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GMS North-South Economic Corridor Development - Guangxi RCI Promotion Investment Program

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Presentation Outline

- **North-South Economic Corridor: Drivers and Catalysts**
- **The Guangxi RCI Promotion Investment Program (GRIP):**
 - Rationale, Project Area, Strategic Objectives and Major Components
 - Features of the Multi-Tranche Finance Facility and ADB Financing for the MFF
 - ADB's Value Added
- **Takeaways and Moving Forward**



North-South Economic Corridor Development: Drivers and Catalysts

- **Better connectivity** through the Greater Mekong Subregion (GMS) Program and other initiatives
- Greater **cross-border** trade, investment, and labor mobility between Viet Nam and the PRC
- Rising **political commitment** to regional cooperation and integration
- **Cross-border Economic Zones (CBEZs)**
- **GMS Regional Technical Assistance**



Better Connectivity through the GMS Program and Other Initiatives



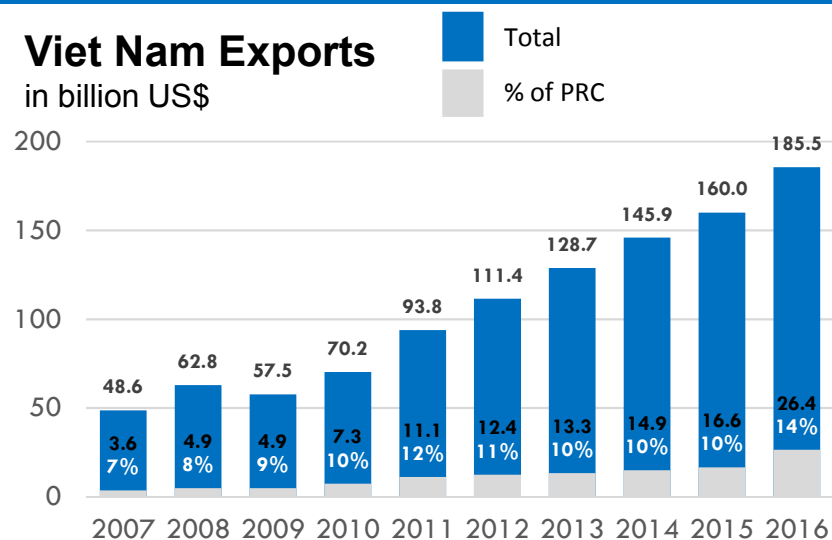
- The GMS Program
 - Total investments to date: \$25 billion in transport; \$3 billion in energy; \$200 million in water and other urban infrastructure and service
- PRC-Viet Nam cooperation initiatives



Increased Trade Between Viet Nam and PRC

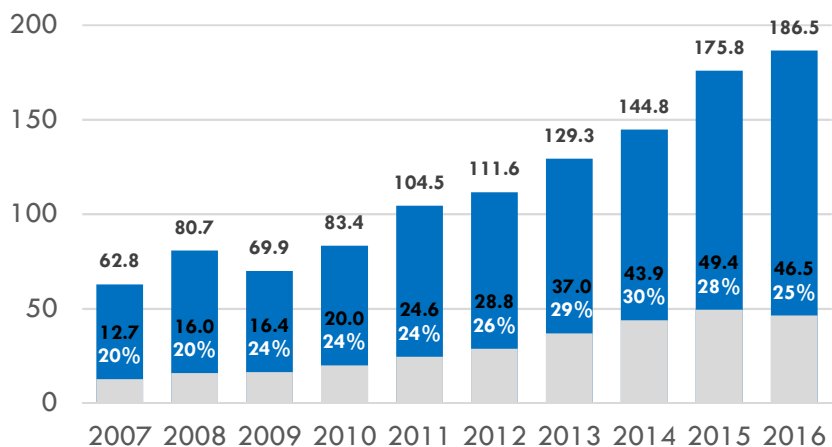
Viet Nam Exports

in billion US\$



Viet Nam Imports

in billion US\$



Source: ADB Key Indicators

- PRC is Viet Nam's largest trade partner
- Viet Nam's exports to from 7% to 14% in 10 years
- Viet Nam's imports from PRC nearly quadrupled from 2007 and 2016.
- PRC's share in Viet Nam's total imports also increased from 20% to 25%



Viet Nam – PRC Trade Patterns

- Viet Nam and PRC have benefitted from differences in factor endowments
- Manufactured goods comprised the bulk of Viet Nam's imports from PRC
- Meanwhile, four of Viet Nam's top 5 exports to PRC were primary commodities

Top 5 Viet Nam Imports from PRC

Percent to total, 2015

Electrical machinery and equipment	31.0%
Machinery, mechanical appliances	13.9%
Iron and steel	9.1%
Vehicles	3.7%
Plastics	3.6%

Top 5 Viet Nam Exports to PRC

Percent to total, 2015

Electrical machinery and equipment	22.5%
Cotton	8.0%
Edible fruit and nuts	6.3%
Mineral fuels, mineral oils	6.1%
Cereals	5.2%

Viet Nam – PRC Trade Patterns

Top 5 Viet Nam Imports from ROW

Percent to total, 2015

Electrical machinery and equipment	25.2%
Machinery, mechanical appliances	12.7%
Plastics	6.0%
Iron and steel	5.3%
Mineral fuels, mineral oils	4.8%

Top 5 Viet Nam Exports to ROW

Percent to total, 2015

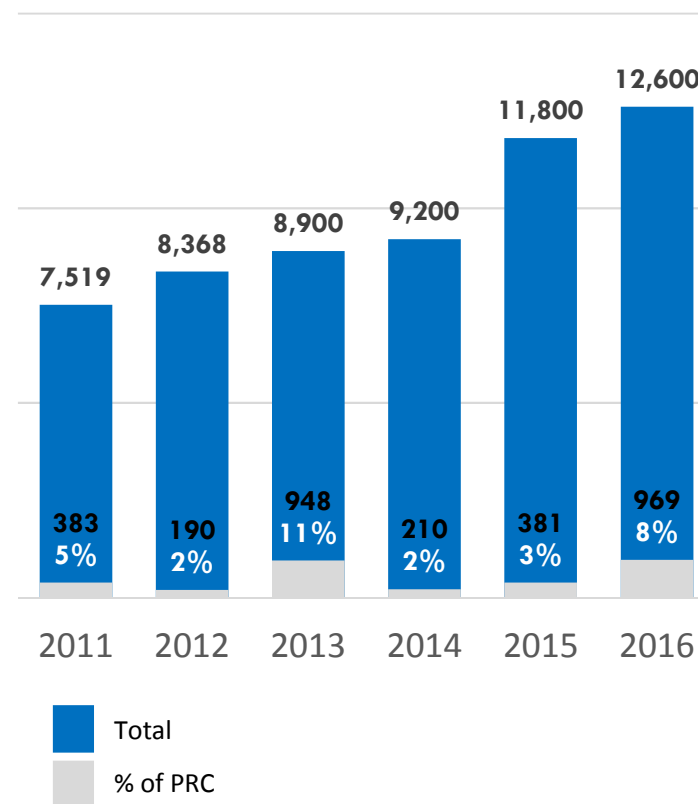
Electrical machinery and equipment	29.3%
Apparel and clothing accessories	13.2%
Footwear	7.7%
Machinery, mechanical appliances	6.2%
Furniture	3.4%

- Viet Nam's integration into regional supply chains has increased the share of electrical machinery and equipment in Viet Nam's exports and imports

PRC's Investments in Viet Nam

- Investment from PRC to Viet Nam is picking up
- Majority of investments are in minerals and natural resources.
- Viet Nam's preferential trade agreements has also attracted investments in certain industries
- Viet Nam wishes to attract more investment in high-tech industries

Viet Nam FDI Inflows
in million US\$



Source: Aseanstats



Increased Labor Mobility

- Labor shortage in border areas of PRC
- Labor surplus in Viet Nam (1-1.5 million new entrants to labor market per year)
- The cost of hiring Vietnamese labor cheaper by about RMB 13,000 – 15,000 per year
- PRC enterprises pay Vietnamese workers a monthly salary of about RMB 2200 – 2400
- Temporary Resident Permits or daily commute

Rising Political Commitment

- Top level visits by Presidents and Prime Ministers
- Economic and trade cooperation agreements
- Bilateral Economic and Trade Cooperation Committee
- Five Year Program for Economic and Trade Cooperation
- Amended bilateral border trade agreement
- Local government cooperation

Economic Corridor and (Cross) Border Economic Zones (CBEZs)

- Development manufacturing value chain and clusters to promote economy growth in border areas
- Guangxi has introduced conducive policies for land, electricity, social security, financing etc for CBEZs
- Many types of special zones: National Priority Economic Opening Pilot Zones, PRC – Viet Nam CBEZs, Border Finance Reform Pilot Zones, New Economic System Pilot Zones, etc.

GMS Regional Technical Assistance

- Earlier RETAs for awareness, feasibility studies and joint master plans of BEZs
- RETA-9293: “Policy Coordination and Planning of Border Economic Zones of the PRC and Viet Nam”
 - localized support for joint planning and coordination;
 - guidance for policy, legal, and regulatory developments;
 - public-private sector coordination, and BEZ promotional activities; and
 - capacity building of government agencies on BEZ development,

The Guangxi RCI Promotion Investment Program (GRIP)

- Rationale
- Project Area
- Strategic Objectives
- Major Components
- MFF and Finance
- ADB Value add



Project Rationale

- Key Constraints
 - Inadequate infrastructure and trade-related services in BEZs
 - Gaps in cross-border connectivity
 - Low level of SME development
 - Risky and costly cross-border financial transactions and perceived non-commercial risks for cross-border investment
 - Lack of e-commerce platforms to support local enterprises
- Need for a holistic approach
 - Multi-sector interventions
 - Combining investment in physical infrastructure and trade/investment facilitation measures
 - Cross-border coordination and synergy

Project Area



16-3415 15 PRC-Guangxi ABV



Strategic Objectives



Impact: Greater economic integration between Guangxi and rest of GMS

Outcome: RCI opportunities realized for border areas of Guangxi and Northern Viet Nam, contributing to NSEC development.

Components

5 Interlinked Outputs

- Border economic zone development
- Cross-border connectivity
- SME development
- Cross-border financial services
- E-commerce



Focus on SMEs



- Financial Intermediation
Loans for SMEs
- Business development
services
- Skills development
- Cross-border labor mobility
- Border trade centers

Multi-Tranche Finance Facility

- MFF to organize and sequence cross-sector investments to maximize RCI benefits
- Covers physical infrastructure as well as softer aspects
- Cross-border synergy to ensure positive cross-border spill-over effects



ADB Financing for MFF

Component/Output	Tranche 1	Tranche 2	Tranche 3	Total
SME development	86.4	40.0	0.0	126.5
Cross-border financial services	0.0	6.5	14.0	20.5
Cross-border e-commerce	27.3	32.0	0.0	59.6
Border economic zone development	6.9	70.0	56.5	133.2
Cross-border connectivity	0.0	50.0	48.0	98.0
Technical and institutional support	9.4	1.5	1.5	12.2
Total	130.0	200.0	120.0	450.0

ADB's Value Added



- Honest broker for cross-border coordination
- RCI knowledge and capacity building
 - Trade facilitation
 - Institutional strengthening
 - SME financing
- Demonstration and replication

Takeaways and Moving Forward

- BEZ an important element for economic corridor development
- Optimal balance between hardware and software, public and private sector, and domestic and cross-border
- MFF useful to organize cross-sector sub-projects highlighting RCI features and benefits
- Joint ownership and effective cross-border coordination are a prerequisite
- Innovations and pilots to break institutional barriers and capitalize on opportunities
- Similar projects in Xinjiang and Inner Mongolia. Looking forward to more interested countries and counterparts.





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Thank you

