the 21st century, the construction of China-ASEAN free trade area, the construction of "Two corridors and One circle," the launch of "Pan Beibu Gulf Economic Cooperation Zone" and other new cooperation mechanisms have brought unprecedented opportunities to the development of Guangxi border trade, which will be explained in more detail in the next chapter. It is worth mentioning that after years of development, the border trade in Guangxi has become the largest among all 9 China's border provinces (Nanning Customs, 2019).

In terms of the **development of border trade** in the region, according to the Guangxi statistical yearbook, the total amount of border trade in the region in 2005 was 987 million US dollars, 19.04% of the total amount of foreign trade in the region in the same year. By

2015, the value of border trade in Guangxi has reached 24.64 billion US dollars, with an average annual growth rate of 38.45%, higher than the growth rate of total trade. At the same time, the proportion of border trade in the total trade also kept increasing, reaching a peak of 48.07% in 2015. In 2016 and 2017, the growth rate of border trade was negative for the first time, and the proportion of border trade decreased to 45.71% and 38.05%, respectively. Border trade picked up a bit in 2018, rising 12.37% compared to 2017, reached 24.460 billion US dollars. About **different border trade types**, the proportion in Guangxi's border trade small-scale border trade has been occupying the leading body status, sustained growth from 2005 to 2014, from 71.02% to 90.15%. From 2015 years, trade between border residents improved, which leads to small-scale border trade accounted for 66.53% by 2018, still in the primary body status.

On the whole, the border trade in Guangxi is characterized by the rapid growth of the total amount of border trade, the continuous strengthening of the role of the overall trade, the leading role of small-scale border trade, and the rapid development of border trade among residents in recent years.

Figure 22: Trade and Border trade of Guangxi province. Value in USD Billion[23]



Source: Statistical Yearbook of Guangxi Province; Nanning Customs

5.3 Comparison between Yunnan and Guangxi

From **economic development**, the two provinces' economies belong to the less-developed area of China. The relatively industrial foundation of the two provinces is too weak to support or drive the export of high-tech products in border trade. As a result, the products exported mainly gain the advantage of abundant natural resources and a lack of high added value of products. Therefore, the two provinces' border trade is more of a channel economy in terms of value (Hu, Wen& Wang, 2001), which is more prominent in Guangxi than in Yunnan.

In terms of **transportation infrastructure**, the two provinces' natural conditions are mostly mountains and rivers, which hinders the construction and improvement of the transportation network. The construction costs and difficulties increase a lot due to those geographical defects, which are also an element of the reasons why the density of roads and railways in the two provinces is relatively low in the country (Mai, Song & Liu, 2010). In addition to the influence of physical geographical conditions, the transportation of the border area is also related to the two countries' administrative intervention, making the construction of cross-border transportation links difficult. In recent years, the traffic construction situation in Yunnan has been dramatically improved, with some accumulation of road, railway, and air traffic quantity, promoting the development of Yunnan's economy and border trade (Cai, 2019). However, for the development direction of Yunnan, and the purpose of expanding the border trade level, the existing necessary transportation facilities in Yunnan cannot meet the needs and still need to be improved continuously.

In contrast, in recent years, as the core hub in the southeast of One Belt And One Road project, Guangxi has made great efforts to develop transportation infrastructure. The transportation industry in Guangxi is making continuous progress towards a modern logistics system, especially in the border areas with Vietnam, where the quantity and quality of railways and highways are continually improving. However, the development of roads between cities in Guangxi province is still limited (Qi & Li, 2018), which is challenging to meet the rapid development of trade volume at border gates.

As for **border gates**, Yunnan has formed a fundamentally system with a core and important border gates supporting each other and general border gates serving as supplements. At present, the system is in a relatively reasonable hierarchical structure, and its development is coordinated and orderly. The development mode of border gates in Yunnan province aims to realize reasonable matching of various transportation modes, the organic connection of each logistics node, high comprehensive transportation efficiency, low transportation cost, and logical connection between domestic and foreign countries. For the border gates of Guangxi, even the number is less than that in Yunnan. The most significant advantage is its seaports located in Beibu Gulf, which makes the Guangxi's border trade facilitation level promoted and also increases the potential transport capacity of Guangxi. Nevertheless, its logistics capacity still constrained by the level of transport infrastructure within the province; therefore, it is crucial to accelerate the development of transportation infrastructure.

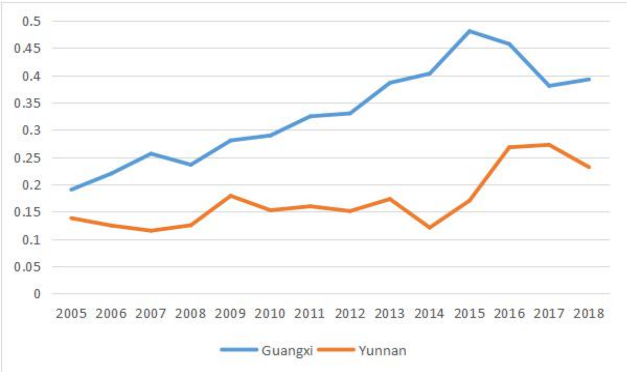
The development of border trade is deeply affected by the changes in the domestic and international political and economic environment. Judging from the **development progress** of the two provinces' border trade, the development of border trade is deeply affected by the changes in the domestic and international political and economic environment. Besides, the country's policies and development strategies, such as the "Reform and opening-up strategy" and the "Western development strategy," the cooperation between Vietnam and China under the WTO framework, the construction of CAFTA, GMS and other international cooperation mechanisms, have much promoted the development of border trade. To a large extent, these policies have mobilized various economic resources and created many opportunities and favorable circumstances for the development of border trade while promoting all-around economic development. Generally speaking, the country's internal and external political and economic environment, as well as China's economic policies, have a profound impact on the development of border trade. The development pattern of the two provinces' border trade shows a process from strict control to gradual opening, from low-speed construction to rapid development.

From the perspective of the **development scale of border trade**, Guangxi's total border trade has been dramatically increased year by year. From the perspective of the amount, the border trade volume between Guangxi and Vietnam is higher than that between Yunnan and three neighboring countries. In fact, Guangxi is also the province with the highest border trade volume in China, which is related to its geographical location and market environment advantages. In the upgraded version of CAFTA, China regards Guangxi as the core of opening up to ASEAN. The advantages of Guangxi will be fully manifested through the regional advantages, supporting policy, and improving transportation infrastructure.

From the **contribution of border trade on the GDP**, the economy of Yunnan province developed steadily and rapidly from 2005 to 2014, while its border trade volume also increased continuously. In 2005, the GDP of Yunnan province was 42.258 billion US dollars, and the total value of border trade was 655 million US dollars. The proportion of border trade in the provincial GDP was 1.55%. In 2014, the GDP of Yunnan province was 208.081 billion US dollars, the total amount of border trade was 3.579 billion US dollars, and the proportion of border trade in the GDP was 1.72%. The contribution rate of the border trade to the GDP is around 1.7% during this period. The contribution of border trade to the GDP of Yunnan province varies little, which shows no significant effect. After 2014, with the substantial increase in the total amount of border trade, the contribution rate of border trade to GDP in

2016, 2017, and 2018 was 2.41%, 2.60%, and 2.19%, respectively, making inevitable progress. Guangxi's GDP in 2005 was 49.179 billion us dollars, of which border trade totaled 987 million US dollars, contributing 2.01% to the region's GDP. By 2014, Guangxi's GDP was $255.154 billion, of which border trade totaled $16.338 billion, accounting for 6.40% of GDP. In 2018, Guangxi's GDP was 296.851 billion US dollars, and the contribution rate of border trade was 8.23%. It can be seen that the contribution rate of border trade to GDP is continually increasing, which leads to the status of border trade is becoming more and more critical in Guangxi.

Figure 23: Yunnan Guangxi's Border trade proportion of Total trade[24]



Source: Author's own elaboration based on Statistical Yearbook of Yunnan Province and Statistical Yearbook of Guangxi Province

From the perspective of the **contribution of border trade on the total trade**, combined with the Figure 23, the border trade occupies a vital position in the development of foreign trade in two provinces, especially in Guangxi. The proportion of border trade has developed rapidly and reached a maximum of 45.71% in 2014. In 2017 and 2018, the proportion retreated but yet remained at 38% and 39%. The proportion of Yunnan's border trade in the total foreign trade has been stagnating from 2005 to 2016, with little change at the level of 15%. After 2016, the proportion of border trade in the total trade of Yunnan province has increased significantly. From 2016 to 2018, the proportion has remained around 25%, but it is still lower than that of Guangxi province.

Generally speaking, from the perspective of infrastructure, the overall situation of transportation facilities in Guangxi province and the transportation facilities connecting its border is better than that in Yunnan province. In terms of the importance of border trade to the economic development of the province, the border trade in Guangxi province is higher than that in Yunnan province in both scale and contribution. These show a more central position in the bilateral trade, which indicates a more substantial possibility to get more policy support in the future. At the same time, Guangxi is linked to Vietnam's two most prosperous provinces, Quang Ninh and Lang Son, in terms of the volume of the Sino-Vietnamese border trade, carrying about 90 % of the total. Meanwhile, Lao Cai, which connects with Yunnan province, is relatively underdeveloped in terms of economic development. Its export structure is dominated by primary products, thus making a weak contribution to the development of border trade.

A conclusion that can be drawn through a multi-angle comparison is that Guangxi province plays a more dominant role in the border trade between China and Vietnam. For this reason, in the next chapter, when discussing how changes in international economic cooperation affect border trade, and the details of the current circumstance of Sino-Vietnamese border trade will use the border trade between Guangxi province and Vietnam as a substitution.

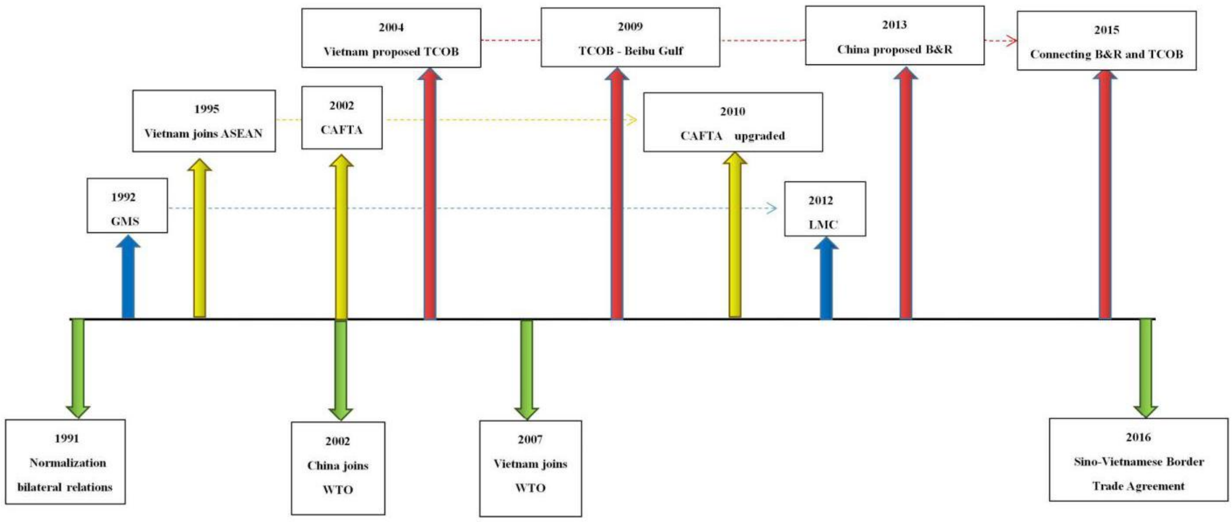
Chapter 6 Discussion

6.1 The effect of Regional economic cooperation on Sino-Vietnamese border trade

6.1.1 Timeline

According to the contents of sections 4.1, 4.2, and 4.3, the timeline of regional economic cooperation in which China and Vietnam are directly involved is sorted out. On this timeline, the paper will focus on time points and periods to clearly show the development of Sino-Vietnamese border trade under different regional economic cooperation frameworks.

Figure 24: Timeline of Sino-Vietnam regional economic cooperation[25]



Source: Author's own elaboration

Firstly, in November 1991, Du Mei, general secretary of the communist party of Vietnam central committee, and Wu Wenjie, chairman of the council of ministers, visited China, which marked the end of the confrontation between China and Vietnam since the 1970s and the beginning of normalization (Foreign ministry of China, 2019). This is the political foundation for economic and trade exchanges between China and Vietnam.

6.1.2 Cooperation under GMS & LMC

In 1992, the GMS was established with the help of the Asian development bank, to make sufficient use of the abundant resources in the sub-region, deepening economic and trade cooperation, improving the infrastructure construction of each country, and enhancing the economic and social development level of the sub-region. The establishment of LMC in 2012 reflects the strengthening of the internal driving force of economic cooperation in the region and the broadening of cooperation areas. Although these are not the only two cooperation frameworks in the region, they are representative and, to some extent, show that the regional economic cooperation between China and Vietnam is characterized by multiple coexistences, overlapping, and expanding coverage.

For border trade, under the framework of GMS, the investment project of **water and land transportation** significantly improves the terms of trade in the border areas between countries, which plays a substantial function in promoting border trade. Among them, the border trade between China's Yunnan province and Laos has been significantly improved in recent years thanks to the Kunming - Bangkok highway under the framework of GM's cooperation (China FTA Network, 2013) and The Laos Vientiane Saysettha comprehensive development zone (LVSDZ) which is one of the first Chinese overseas economic and trade cooperation zones, has significantly improved the development of border trade (LVSDZ, n.d.).

Under the framework of GMS **trade and investment facilitation** cooperation, the Yunnan Hekou- Lao Cai (Vietnam) border gate has shortened the average time of customs clearance for border trade between residents and small-scale border trade from the initial 5-6 days to 2-3 hours. For some border trade goods that cannot be kept for a long time, these border gates adopt the strategy of extending business hours, namely, opening the border trade points for seafood or fresh fruits and vegetables to 10 PM (normal goods open to 8 PM) (Sina News, 2010). Due to the low start time of LMC, it has not yet found the direct promotion of border trade under its framework. These measures, in terms of infrastructure and trade facilitation under the GMS framework, have reduced the difficulty of participating in border trade and significantly promoted border trade development.

6.1.3 Cooperation under CAFTA

In 1995, Vietnam joined the association of southeast Asian Nations (ASEAN). From the perspective of the whole region, the regional economic integration and liberalization in southeast Asia have improved. From the perspective of Vietnam, the economic exchanges between Vietnam and other ASEAN members have also deepened.

In 2002, China and ASEAN signed an agreement to establish CAFTA. From 2002 to 2009, the two sides signed various agreements in different fields, covering trade in goods, trade in services, investment projects, the goods trade, and economic cooperation. The core is to progressively achieve duty-free trade in goods and realize intra-regional trade liberalization. Finally, in 2010, all the tax cuts required under the CAFTA were agreed upon, even advanced than expected.

Since 2013, China and ASEAN have expanded the scope of cooperation, proposing to build an upgraded version of CAFTA, expanding the scope of cooperation to customs and trade facilitation, technical cooperation, and cross-border e-commerce.

As for the border trade between China and Vietnam, CAFTA is conducive to the expansion of economic and trade exchanges between China and Vietnam, especially the activation of the Sino-Vietnamese border trade. Under the CAFTA's creation process, Vietnam, Cambodia, Laos, and Myanmar should not reduce tariffs of goods to zero until 2015 (ASEAN secretary, n.d.). However, in order to attract Vietnam to adopt a more positive attitude towards CAFTA and China-Vietnam economic cooperation, China supports the sub-regional economic cooperation proposed by Vietnam, as well as various transportation construction, and voluntarily gives up some interests in bilateral trade (Yang, 2008).

According to the "Early harvest tax reduction plan" of China and ASEAN in 2004, China **cut the tariff** rate by 10% on average on 484 breeding stock and water (sea) products imported from Vietnam, but for machinery and equipment and other products with high added value imported to Vietnam are still applicable to the higher MFN tax rate (CAEXPO, 2006) which show the importance of their own comparative advantage. For border trade, this is a further boost. In 2009, China signed "The protocol on the demarcation of the China-Vietnam land border," "The agreement on the China-Vietnam land border management system," and "The provisions of China-Vietnam border border gates and their management system " (Chinese Foreign Ministry, 2019). This means that the land disputes between China and Vietnam, which has long been an essential determinant hindering China-Vietnam political and economic cooperation and causing tension on the border, be resolved entirely. The **peace of the border** is consolidated through agreements and institutional mechanisms, thus creating better stipulations for the implementation of border trade.

In 2011, the two sides signed the "Five-year development plan for economic and trade cooperation from 2012 to 2016". By 2015, the bilateral economic and trade volume had exceeded 90 billion US dollars, 30 times the value of 2002; meanwhile, it accounted for 30% of the total bilateral trade (CNIEA, 2016).

On the one hand, the integration degree of economic cooperation in the whole region keeps deepening under the framework of CAFTA. In this context, the strengthening of economic and trade cooperation between China and Vietnam seems to be in line with the trend. On the other hand, the trade between China and Vietnam has gradually expanded its share in the trade between China and ASEAN and the trade between Vietnam and other CAFTA countries. China and Vietnam gradually put each other in the most important strategic position in the region. The 1,300km long border has naturally been an advantage for the development of Sino-Vietnamese border trade.

However, CAFTA also has **specific constraints on border trade**. Guangxi province (China) has a significant location advantage in border trade. However, with the continuous strengthening of China-ASEAN economic cooperation, as discussed in Chapter 5, the Guangxi-Vietnam border trade has played a vital role in promoting the economic development of Guangxi. However, as the CAFTA establishment and the implementation of the related preferential policies, other provinces and cities in China also enjoy the welfare brought by CAFTA, which will weaken Guangxi's location advantage, as well as the relevant preferential policies of border trade (Liu, 2015). This may aid the border trade to turn to the general trade, making the geographical advantage of border areas inferior to that of coastal areas.

6.1.4 Cooperation under Strategic connection of TCOB and B&R

On May 20, 2004, during his state visit to China, prime minister Phan Van Khai of the Vietnamese government proposed to China the joint construction of "Two corridors and one Circle" project. In 2009, the Vietnamese government decided to merge the TCOB plan with China's Beibu Gulf economic zone development plan to create a competitive investment environment further and promote the development of economy, trade and mutually beneficial cooperation between the border provinces of China and Vietnam. Such a co-development cooperation mechanism also provides a boost to the strategic connection between the TCOB plan and the B&R plan in 2015 after the "One Belt And One Road" initiative was put forward in 2013.

The concept of "Two corridors and One circle" put forward by the Vietnamese government has received a positive response from the Chinese side, especially the two provincial governments in Guangxi and Yunnan. The two countries and local governments have carried out multi-level cooperation on infrastructure connectivity and trade facilitation. However, the economic development of the border provinces of the two countries is primary, the geographical environment is complex, and the resources and efforts of the Vietnamese side are limited. The construction results of TCOB have not fully achieved the expected results (Liu, 2015). China-Vietnam cooperation under B&R is expected to inject new impetus into the construction of TCOB, bring new resources and ideas, and bring new opportunities for the advancement of the border areas. This is also a crucial factor in attracting Vietnam to participate in the construction of B&R. It emphasized that the strategic connection between the B&R initiative and the TCOB is also the need to accommodate the comfort of the Vietnamese side and create an atmosphere of reciprocity and cooperation (Li, 2016).

B&R initiative includes six corridors of international economic cooperation: the New Asia-Europe continental bridge; Russia-Mongolia- China; Central Asia-West Asia-China, China-Indochina; China-Pakistan; and China-Myanmar-Bangladesh-India (China State Council, 2015), which brings the new opportunity of development to the border cities, as well as, significantly improves the terms of the development of border trade.

Specifically, for the development of border trade, the B&R mainly adopts two modes.

Firstly, similar to TCOB, B&R attracting more investment in the border, especially in **border infrastructure**. According to the B&R initiative and the construction requirements of the "Border trade agreement between Vietnam and China (2016), governments would actively take advantages of the border areas as an economic breakthrough to carry out commercial trade and investment activities, and also economic construction plans to improve the overall value of the bilateral import and export trade. To achieve these goals, border provinces should quickly promote the construction of border gates, improve the infrastructure and service facilities in border areas, and attract local enterprises to invest in these gates (Deng&Li, 2018).

From the perspective of financing channels, B&R applied the PPP mode, namely, Public-Private-Partnerships, for border infrastructure construction investment, with the support of the Asian Infrastructure Investment Bank. The enterprise, including private and state-owned enterprises, has become dominant by letting small-size private capital involved. At the same time, the government plays the role of impeller under the principle of market-oriented operation (Kubalkova, 2015). More capital flows in the railroad, station, border gate, bridges, and other infrastructure in the border (Liu, 2015).

Among the results that projects have yielded so far are: Three expressways linking the provinces of Guangxi and Lang Son, Quang Ninh, and Hanoi; Two railways pass through Pingxiang border gate and Dongxing border gate respectively; Three Bridges span the Beilun river which connects Dongxing with Mong Cai, the Dong Gui river which connects China's Shuikou border gate with Vietnam's Tuong border gate, and the Tongzhong bridge which connects Fangchenggang city in Guangxi province with Vietnam's Binh Lieu county in the Beibu Gulf economic zone. Besides, with the loan support of the EXIM Bank of China, the first metro of Vietnam, Ho Chi Minh City urban railway plan, which is the crucial cooperation project of the strategic connection of B&R with TCOB, will be accomplished in 2021 (China international contractors association, 2018). These border infrastructure improvements have greatly improved the level of connectivity between the two countries, the terms of trade, and the attraction of FDI in the border areas that played an influential role in promoting border trade development.

For border trade, the second model under the B&R framework is to promote the **transformation of border trade**. This transformation mainly relies on the construction of economic cooperation zones to promote the transformation of trade patterns to processing trade and the diversification of trade structure. In this regard, significant achievements include the completion of the construction of three cross-border economic cooperation zones of Mong Cai-Dongxing, Dong Dang-Pingxiang, and Lao Cai-Hekou, and the continuous improvement of the infrastructure inside and connecting to the zone, as well as the investment in warehousing and border gate joint inspection in the park (Mofcom, 2019b). Another transformation model is a more innovation form, from traditional border trade to cross-border E-commercial. Nanning cross-border e-commerce pilot zone set up in 2018, sharply reduced the difficulty of cross-border e-commercial and fostered the ability for relevant facilities, such as logistics and customs. The B&R project invested in those areas to accelerate the transformation of border trade (China New, 2020).These methods not only considerably reduce the difficulty of participating in border trade but also have vast help to improve the added value of products in border trade and adjust the product structure of border trade, which will expand in more details in the following parts

6.1.5 Conclusions of the effect

In general, the development of Sino-Vietnamese border trade under the GMS framework mainly achieved through land and water transportation construction projects as well as trade facilitation measures. The existence of CAFTA provides a good guarantee for peace and stability in the border areas, which can be said to be the premise of Sino-Vietnamese border trade. However, the measures related to tariff reduction in CAFTA, to some degree, reduce the relative preferential degree of border trade policies, which might hinder its development. Under the framework of TCOB and B&R, China and Vietnam have made a substantial investment in border infrastructure construction to improve the interconnection level. Meanwhile, B&R attaches great importance to the transformation of border trade, and actively promotes this process by establishing cross-border economic cooperation zones and cross-border e-commerce pilot zones.

In conclusion, to answer the **research question of this thesis,** regional economic cooperation can promote Sino-Vietnamese border trade, especially those directly related to infrastructure construction and trade facilitation in regional economic cooperation. The deepening of regional economic cooperation partly reflects the fact that China and Vietnam are increasingly aware of each other's economic and trade partners. Under the existing regional economic cooperation framework, Sino-Vietnamese border trade will continue to develop.

It is worth noting that the role of regional economic cooperation mechanisms in promoting border trade is not guaranteed, and it needs to be determined by the specific implementation. In addition to the endogenous driving force provided by the cooperation mechanism, border trade development depends on many exogenous variables. In the following chapter, the author will accurately analyze the border trade between Guangxi and Vietnam to judge the factors that directly affect the border trade between China and Vietnam.

6.2 Guangxi-Vietnam border trade

According to chapter 5, for provinces that participate in the Sino-Vietnamese border trade in China, the Guangxi border trade compared with Yunnan's, no matter in contribution to the provincial economic growth and trade, or in the Sino-Vietnamese border trade proportion, has greater importance. This importance, also provided a guarantee for the government to invest more in border trade in Guangxi, both at the policy level and capital level. Guangxi government has already regarded border trade as a new source of economic growth. It takes the cultivation of border trade-related capabilities as an essential means to improve the economic development of border areas (Nanning Customs, 2019).

In this chapter, the author will mainly demonstrate the current situation of border trade from the perspective of the intermediary border effect between Guangxi and Vietnam. The transformation of the border effect will be analyzed through the description of two Cross-border economic cooperation zones (CBEZs) in Guangxi, e.g., Dong Dang of Lang Son (Viet Nam)- Pingxiang of Guangxi (China); and Mong Cai (Viet Nam)−Dongxing (China).

6.2.1 Border effect of Guangxi-Vietnam

The generation of boundary mediating effects mainly consists of three parts: geographical connectivity (natural and social), a potential difference in economic development or natural resource, and the actual demand for the cross-border trade (Li, 2004). The geographical advantages of Guangxi connecting to Vietnam have been mentioned in the previous chapter. Simultaneously, the shielding effect of the border will be interpreted in several factors in the next chapter. The author will mainly discuss the border trade pattern between Guangxi and Vietnam, such as the product structure and the import and export situation of border trade.

First of all, according to the "**Industrial development of the eleventh five-year plan**" issued by Guangxi government, industries that Guangxi has a comparative advantage in or will be intensively developing, including the Sugar industry, Agricultural industry (fruit, vegetable grains, meat, and aquatic products), Non-ferrous metals, Steel, Textile, Transportation equipment, Machinery, Chemical engineering, Paper and pulp engineering, and Electronics industry (Guangxi government, 2007). According to "**The five-year Socio-Economic Development Plan (2016-2020)**" released by The Vietnamese government, Vietnam's key industries with comparative advantages include Agricultural industry (fruits, vegetables, grains, meat, aquatic products), Textiles, Wood and timber, Fossil fuels, Rubber products, and Electronics industry (National Assembly Of The Socialist Republic Of Vietnam, 2016).

Due to the geographical proximity between Vietnam and Guangxi, their resource endowment, and the industries they choose to develop are similar to a great extent. This similarity may hinder the development of border trade. Based on a study of revealed comparative advantage index (RCA) of products from Guangxi and Vietnam, Guangxi's comparative advantages mainly reflected in labor-intensive products, including the textile industry and the machinery industry. In contrast, Vietnam's resource-intensive products display competitiveness, especially in agriculture products and rubber products (Li, Wang & Liu, 2018).

Accurately reflected in the structure of border trade, the main products Vietnam exports to Guangxi are mineral resources (coal mostly), agricultural products (grain and fruit), rubber, and log. It can be seen that Vietnam's border exports to Guangxi are mostly primary products with low added value, such as agricultural products and mineral resources required by the demand of the Chinese market and the need for expansion manufacture in China (Wu, 2018). Meanwhile, the commodities exported from Guangxi to Vietnam are mainly machinery and equipment, cloth for textile production, dried and fresh fruit, garment, and household appliances, with relatively high added value. These manufactured goods and machinery transported back to Vietnam via the border from Guangxi, on the one hand, reflect the upgrading of Vietnam's consumer market demand, on the other hand, reflect Vietnam's dependence on imports of production machinery. However, the complementary side of the product structure has promoted the development of the border trade between Guangxi and Vietnam.

Simultaneously, competition in the border trade, the overlap point of Guangxi and Vietnam, cannot be ignored. The competition between Guangxi and Vietnam is concentrated in the agricultural and textile sectors. In terms of agricultural products in border trade, although the quantity of agricultural products imported from Vietnam in Guangxi keeps increasing, the main driving force of this phenomenon is the continuous upgrading of consumption in China's domestic market (Wang, 2019) and the re-export trade from other countries through Vietnam (Van, 2016). However, in recent years, the competitiveness index of China's agricultural products keeps improving, and the complementarity of China's agricultural products with Vietnam keeps decreasing (Guo & Luo, 2018). This shows a downward expectation for deepening the border trade. In the textile industry, as labor-intensive industries, Vietnam, due to the labor cost advantage, has made the textile industry as an important export industry. Nevertheless, in recent years, the Chinese industrial surplus's permeation to Vietnam's textile and garment industry is considered one of the reasons for the failure of the Vietnam light industry transformation (Ngo, 2017).

6.2.2 Imbalance of Guangxi-Vietnam border trade

Just as the judgment on the overall trade pattern between China and Vietnam that made in Chapter 3, there is also a significant inequality between the border trade between Guangxi and Vietnam. Because of the availability of data from provincial statistics, small-scale border trade used to show the overall picture.

Table 2: Guanxi-Vietnam Small-scale border trade balance[26]

Guangxi Small-scale border trade with Vietnam (Hundred million USD)				
Year	Total	Import	Export	Balance
2012	83.5	11	72.48	61.48
2013	115.09	10.37	104.72	94.35
2014	147.28	7.19	140.09	132.9
2015	170.01	7.18	162.83	155.65
2016	118.49	5.16	118.49	113.34
2017	123.86	5.52	118.33	112.81
2018	162.72	6.61	156.11	149.51

Author's own elaboration, based on the Guangxi statistical yearbook (2012-2018).

As can be seen from the figure above, Although Guangxi's border trade with Vietnam doubled between 2012 and 2018, the growth mainly came from Guangxi's exports to Vietnam, while imports in the border trade even decreased, resulting in a widening deficit for Vietnam. On the one hand, it has something to do with the statistical method of the border trade between China and Vietnam; on the other hand, it is also affected by the interference of smuggling activities on the border to the actual trade situation. However, the widening trade imbalance trend cannot be ignored, which shows the severe consequence of the unbalanced border trade commodities structure. It also demonstrated the economic dependence of the northern border region of Vietnam on China (Huynh, 2017). From the border effect perspective, this unbalanced trade pattern affects the Vietnam-side transit demand and hinders border trade development.

6.2.3 Trade Facilitation

As a necessary means to transform the border effect, it is essential to improve the degree of trade facilitation. As a result of this, the authors will compare different indicators that matter for trading across the border. The indicators to demonstrate trade facilitation mainly include the time and money costs of both import and export in terms of Border compliance and Documentary compliance. In addition to China and Vietnam, it also shows the average performance of East Asian & Pacific countries and OECD high-income countries in related fields for reference. In parentheses is the score.

Table 3: Comparison of Trade Facilitation of China and Vietnam[27]

Indicator	Vietnam	China	East Asian & Pacific	OECD high income
Time to export: Border compliance (hours)	55（66.0）	18（89.3）	57.5	12.7
Cost to export: Border compliance (USD)	290（72.6）	249（76.5）	381.1	136.8
Time to export: Documentary compliance (hours)	50（71.0）	8（96.2）	55.6	2.3
Cost to export: Documentary compliance (USD)	139（65.2）	70（82.5）	109.4	33.4
Time to import: Border compliance (hours)	56（80.3）	37（87.1）	68.4	8.5
Cost to import: Border compliance (USD)	373（68.9）	230（80.8）	422.8	98.1
Time to import: Documentary compliance (hours)	76（68.6）	11（95.8）	53.7	3.4
Cost to import: Documentary compliance (USD)	183（73.9）	75（89.3）	108.4	23.5

Source: Author's own elaboration based on the DB database.

From the table above, China is better at facilitating the transit of goods than Vietnam in terms of time and money spent. Vietnam's performance in all indicators is roughly in line with the average of East Asian & Pacific countries. At the same time, there is still a gap between the average performance of China and that of OECD high-income countries. Although this value can only reflect the average level of China and Vietnam, considering that the border construction level of Guangxi is lower than that of Shanghai, Guangzhou, and other developed ports, Vietnam's border with China is at a higher level of construction than borders with Laos and Cambodia.

Taking everything into consideration, the facilitation degree of border trade between Guangxi and Vietnam is roughly similar to the situation reflected in the figure above. It is necessary to upgrade border infrastructure and customs procedures to improve the facilitation level to facilitate the smooth development of border trade.

6.2.4 CBEZs at Guangxi-Vietnam border

In chapter 6.1, this paper has discussed the cooperations under GMS, CAFTA, and TCOB, with their effects to facilitate the Sino-Vietnamese trade, which has a certain tendency to contribute much to the general trade level. In order to push the border trade between China and Vietnam to a higher level and deepen the cooperation between China and ASEAN, cross-border economic cooperation zones (CBEZs) should establish on the premise of the continuous strengthening of sub-regional economic cooperation (UNDP, 2007). As a necessary means to transform the border effect and improve trade facilitation, which is also a higher stage of the development of border trade, the construction of cross-border economic cooperation zones has been endowed with high expectations.

At present, on the border between Guangxi and Vietnam, the "Dongxing (China)- Mong Cai (Vietnam)" and the "Pingxiang (China)-Dong Dang (Vietnam)" cross-border economic cooperation zone was proposed for construction in 2007. Under the promotion of the two governments, the construction is progressing steadily. In 2010, the China-ASEAN Free Trade Area (CAFTA) completed as scheduled, providing a pleasant atmosphere for accelerating the construction of the CBEZs. From China's point of view, these two cities are the most developed border trade gates of Guangxi. At the same time, it is also the gathering point of China's national development plan: Beibu Gulf economic zone, South China southwest economic zone, and China-Vietnam transnational development plan: Two Corridors and One Belt (TCOB).

Firstly, the **Dongxing-Mong Cai CBEZ**. The total planned area is 23.44 square kilometers, in which China has a planned area of 9.94 square kilometers, and Vietnam has a planned area of 13.5 square kilometers. In 2018, the total import and export volume of Dongxing was 26.91 billion yuan, with an average annual growth of 34.3%. The trade volume of the trade in the frontier market was 18.13 billion yuan, with an average annual growth of 12.4%. The CBEZ China park was officially started construction in 2013 and has now completed a total investment of more than 2 billion yuan. The 2.06 square kilometer road network planned by China in the first phase of the zone has completed (Zhu, 2019).

In terms of trade facilitation, Dongxing border gate is gradually transforming into an e-port. In 2018, the custom inspection system upgraded, and the average inspection time for inbound and outbound tourists was increased from 40 seconds per person to 6 seconds per person. In 2018, a total of 12.19 million people passed through Dongxing border gate, including tourists and border traders. However, for cargo clearance, Dongxing border gate has not realized the mode of single window declaration between China and Vietnam. Moreover, due to the small size of the border gate's supporting customs control cargo yard and the insufficient number of personnel in the custom inspection department, it is unable to meet the growing needs of trade. Besides, when passenger vehicles pass through Dongxing border gate, 24 forms are required for registration and filing (including 17 for filing and 7 for customs clearance, involving frontier, customs, transportation, and other departments), for which 70% of the contents of the forms are repetitive, complicated, time-consuming and inefficient for customs clearance (ibid). Congestion of goods and vehicles resulting from these customs clearance efficiencies has also been exacerbated by the massive increase in the number of vehicles entering and leaving the country.

Finally, the economic momentum of the cities on which the border gate economic development relies is weak. From 2017 to 2018, the fiscal revenue of Dongxing city declined continuously, with a decrease of 39.8% in 2018 (Zhang & Zhang, 2019). The cross-border economic cooperation zone has not formed a new tax source, which has caused a burden on the local government's finances. On the Vietnam side, the main problem is the poor connectivity of the region's infrastructure, especially roads, and the inefficient management of the border trade (ADB, 2018).

The second one is the **Pingxiang-Dong Dang CBEZ**. At present, pingxiang is the most frequently used border gate in the border trade between China and Vietnam. In this CBEZ, there are mainly two parts: customs territory and non-customs territory. Customs area includes industrial warehouse area, industrial processing area, administrative area, and other supporting public facilities. Activities that may carry out in non-customs areas, which are primarily for the promotion of international trade, include: (i) the production of goods for export and goods for consumption in the zone;(ii) trade in goods;(iii) providing commercial services (ibid).

In 2018, the value of Pingxiang's trade totaled 89.7 billion yuan, achieving annual growth of 15.4%, ranking first in Guangxi (Huang & Huang, 2019). This achievement has a direct correlation with Pingxiang's efforts to promote the border gate facilitation conditions. At present, Pingxiang border gate has realized the e-port, and the customs information between the two countries is shared, which improves the clearance speed of goods and passengers. Besides, five frontier markets in Pingxiang have implemented an appointment declaration system to cope with the growing border trade development. Pingxiang CBEZ has specially built grain inspection farms and appropriative freight channels to provide more specialized service from the structure of border trade (Yang, 2017).

Nevertheless, at the same time, Pingxiang border gate also has some problems. First of all, the border gate has poor connectivity with Guangxi or China's economic hinterland. Thus goods, especially fresh goods, face the pressure of long transportation. Secondly, in terms of vehicle exit and entry management capacity, the carrying capacity of vehicles on the Vietnamese side of the Youyiguan border gate is about 200 at present, while the average daily number of vehicles at the border gate is 500, which leads congestion occurs (Huang & Huang, 2019). In terms of the management of CBEZ, there are problems in the number and efficiency of staff in Lang Son as well. In terms of specific construction projects, there are also problems of poor coordination between the two countries, uneven progress, and constant jurisdictional disputes (ADB, 2018). All these restrict the construction of CBEZ and the development of border trade.

In general, both CBEZ plans demonstrate a firm goal of trade facilitation, which significantly helps to promote border trade. However, now both CBEZ is showing similar problems. Firstly, due to the political particularity of the border under the joint jurisdiction of the two governments, the level of cooperation between the two governments directly affects the implementation of the construction plan and the efficiency of customs clearance. Secondly, infrastructure problems on the border, especially on the Vietnamese side, have severely affected the effectiveness of CBEZ. Specifically, it includes the infrastructure built in CBEZ and the roads connecting CBEZ with the regional economic development points. Finally, from the perspective of the comparison between the two CBEZ, it can be seen that the construction of CBEZ is dominated by the municipal government at present, lacking mutual coordination. Specifically, the construction objectives and functions are similar, and the adopted strategies and preferential policies are not interlinked. This makes the other side cannot quickly absorb the experience of one side, and it is easy to cause low-level competition.

6.3 Discussion of Sino-Vietnamese border trade

In addition to the imbalance in quantity and structure of trade, there are problems of border trade itself and problems caused by preferential policies of border trade.

Firstly, from the perspective of political cooperation on border trade between China and Vietnam, it mainly focuses on the differences in border border gate policies and the legal issues caused by them, as well as the conflict of administrative jurisdiction caused by cross-border economic cooperation zones.

Secondly, from the perspective of the operation of China's border trade policy, there exist such problems as the weakening of preferential border trade policy, the mismatch between the existing border tax policy and the current development status, and the habitual dependence of preferential policies on border areas in the progress of reforming border policy.

Thirdly, from the perspective of the cross-border economic cooperation zone, as an essential fulcrum for border trade development, the two countries currently have mismatches in each one's strategic positioning. Combine with differences in the level of connectivity of infrastructure, which cannot fully exert the trade creation effect. Besides, due to the lack of characteristics and competition among border gates, it is difficult for cross-border economic cooperation zones to achieve synergies, which is not conducive to the development of border trade.

Lastly, the settlement of the Sino-Vietnamese border trade is extraordinary, mainly reflected in the following aspects. First, RMB occupies a dominant position in the settlement, but has inferior domestic liquidity in Vietnam; Secondly, in the settlement business, the informal Stall Bank plays a significant role and competes with the formal banking institutions. Thirdly, the irregularity of transactions has affected the development of inter-bank settlement between the two countries. These particularities also make the settlement of Sino-Vietnamese border trade develop slowly and breed financial crimes.

6.3.1 Border trade policy and policy coordination

In order to promote the smooth development of border trade, the Chinese and Vietnamese governments need to strengthen **policy coordination** further.

At present, the border gate management system of the two countries has not coordinated. For example, according to a research report of Pingxiang border gate, Vietnam has a more relaxed customs clearance procedure than the border trade management of two sides. At the same time, China applies a more stringent management approach for the border market, especially harsh on the personnel mobility at the counter-trade point (area). The Vietnamese citizens with an ID card can enter China's frontier trade point, but Chinese citizens would need a signed document (Zhu & Wu, 2020). At the same time, China's regulations on the duty-free quota, geographical scope, and duty-free objects of the border trade are not as liberal as Vietnam's, which also mentioned in chapter 5. Besides, due to Vietnam's lax border trade management, smuggling, and other illegal actions repeated emergence (Shang, 2020), it is difficult to control the flood of fake and low-quality commodities in border trade (Li, 2015), which severely affects Vietnamese consumers' perception of Chinese products. Between the two countries, to build a well-function bilateral policy and related law for the border trade management and industrial development is critical for fighting illegal behavior such as smuggling, tax evasion, and fraud (Liu, 2020), and it is also can be the basis and prerequisite for the healthy development of the border trade, promote cross-border economic cooperation towards the direction of standardization, industrialization.

Secondly, from the perspective of the construction of cross-border economic cooperation zone, since it is a brand new model for the border trade between the two countries, and is also a large and complicated systematic project, involving the docking and coordination between the two sides in various aspects such as mechanism, policy, law, and industry. As a result, implementation requires many breakthroughs in national policy, especially in the **administrative jurisdiction** where coordination is required (ibid), which makes the policy coordination much tricky. Another reason for the comprehensive overall plan of the Sino-Vietnam cross-border economic cooperation zone hard to enact is Vietnam's politically balanced strategy, to reduce its unilateral economic dependence on China (Tran, 2015), which also put forward requirements for strengthening political mutual trust between the two sides.

In addition to the mismatch between China and Vietnam, China's border trade policies also need to be innovated according to the current development.

A conclusion from the above, the advancement of regional economic integration and the establishment of China-ASEAN free trade area lead to declining tariffs which make the influence of tariff to cost of goods to diminish, accordingly, promoting effect of tax cuts on the border trade is not as huge as before, which makes the lure of **border trade preferential policies also gradually weakened**. If the goods from Vietnam enjoy similar preferential duties at a general border gate and a border border gate, combined with the facts that general trade border gates are more advantageous at transportation infrastructure, distance with China's economic center and customs clearance efficiency, (Su & Wei, 2014), which will further curb the development of border trade and transfer border trade to general trade.

Besides, China's border **tax preferential policy** itself is no longer adapt to the current situation of the development of the border. At present, the Guangxi border trade tax policy still uses the policy announced in 2008, which cancels the preferential policy of "import tariff and value-added tax cut by half, "as a substitute using particular financial transfer payment for small-scale border trade (Cui, 2008). The dominant mode of border trade between Guangxi and Vietnam is mainly small-scale border trade. The operating subjects are mostly small and medium-sized private enterprises whose capital circulation ability is weak. The tax-cut preferential policy gives full play to the market mechanism and can benefit directly from the border trade enterprises. However, after using specific financial transfer payment policy, because the payment cycle from the central to local is more prolonged, generally for a year or more, the financial time gap exists (Lin et al., 2016). Enterprise once gets into an awkward situation, although in recent years, the regional border banks increase financing for this type of private enterprise, the possibility of bankruptcy significantly increased. As a result, the new tax policy reduces benefits while increasing the firm's management risk.

Beyond that, some preferential policies of trade between border residents lack transparent provisions. For example, in 2008, China's Ministry of Finance and General Administration of Customs stipulated that duty-free goods of border trade between residents should be items that meet the daily needs. However, there is a lack of a specific definition of what is needed for daily life, which leads to the inconsistency of law enforcement. There is also a lack of clear regulations on whether border residents can resell the goods acquired in the border trade (Su, 2015). Besides, it is unclear whether the duty-free policy of border residents trading goods only applies to products originating from neighboring countries. For example, in the border trade of Pingxiang (Guangxi), goods originating from Myanmar are imported. In contrast, Pingxiang borders only Vietnam and does not border Myanmar, so it is not clear whether it can be exempted from duty or not (Li & Zhao, 2019). These unclear provisions in the tax system lead to constant tax evasion in border trade and make it difficult to have a basis for border trade management.

Simultaneously, the habitual dependence thinking formed by the preferential border trade policies needs to be changed. For an extended period, under the background of the active promotion of border cooperation between China and Vietnam, the state has given many fiscal and tax preferential policies and measures aimed at stimulating the production and development of border areas and improving the living standards of border people, including various tariff reductions and subsidies, which have played a decisive role in poverty reduction in border areas (Wang & Han, 2018). However, this preferential policy only applies to the temporary transitional policy in the early stage of the reform. According to the theory of trade transformation, with the deepening of reform and the requirements of international integration, various economic policies and behaviors must be standardized, so various particular preferential policies granted to border areas by the state will be gradually reduced or even canceled (ibid). Border areas need to actively change their thinking and realize that the way to achieve development through state subsidies and benefits is no longer suitable for the current development needs while upgrading and standardizing the border trade management mode, changing the mode of production and improving the production capacity is the right way to achieve development.

6.3.2 Infrastructure and Cross-border economic cooperation zone

The most significant factor affecting border trade is the **imperfection of hardware infrastructure construction** in the border economic cooperation zone and border resident market. At present, Sino-Vietnamese border trade mainly realized through the trading points and gates in the border areas, which is also the reason for the geographical advantages and broad development prospects of Guangxi and Yunnan provinces. Despite the rapid development of China-Vietnam economic and trade cooperation, the inadequate supporting infrastructure in the cooperation zone has become a bottleneck for a deepening development, hindering economic growth, and regional connectivity. So far, 30% of the cross-border points have an unsound road connection, and 50% of the border trade roads are in poor conditions, which increases truck traffic difficulties. Besides, the communication construction, water, and power supply at some border gates are often in short. The inspection yards and storage warehouses are generally modest and unsound in function, which cannot meet the growing demand for bilateral trade (Xu & Yang, 2020). There are only two railway lines: Beijing - Nanning - Pingxiang - Hanoi; and Kunming - Hekou - Lao Cai - Hanoi. Due to the different railway standards, both the two railways have problems such as unreasonable departure time of trains, slow speed of trains, and long customs clearance time (Su & Wei, 2014). The inconsistent standards of railway gauge in the two countries lead to the fact that roads can only dominate cross-border transportation. In contrast, railway transportation is characterized by low cost, fast speed, and substantial capacity, which cannot play a full role. The planned eastern route of the pan-Asia railway is a trade corridor connecting China and the Indochina peninsula from Kunming, China, through Vietnam, Cambodia, Thailand, and Malaysia to Singapore (Ma, 2015). However, only the part of the railway located in China, namely the standard rail railway from Kunming to Hekou, has been completed. Vietnam's connection with the Hekou railway was built at the beginning of the 20th century, so goods have to be transported to the estuary before they can leave the country, resulting in increased transportation costs and weak transit trade (World Bank, 2019).

Apart from the need to further upgrade the infrastructure construction, the progress of **cross-border economic cooperation zones (CBEZs)** building facing different kinds of mismatch problems. It mainly reflects in the following aspects:

First, the **strategic positioning** of different border gates in the two countries is not matched. The local governments where China's border gates located commonly have a positive attitude towards the construction of cross-border economic zones and have made rapid progress. In contrast, the Vietnamese side, despite its plans, has lagged in its actions. In December 2015, the prime minister of the Vietnamese government approved nine key border border gate economic zones to be developed with centralized investment from the government from 2016 to 2020. Among them, there are four border economic zones adjacent to China, namely, the Mong Cai economic zone in Quang Ninh, the Dong dang economic zone in Lang Son province, the Lao Cai economic zone in Lao Cai province, and the Trà Lĩnh (Cha Ling) economic zone in Cao Bang province (Pan, 2019). The first three border gates have formed an absolute scale (as mentioned above). However, these economic zones have not fully aligned with China's strategy. Currently, only Dongxing-Mong Cai border gate and Pingxiang-Dong Dang border gate are relatively developed. For another example, the Vietnamese government has set up an economic cooperation zone at the Tà Lùng (Tuo Long) border gate, one of the three state-level economic development zones in Vietnam. However, China now only regards the Shuikou border gate corresponding to Tà Lùng as a gateway border gate, with a relatively low strategic position (Yang, 2019). This is also because, in terms of Vietnam's construction, the economic conditions and investment attraction of the southern region are higher than that of the northern region, while only Quang Ninh among the northern provinces ranks higher in competitiveness (Vietnam Briefing, 2019). Therefore, in reality, the purpose of the Vietnamese government to develop the northern region through border trade is different from its choice of investment target with limited funds (Thanh, 2015), which causes the mismatch of strategic positioning between China and Vietnam for the construction of cross-border cooperation zones, which undoubtedly greatly restricted the progress of economic cooperation zones between the two sides and delayed the promotion of border trade.

Second, the **building progress** of China and Vietnam is different. That means even if China has finished the construction of its own side, without a well-functional connection with the Vietnamese side, the trade creating effect is limited. This situation is always related to the different sight of view of the strategic values in the economics of the two countries.

The Vietnamese side has relatively poor infrastructure conditions, roads, storage, and other conditions that have not met the requirements, which always due to the lack of funds, so the progress of various construction projects is not smooth. For example, Longbang-Trà Lĩnh border gate, in which the Chinese part of the cross-border economic cooperation zone is located in Longbang town, Jingxi city in Guangxi province, while the Vietnamese part is located in Trà Lĩnh, Cao Bang province. Longbang border gate of China has actively promoted, the highway connecting the border with significant cities formally opened by the end of 2018. Although the customs inspection area, storage area, and tourism channel have put into use at that border gate, the construction has not started yet due to the lack of funds of Cao bang province. The postponement of the project is not contributing to solving the problems of poor traffic conditions, low highway grade, poor traffic connectivity, long transportation time, and high logistics cost (Liao, 2019), holding disadvantages in the competition between gates, dramatically reduces the support for border trade.

Third, the positioning functions of the cross-border economic cooperation zones are similar with minor differences. Without distinctive features, it is easy to form **repeated construction or vicious competition**. At present, there is a phenomenon of competition among China's border gates, while the problems of irregular and multi-management in border areas are often seen. Some departments of local governments do not charge entry fees according to regulations and overcharging, or excessive subsidies occur from time to time (ibid).

The essence of the phenomenon is the competition between provinces or between different border cities. This is mainly due to the fact that China's border gates facing Vietnam are located both in Guangxi and Yunnan provinces. For economic development, both provinces provide support to the municipal governments where the border gates located to build cross-border cooperation zones. Although all the cross-border economic cooperation zones are under the framework of B&R or CAFTA, the specific terms are mostly negotiated between the border cities and the Vietnamese side, and then back to the provincial government and be funded (Li, Wang & Liu, 2018). Therefore, there is a lack of unity and coordination among different projects. The central government or the provincial government must strengthen planning and design from the perspective of the overall situation, make overall planning and coordination, and build cross-border economic cooperation zones in accordance with the clear division of purposes and functions, distinctive features, specialization, and modernization.

6.3.3 Financial

The settlement has a significant influence on trade activities. The convenience, safety, and efficiency of settlement play an essential role in the development of trade activities. A well-functional settlement is conducive to ensuring the safety, reducing trade costs, and accelerating the withdrawal of funds. Border trade settlement is a kind of international trade settlement (Shen & Zhou, 2010). Border trade settlement refers to the settlement of claims and debts generated in the process of border economic trade. The border trade balance generated by the movement of currency between the two countries is included in the statistics. Differences between the border trade settlement with regular international trade settlement, both sides who participate in settlement of trade is in the border region, the applicable laws and regulations and foreign exchange policies are always quite different between the two countries, the settlement currency uses both kinds of currency (Huo et al., 2017). In the Sino-Vietnamese border trade, the value of goods is calculated according to the exchange rate of RMB and Vietnamese Dong.

The first characteristic of the settlement of Sino-Vietnamese border trade is that **RMB Acts as the main settlement currency**. For a long time in history, the border trade between Guangxi and Vietnam mostly settled in the currency of China. From 2014 to 2017, RMB settlement of border trade in Guangxi accounted for 96.46%, 97.42%, 97.20%, and 97.99% of the total border trade settlement in the same period, respectively. According to a survey report by the Guangxi branch of the People's Bank of China (PBOC), from June 2010 to the end of October 2017, 586.092 billion yuan was settled in border trade in Guangxi, accounting for 71% of the total cross-border RMB settlement in the province. The settlement of trade between border residents was 168.163 billion yuan, accounting for 28.7%, while the settlement of small-scale border trade accounting for 71.3% (PBOC, 2018). However, the current limited circulation capacity of RMB in Vietnam is mostly confined to the northern provinces. In Vietnam, the US dollar and Vietnamese Dong are widely used simultaneously, which has an inhibiting effect on the cross-border circulation of RMB (Liu & Ding, 2019). This results in the difference between the currency in circulation in border trade and that within Vietnam. Since the participants in the Vietnam border trade are not limited to the companies and residents in the border areas, but the whole country of Vietnam, this difference between the currency domains in the border trade and the preferred currency in Vietnam, may hinder the enthusiasm for participation, thus hinder the further development of the border trade.

Besides, informal "Stall Bank" (street bank, black market bank) wildly exist in the border areas between China and Vietnam and even control the exchange rate of the currencies between China and Vietnam in the past. Stall bank is not a kind of bank, but a Private financial institution, providing services including payment, collection, and currency exchange, which is an alternative to banks. They play a substantial role in the Sino-Vietnam border trade, and it is difficult to ban them entirely either from a demand perspective or from the inadequacy of services in the market (Wu & Yan, 2019), which increases the difficulty of border trade management. In 2000, Vietnam issued the "Regulations on the currency management of Vietnam's border areas and border gate economic zones," which officially recognized the stall bank's legality. Quang Ninh province in Vietnam formulates the specific rules. As long as the border residents or other residents hold the business license of the border region, 50 million Dong can engage in the currency exchange business in the border region. The government of the province has set aside a plot of land in the heart of the city, specifically for the legitimate operation of the stall bank operators. Thus, a relatively low currency exchange threshold has formed. Along with the development of border trade, stall bank has emerged some oligarchs. Every day, several big Stall Banks calculates the cross exchange rate according to the market demand expectation and the cash price of US dollar against RMB and US dollar against Vietnamese Dong announced by the Banks of China and Vietnam, and then announce the exchange rate of the day at the border (Liu, 2019).

Due to the small amount of trade in the early stage of the development of Sino-Vietnamese border trade, few formal banks provided relevant services. Hence, stall banks achieved great development opportunities. In the actual operation, compared with the formal bank tedious, although there is a specific transaction risk, the settlement of the stall bank is convenient, fast, and low cost. Since more than 90% of small border trade export enterprises in Guangxi mainly operate as export agents, which are only responsible for customs declaration, while the consigner is responsible for the payment of goods. These clients prefer to settle their accounts through stall banks rather than through the cumbersome vetting process of formal Banks. Besides, due to the lack of efficient and convenient fund settlement service providers, the settlements in most trade zones for the border residents are also handled through the stall banks, whose market share in the settlement market of Guangxi's border trade with Vietnam is much higher than that of the ordinary Banks (Huang, 2015).

With the expansion of the Sino-Vietnamese border trade, the two governments gradually reach the consensus of, engaging stall bank operators in the border into the customs supervision, implementing a more effective exchange policy and management approach, preventing smuggling, drug trafficking, money laundering, and other illegal activities in the border. In July 2013, the **People's Bank of China Nanning branch** issued the "Management method of personal cross-border RMB settlement for border trade in Guangxi province," approved to set an experimental zone in Dongxing, Guangxi. On April 26, 2014, the China-ASEAN currency business center of the Agricultural Bank of China (ABC) was established in Dongxing. It realized the free exchange and free circulation of the currency in the China-Vietnam cross-border economic cooperation zone. The purpose is to standardize the settlement process of border trade. In 2016, RMB officially included in the Special Drawing Rights (SDR) currency basket of the International Monetary Fund (IMF), which helped to expand the regional scope of RMB using and further reduce the dependence on the US dollar in Sino-Vietnamese trade (Ko, 2019). On August 28, 2018, the **Vietnamese central bank**, issued the Notice no. 19/2018 / TT - NHNN, allows individuals within the territory of the border region exchange and use RMB legally. The regulation applies to commercial banks in Vietnam; foreign banks authorized to conduct foreign exchange transactions whose branches located in border areas or border economic zones; institutions that provide services and duty-free commodities in isolated areas at international border gates; organizations engaged in bonded warehouses in the China-Vietnam border area; and other organizations and individuals conducting settlement business in the China-Vietnam border and economic cooperation zone (Zhang, 2019). Although the relevant policies and regulations of Vietnam have lagged compared to China, these policies demonstrate the determination of Vietnam and China to cooperate and facilitate the standardization of settlement of border trade.

At last, the **irregularity of the Sino-Vietnamese border trade** also affects the development of the settlement. As mentioned above, many border enterprises in China have a strong dependence on the government's preferential policies. The operating profits of many export enterprises engaged in small-scale border trade mainly come from local subsidies. The more the export volume is, the more subsidies they get, so they prefer to overquote their exports. However, in order to reduce taxes and fees, Vietnamese importers often choose to understate the value of imported goods or even smuggle the goods into the country. Therefore, the same batch of goods occurs a phenomenon that was excessively declared in Guangxi when export, as well as, less declare or even not declare in Vietnam when import. The nonstandard transaction directly leads to almost two-thirds of the export goods in Chongzuo city in Guangxi, which payment cannot initiate from Vietnamese Banks according to standard procedures in 2015 (Liang et al., 2016).

6.3.4 Smuggling actions at the border

The **smuggling phenomenon** is also severe in the Sino-Vietnam border. According to the number of border smuggling cases detected by Nanning customs in recent years, in this part of the border, which accounts for less than 5% of China, roughly 60% of the national smuggling cases happen. (Yin, 2018). Among them, the smuggling of agricultural products accounts for the vast majority. On the one hand, it is related to the adjustment of China's food security strategy in recent years. China's increasing demand for food also increases the amount of smuggled rice (Zhang, 2019). On the other hand, it also related to China's import restrictions on some products, such as the sanctions on Norwegian salmon, which led to the majority of salmon in the Chinese market being smuggled into China through Vietnam (Nguyen, 2019). Because most of the smuggling syndicates in the region buy off large numbers of residents and make them transport only a small amount of smuggled goods at a time. Even if local authorities catch them, they often fail to meet the punishment standards prescribed by law, which makes border management more difficult (Turner, 2013).

The existence of criminal behavior seriously affects the trade settlement process, increased difficulty in providing financial services by banking institutions. In 2017, serval banks in Guangxi, for reasons of risk control, strengthen the internal control management and authenticity verification, have suspended their Non - Resident Account (NRA) transfer service (Yang, 2018). To some extent, these illegal factors that hinder the operation of the average border trade.

6.4 Suggestions and countermeasures

In the first few chapters, this paper elaborates on the process and conditions of Sino-Vietnamese border trade, as well as the problems existing in the current border trade relationship, in terms of quantity, structure, and operation progress. In this section, the author will put forward some suggestions from policy-level on the four determinants that affect the border trade respectively in the context of the continuous development of the CBEZs under B&R plan and CAFTA (upgraded).

6.4.1 Trade pattern determinants

First of all, due to the differences in **trade statistics systems and rules** between the two countries, China and Vietnam have some differences in the data collection, which is a cause of the trade imbalance. There are some defects in China's current statistical rules that do not include small-amount trade (trade under 2,000 yuan) in statistics. It has been unable to truly reflect the current situation of the foreign trade between China and Vietnam. In the trade border gates along the border and more than a dozen border residents' frontier markets, small amounts of trade account for a large proportion. In 2014, the bilateral trade balance calculated by Chinese customs was 43.705 billion US dollars, while that of the Vietnamese government was 28.719 billion us dollars, with a difference of 14,986. From the Vietnam perspective, the export of rice to China was 2.14 billion US dollars, compared with 710 million US dollars in China's statistic, which cause a gap of $1.43 billion (Li, Bang & Ishaq, 2017), as well as, the irregular border trade actions, e.g., concealing and smuggling. It can be seen that the difference in statistical results between the two sides due to different statistical rules is too significant. Therefore, in the process of continuous development, deepening, and transformation of Sino-Vietnamese border trade, China's customs statistics methods must change and develop accordingly.

In terms of the structure of border trade between China and Vietnam, the main problem that restricts border trade development is that the products of border trade have low added value. Vietnam bears a widening deficit and a slowly-growing border trade. Shall be gradual, no matter for China or Vietnam, transform to a **higher value-added processing trade pattern**, to replace the current resource-oriented or labor-oriented product structure, with the help of the current construction of cross-border economic cooperation zone, increase the economic density along the border between the two countrie • s, encouraging the processing trade enterprises in or along with the CBEZ formed industrial agglomeration, and in order to achieve a sustainable-development and more consistent border trade pattern.

To be specific, on the one hand, according to the current structure of border trade, local government can encourage the production enterprises that take these border trade products as raw materials to settle in. For example, the fruit processing industry, wood processing industry, and rubber products processing industry can increase the value of products and extend the industrial chain with the help of the leading products in the border trade. On the one hand, governments in border areas can provide targeted supportive policy for such enterprises through taxation and financing channels. On the other hand, service facilities should also be built in border areas, especially in CBEZs, such as fresh-keeping warehouses for fresh products and fumigation for wood products.

It is worth noting that, in addition to trade in goods, **enriching trade forms** is also an essential means to reduce the imbalance in Sino-Vietnamese border trade. With the development of China's economy, China's labor cost advantage is decreasing. In recent years, along with FDI, more and more labor-intensive enterprises begin to transfer to Vietnam, where the wage cost is lower, including many Chinese processing enterprises (Howard, 2017). This transfer provides an excellent opportunity for the development of the service trade industry in cross-border regions, including human resources cooperation, cross-border tourism, and cross-border financial services. The development of service trade is first guaranteed by the upgraded version of CAFTA and meet the actual demand based on the construction of CBEZs. Therefore, the two governments can rely on the B&R cooperation framework to guide enterprises and investment in this field, which will assist in optimizing the border trade structure and deepening bilateral cooperation along the border.

6.4.2 Policy determinants

First of all, to create a favorable environment for the development of border trade, **mutual trust, and policy communication** between the two sides is extremely important. The development of border trade strongly linked to bilateral political relations (Stepanova & Shlapeko, 2018). According to the information in the above chapter, under the cooperation framework of CAFTA, the economic exchanges between the two sides have been continuously deepened. In contrast, political cooperation has been strengthened to resolve the territorial disputes on land and promote peace in the border areas, facilitating border trade development.

In recent years, the development levels of China and Vietnam differ significantly, which can be manifested in the massive trade deficit and imbalance of trade structure. Vietnam has not achieved a balance with China through the Multi-FTA under the framework of ASEAN and even has become economically dependent on China (Womack, 2010). This can partly explain why Vietnam has adopted a balanced policy by joining other regional economic cooperation such as RECP and CPTPP. Moreover, there is a territorial dispute in the South China Sea between the two countries (Blazevic, 2012), which has laid a hidden danger in the relationship between China and Vietnam. According to the experience of CAFTA, China and Vietnam should gradually establish a policy coordination mechanism on the South China Sea issue in an institutionalized way (Zhong, 2012), under the background of cooperation between B&R and TCOB, strengthen bilateral political cooperation to resolve the existing disputes and promote the stable development of border trade through mutually beneficial cooperation.

Correctly, in the border trade between the two countries, the advantages of the **dispute settlement mechanism** of NAFTA can be absorbed, as well as, according to the characteristics of Sino-Vietnamese border trade, an effective mechanism can establish to coexist harmoniously with the dispute settlement mechanism of CAFTA and WTO agreement.

In terms of the **reformation of border trade policies**, local governments shall standardize and unify local policies and regulations. In particular, they can build a cross-department border trade service, including customs clearance (Customs authorities), inspection and quarantine (Department of health), and payment (Financial sector). By applying this supervision and management system, a consultation mechanism for border trade subsidies can be established, in which the foreign exchange income and expenditure of enterprises shall be included in the conditions for approval of the payment of subsidies (Liu, 2017), so as to guide the healthy development of border trade.

About the **policy of trade among border residents**, in recent years, the government encourages border residents entirely use their 8000 yuan of tax exemption (daily), i.e., serval residents set up a border trade cooperative, signing agreements with processing enterprises, purchasing raw material from Vietnam and declare to the customs under the name of the Border trade cooperative, while The customs shall levy and exempt the goods declared for import according to the cumulative value of the daily duty exemption quota for each border resident in the cooperative (Sun, 2016). In this way, through the form of cooperative, instead of dispersive border individuals as the subjects of the border trade, on the one hand, reduce the costs and trade barriers for border residents to participate. On the other hand, this measure can also reduce the management risk of the border trade, making data statistics more convenient.

From the perspective of **tax policy**, China's border areas currently receive a unified national tax. Although there are special transfer payments for border trade, the effect is not ideal. In order to further support the development of border trade, the central government can directly return the import tariff and the consumption tax on the import link of the border trade, and back to the local government of the border area according to a certain proportion.

Especially, those existing SEZs in the border regions, which are engaged in processing trade and entrepot trade, can be upgraded to FTAs, concerning the practice of establishing Shanghai FTA in 2013 (Wang, Zhang & Zhou, 2014). Those border SEZs can also enjoy the same tax policies, for example, the central government's share of value-added tax in border trade imports will be adjusted from 75% to 50%, and the rest of the tax will use to strengthen the construction of border gates and infrastructure. At the same time, the import of machinery and equipment needed by manufacturing enterprises and producer services enterprises in the test areas shall also be exempted from tax.

6.4.3 Infrastructure determinants

Both from the perspective of the role of infrastructure projects in border trade under the framework of regional economic cooperation (GMS, B&R) and from the perspective of the current lack of infrastructure and connectivity that is a barrier to border trade, it can be seen that a right level of infrastructure is significant for the economic development of border areas.

For **China**, although the transportation conditions are relatively good compared with those on the Vietnamese side, the connectivity with China's economic centers (such as Guangdong and Shanghai) is still weak. As most of the products imported from Vietnam are fresh, fruits and vegetables, grain, and timber, as well as, the fact that Guangxi has a lower consumption capacity than other regions in China, thus, Guangxi often serve as a channel that connecting the Center of China to the ASEAN (Wang, 2010). A fast logistics corridor that stretches across the border is especially essential for transporting hard-to-keep goods such as vegetables and fruits.

Besides, since the current border gates on the Chinese side, including the cross-border economic cooperation zone, lack their characteristics and have a unitary development direction, the investment in construction in the future should be targeted to build the capacity of different cross-border economic cooperation zones. Such as Pingxiang border gate, which for three consecutive years imports over 1 million tons of fruit, has become China's largest border gate for fruit from ASEAN nations (Zhao, 2016). As a guide, in future investment, the government should appropriately direct the funds towards the construction of warehouses for fruit preservation or to attract factories for fruit processing to better play the advantages of the border.

In terms of infrastructure, the most prominent current obstacles are the **reduced level of infrastructure along Vietnam's borders** and, more specifically, the lack of funds in Vietnam's impoverished northern provinces. For Vietnam, it is essential to re-orient the border transport network to be much trade-supportive (Oh, et al. , 2019). To solve this problem, the vision of the One Belt And One Road initiative and the AIIB is highly consistent with Vietnam's development goals and needs (Jiang, 2018). Therefore, under the cooperation framework of the B&R initiative, Vietnam can continue to develop the current infrastructure with the help of the AIIB's PPP model, so as to achieve the goal of developing border trade and the economy of the northern provinces. It is worth noting that the construction of the One Belt And One Road project also accompanied by many risks, among which how the public opinion of the receiving loan country understanding of the B&R project considered as one of the main risks of the B&R overseas construction project (Andri et al., 2018). However, such risks brought by debt are often exaggerated as scapegoats for the country's economic problems (Ray & Wang, 2019).

6.4.4 Financial determinants

In order to further promote the financial management of Sino-Vietnamese border trade. First, the existence of informal **Stall Bank** should be gradually replaced by formal Bank settlement services. At the government level, judicial cooperation between the two countries can be strengthened to regulate the business activities of Stall Bank (Liang et al., 2016), which is also helpful in combating false declaration of goods value and smuggling.

Through the experience learning from the Guangdong - Hong Kong - Macao Greater Bay Area of RMB cross-border settlement, Sino-Vietnamese border trade can introduce enterprise report the **foreign exchange management system**, effectively guard against reuse of small-scale border trade export customs declaration and settlement risk, prevent abnormal funds flowing out (Money laundry) through the idle customs declaration forms in the hands of border trade enterprises (He, 2019). This also requires the customs of China and Vietnam to **unify the database** as soon as possible, so as to avoid the situation that a batch of goods presents two prices in the customs of the two countries.

In settlement services for small-scale border trade, it is necessary to simplify the RMB settlement process by supporting banks in financial service product innovation (Wang, 2016). This included increasing the tools and channels for RMB settlement and enhancing the competitiveness of banks' own business capacity. In the settlement service for the border residents' trade, it is necessary to speed up the construction of the settlement service center for border residents. The settlement service center shall handle the payment settlement on behalf of border residents. The customs data will open to banks through the settlement service center, and the data are brought into the monitoring vision of the People's Bank of China (PBOC) and the State Administration of Foreign Exchange (SAFE) (Sun, 2016), to strengthen the authenticity verification and monitoring management of transaction.

6.5 Limitations of the thesis and further research suggestion

In the context of realizing the accelerating regional integration, border trade plays a very important strategic role in promoting the economic development of border provinces and china-Vietnam trade relations. This paper mainly studies from two aspects: the perspective of regional economic integration, and the practical perspective of Sino-Vietnam border trade.

The research questions presented were divided into two sub-questions :(I) How does regional economic cooperation give opportunities to enhance sino-vietnamese border trade? ; (ii) What factors Matters in the development of the Sino-Vietnamese border trade; and what countermeasure can be seems to develop?

The answer of **sub-question one** is given in Chapter 6.1. Regional economic cooperation promotes the accelerated development of border trade, but the provision of tax reduction for general trade weakens the advantages of border trade. While, **Sub-question two** has discussed in detail in chapters 6.2, 6.3 and 6.4. Briefly, **political** cooperation is the basis for the development of border trade; the backward level of **infrastructure** is the biggest obstacle to development; the imbalance in the **trade pattern** explains the border trade to some extent, but it needs to be upgraded and optimized; for the smooth development of border trade, it is very necessary to provide higher quality **financial** services.

Due to the difficulty and lack of data collection, there are some limitations in the study, which deserve to be paid attention to in the future. First of all, the trade data of bilateral trade and border trade between China and Vietnam are incomplete and inconsistent. The trade data provided by this paper are divided into three levels: national, provincial and border. At the national trade level, the total amount of trade and the composition of trade show a comprehensive and complete trend. However, at the provincial and border level, the data on the Yunnan side is not very complete compared with that on the Guangxi side, so there is asymmetry. Similarly, the availability of statistics in Vietnam is also very low, which is the main reason why this paper is mainly based on China's position.

In addition, due to the impact of COVID-19, a field survey that can be conducted from a realistic perspective is replaced by a large number of research reports at the government level, which also makes the presentation of the development status of border trade may be disconnected from reality.

Secondly, there is no quantitative research on data analysis in this paper. There is an explanation for this in Delimitation, and it won't be repeated here.

Therefore, in **future studies**, a more detailed data (the structure of goods in border trade), especially Vietnamese data, will be of great help to this study. In addition, the use of appropriate measurement methods will greatly enhance the value of the study.

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