

TRADE AND LOGISTICS OVERVIEW

A. Overview

1. Yunnan Province is strategically located in the southwest of the People's Republic of China (PRC) providing access to markets in Southeast Asia. The province is a participant the Greater Mekong Subregion (GMS) grouping of countries and Kunming is a natural hub and focus for trade between the PRC and the Association of South East Asian Nation (ASEAN) countries, India and Bangladesh. Kunming is the northern anchor of the North-South Economic Corridor (NSEC) connecting PRC to Thailand via routes through both Lao People's Democratic Republic (Lao PDR) and Myanmar. A high standard expressway has recently been completed linking Kunming with Bangkok.

2. Yunnan's external trade has been growing rapidly in recent years. The total value of Yunnan's imports and exports has risen from under \$2 billion in 2001 to \$12.3 billion in 2011, representing an average increase of 20% per annum over 10 years—or an increase of over 6 times. In 2011 the value of imports and exports were similar (at a little over \$6 billion), although imports have grown substantially faster than exports.

3. Almost 60% of the total Yunnan trade was with Asia—35% with ASEAN countries and 20% with the three border countries of Myanmar, Viet Nam and Lao PDR. The strongest growth in recent years has been with Viet Nam (over 30% annually) and Lao PDR (24% annually), albeit growing from a much smaller base. Trade with and through the neighboring countries to the south and west is a key component of Yunnan's economic development strategy and supports the policies of the central government to expand trade within the region.

4. The bulk of Yunnan's international trade passes through the three main land crossings: Hekou, Honghe Prefecture (with Viet Nam, 34%); Ruili, Dehong Prefecture (with Myanmar, 16%); and Mohan, Xishuangbanna Prefecture (with Lao PDR, 4%).¹ Each of these border crossings is, or will soon be, connected to the national expressway network. These three crossings, plus Kunming International Airport (26%), account for over 80% of Yunnan's foreign trade by value. Although none of these crossings are in Pu'er Prefecture, all traffic and trade to the Mohan Crossing must pass through Pu'er.

5. Pu'er Prefecture is unique in having land borders with all three neighboring countries—Viet Nam, Lao PDR and Myanmar—plus a potential connection with Thailand via the Mekong (Lancang) River. Pu'er has two state-level border crossings—plus one provincial-level border crossing at Menglian (Meng'a) on the Myanmar Border, with an associated border economic cooperation zone. The Meng'a crossing is of class II but a reclassification to class I is likely based upon recent growth in trade volumes. Additionally, 17 provincial-level local border commodity exchange crossings have been approved, which are available for local residents only. Of these, 6 are in Menglian County, 3 in Lancang County, 5 in Ximeng County and 3 in Jiangcheng County. Of the 3 in Jiangcheng, one is on the border with Viet Nam and two are on the border with Lao PDR: the remaining 14 are on the border with Myanmar.

¹ Based on 2009 data, it is probable that the percentage through Mohan (Lao PDR) has since increased as a result of the completion of the highway connection to Thailand.

B. Background Data

6. **Class I – State Level Crossings.** There are two class I Crossings in Pu'er—Simao River Port and Mengkang Border Crossing with Lao PDR. Simao Port was approved in 1993 for handling foreign trade and passenger movements between the PRC and both Thailand and Lao PDR. Completed in 2001, at a total investment cost of CNY140 million (\$17 million), the crossing has a peak design capacity of 300,000 tons and 100,000 passengers per year. Operations have been temporarily suspended since 2005 upon construction of the Jinghong dam and hydroelectric scheme. The border police, customs, inspection and port management functions remain in place and proposals exist to restore navigation on the Mekong/Lancang River.

7. The Mengkang Border Crossing with Lao PDR has been developed since the first inter-government discussions in 1993. In 2005, Jiangcheng County started preliminary planning and construction commenced in 2008, with physical completion at a cost of CNY 167 million (\$28 million) in 2012. State Council approval as a class I Port was received in 2011 with the crossing scheduled to commence full operation in October 2013.

8. **Class II – Provincial Level Crossings.** There is one class II Port located in Menglian County at Meng'a—opposite Bangkang, capital of the Shan State in Myanmar. The port was approved by the provincial government in 1991 and construction of the present facilities was started in 2005, with completion in 2012 at a total cost of CNY 110 million (\$18 million), including a new border bridge and all customs, immigration and quarantine facilities. In 2012, it ranked fourth (out of 23 ports in Yunnan) in terms of value of goods handled and accounted for 90% of external trade in Pu'er. It presently satisfies the criteria to be re-classified as a National class I Port.

9. In addition to the crossing at Meng'a, a border economic cooperation zone has been developed on land adjacent to the crossing, at a cost of CNY61 million (\$10 million), including warehousing, duty-free shopping and associated facilities. The Menglian Port also controls a second crossing at Mangxin, 30 kilometers (kms) south of Menglian Town on a secondary route to Myanmar. A border survey (see paragraph 25) was conducted at this latter site.

10. **Longfu Crossing (Viet Nam).** In 1991 an agreement was signed between the PRC and the Viet Nam Government regarding the handling of border affairs and, subsequently, the Jiangcheng County Government has actively pursued the development of the Longfu Crossing with the objective of achieving class I/II status. In 2011, the county government prepared an overall plan for the development of the Longfu Port Economic Zone and this was approved by the Provincial Development and Reform Commission in 2012. Given the rapid reforms and growth in investment and business within Viet Nam, and the desire for regional economic integration, the prospects and potential for increased cross-border trade at Longfu are significant.

11. **Trade Volumes.** The volume and value of trade through the 'official' crossings in Pu'er has increased substantially in recent years. In 2007, total trade through Menglian Port amounted to \$59 million and the prefecture ranked 9th in Yunnan, accounting for less than 2% of total provincial trade: by 2012 the total trade had increased to \$271 million—representing an annual average growth of 35%—and Pu'er ranked 7th in the province.

Table 1: Pu'er Cross Border Trade, 2007-2012 (\$ million)

Year	Exports	Imports	Total	Year-on-Year Growth	General Trade	Border Trade
2007	n/a	n/a	59	-		
2008	26	51	77	+31%		
2009	40	75	115	+48%	30	84
2010	95	75	170	+49%	84	86
2011	124	86	210	+23%	110	100
2012	n/a	n/a	271	+29%	145	126

Source: Pu'er Port Office.

12. It can be seen that exports have risen substantially faster than imports and, similarly general trade has grown faster than border trade. Two significant landmarks over the period were in 2009 when total trade exceeded CNY 1 billion for the first time and in 2011 when the total trade exceeded \$200 million. Growth of trade with Thailand has been particularly strong—up from \$16 million in 2011 to \$24 million in 2012.

13. The total number of people crossing the border at Menglian has almost doubled from 386,000 in 2008 to 737,000 in 2012, and the number of vehicles has increased by 2.4 times from 59,000 to 145,000. The volume of goods has shown a slower rate of growth, increasing from 158,000 tons in 2008 to 221,000 tons in 2012—a 40% increase in 5 years. Data for Mengkang Port are only available from 2008 onwards and the volume of goods and people has been affected by the construction works. It is expected that sustained growth will ensue following the official operation as a state-level class I Port in October 2014. Detailed data for the two official border crossings are presented in Table 2.

Table 2: Annual Cross Border Activity: Menglian and Mengkang, 2008-2012

Year	Menglian			Mengkang		
	People Crossing	Vehicles Crossing	Volume of Goods (tons)	People Crossing	Vehicles Crossing	Volume of Goods (tons)
2008	386,500	58,900	157,900	59,600	18,100	40,900
2009	473,200	73,800	194,700	83,700	28,800	94,800
2010	524,000	79,200	196,700	84,500	35,500	102,100
2011	766,700	117,200	301,700	93,800	27,200	97,400
2012	737,500	145,200	220,900	58,300	19,000	78,900

Source: Pu'er Port Office.

14. It should be noted that all the above data relate only to the official state-level class I and II Crossings. No data are collected in respect of small-value trade (less than CNY8,000 per transaction) that takes place at any of the additional 17 approved local border crossings or at the two main official crossings. No transactions were reported at Simao River Port for the above years.

15. The main imported goods at the Menglian Crossing were timber, mining products, sugar cane, fruit and rubber. The main exports were building materials, commodities, fuel oil, vehicles and electrical products. At Mengkang the major imports are agricultural and mining products, specifically from projects undertaken by Chinese nationals in the northern provinces of Lao PDR, including crop substitution programs to assist with poppy eradication.

C. Results of Field Surveys

16. **Location of Surveys.** Border crossing surveys were undertaken in July 2013 at three locations considered representative and targeting potential improvement locations. These are:

- Longfu Border Crossing in Jiangcheng County: currently this is a local commodity exchange crossing with Viet Nam, with a well-established local market held on the 3rd, 13th and 23rd of each month. The county authorities have prepared the *Longfu Border Economic Development Plan (2011-2030)* which proposes upgrading of the crossing to class I standard. The plan has been submitted to the provincial authorities but has not yet been approved.
- Mengkang Border Crossing with Lao PDR in Jiangcheng County: this crossing has recently been upgraded to class I standard and will commence full operations in October 2013. A regular local market is held at Erguanzhai (12 km from the border) on the 5th, 15th and 25th of each month. It is anticipated that the volumes of people and goods crossing the border will increase substantially in the coming years.
- Mangxin Border Crossing in Menglian County: this is the second crossing included under the Menglian Town authority.² The Mangxin crossing is primarily local in nature and, prior to the construction of the roads on each side of the border in 1986, trade was conducted on horseback. The road from Menglian Town was paved in 2012, opening up the possibility of increased trade.

17. **Longfu Survey.** Key informant and focus group discussions were held with village leaders and villagers, as well as surveys of traders and visitors to the regular market together with counts of the numbers of visitors and vehicles at the market. In-depth interviews were also held with officials of Jiangcheng County Port Office regarding the proposals to seek upgrading to class I standard. The market has been operating since 2010 and attracts between 3,000 and 5,000 people during the dry season.

18. Only small value trading is permitted (up to CNY8,000 per transaction): the main goods traded from the PRC side are local food products, chicken, electrical items, house-wares, snacks, etc. and from the Viet Nam side are alcohol, wine, cigarettes, rice, etc. On a regular day there are 180 stalls on average on the PRC side and 5 on the Viet Nam side. These numbers increase to 315 and 25 on market days.

19. Approximately 100-150 people cross the border daily, from among the local communities, with higher numbers on market days. A total of 277 vehicles (including 161 motorcycles, 42 pick-ups, 38 minibuses and 36 small trucks) visited on market day from the PRC side, plus 122 (120 motorcycles) from the Viet Nam side.

20. There was a strong demand from local officials, residents and traders alike for the provision of improved facilities. Current conditions—particularly during the rainy season—are considered unacceptable as there are no sealed roadways, permanent structures, drainage for restaurants or toilet facilities. There is believed to be considerable potential for growth in both local and larger value trading, particularly if improved access and facilities are provided.

² The main crossing, which has been recently upgraded, is at Meng'a. Both crossings connect to Myanmar. The Meng'a crossing is directly opposite Bangkang, capital of the Shan State.

21. **Mengkang Survey.** Similar key informant, focus group and crossing user surveys were undertaken both at the border and also at Erguanzhai (12 km from the border), where a regular market is held. Significant numbers of Lao PDR residents, typically 600-700, visit on market days. The market handles household commodities, agricultural produce (chickens, pigs, vegetables, etc.) and daily necessities. The market comprises around 250 temporary stalls and 100 permanent shops. A new market is under construction at the border that will encourage local cross-border trade.

22. It is expected that the volume and scale of trading will increase significantly following the upgrading to a class I port. Trading will no longer be restricted to small-value trade and fewer restrictions will be placed on the movements of people and vehicles. At present, it is necessary to travel to Simao Customs in Pu'er City to register larger consignments before they can be cleared through the border. After the upgrading, customs clearance will be available locally which will enhance the ease and speed of transit.

23. In recent years in anticipation of the upgrading and as a result of investments in agriculture and mining, there has been a significant increase in imports of agricultural and mining products, including rubber, timber, sugar cane and coal. A number of PRC nationals also cross to Lao PDR to work on the plantations, to sell goods or to import timber. Both local villagers and outsiders are involved in the cross-border trade.

24. A cross-border bus service operates daily between Jiangcheng Town and Yeuwu in Lao PDR, a distance of 35 km in the PRC and 52 km in Lao PDR. The fare is CNY60-70 each way. Some Lao PDR nationals visit the PRC to attend school or to visit a doctor. Around 100 people cross the border on an average (non-market) day by truck, tractor, pick-up, minibus or motorcycle.

25. **Mangxin Survey.** Surveys were undertaken in both Menglian Town (with officials of the port office) and at Mangxin Township/Village Committee, approximately 8 km from the border. Interviews were also conducted with a total of 43 people crossing the border to ascertain the frequency and purpose of their trips. A regular market is held at Mangxin every 5 days (the survey was on a market day) and a similar market is held Huodao (8 km inside Myanmar) on the 4th, 14th and 24th of each month.

26. The Menglian County Port officials indicated that the primary port development focus was on the crossing at Meng'a—rather than Mangxin—as the prospects for growth were higher, the area in Myanmar was more secure, and it connected directly to Bangkang, the capital of the Shan State. Despite this the county had recently upgraded the facilities at the Mangxin crossing and the road linking to Menglian Town was paved in 2012.

27. Limited trading takes place and the number of vehicles crossing the border varies, depending on the season: there are two peak seasons—one during the sugar-cane harvest in April-May and the other prior to Spring Festival Holiday, when commodities are shipped to Myanmar. During the sugar cane harvest the number of vehicles can reach 500-600 per day.

28. Official records indicate that 130,000 people crossed the border in 2011³ (equivalent to around 350 per day): around 80,000 tons of freight was recorded in 2012, with 12,000 vehicles crossing the border—an average of 33 vehicles per day. Few Myanmar nationals attended the

³ The number was lower in 2012 due to the road reconstruction activity.

market at Mangxin (which primarily serves the local population), although a number of PRC nationals did regularly visit the market in Huodao to sell produce. Myanmar nationals also come to Menglian to visit a doctor, attend school or meet friends.

29. The relatively high levels of poverty and shortage of surplus crops on both sides of the border limit the level of trade and interaction across the border. Since 1997, the PRC Government has been assisting Mengbo County of Shan State to cultivate sugar cane, tea, coffee and rubber as substitute crops to replace poppy cultivation. In addition to sugar cane, the PRC could prove a valuable market for these replacement crops.

D. Cross Border Smuggling and Trafficking

30. The border areas of Northern Thailand, Lao PDR, Myanmar, Viet Nam and Yunnan Province of the PRC have a history of cross-border smuggling—including the drug smuggling and trafficking of goods and people.

31. **Drug Smuggling.** In the 19th and early-20th centuries, opium and subsequently heroin were produced and traded across the borders. During and immediately after the Second World War the situation changed dramatically as the traditional sources and supply routes for opium were disrupted and greater demands were placed on locally produced opium and heroin. Furthermore, with the collapse of the European colonial empires, the revolution in the PRC and sealing of the border, and subsequent wars in Indochina, there was greater instability and lack of security in the border regions. This saw a massive increase in the production of heroin from what became known as the 'Golden Triangle'. The area—and particularly the steep hillsides in Myanmar, Northern Thailand and Lao PDR populated by ethnic minorities—had become the primary world source of heroin.

32. Towards the end of the 20th century, there was improved stability in the region and the border areas in particular, which had previously been remote and relatively inaccessible (except on foot or by air). Many agencies, both national and international, were supported the control and eradication of poppy production and major investments were made to improve access and open the area to development. Trade was actively promoted among the GMS countries and major transport links were developed in the past decade.

33. The remote border areas between Yunnan, Myanmar, Lao PDR and Viet Nam had long presented challenges for law enforcement including control of smuggling. There was a proliferation of numerous cross-border activities and businesses, both legal and illegal. Apart from the underlying drug trade, these included timber, jade, precious stones, contraband and people smuggling. Numerous casinos, karaoke bars and entertainment plazas proliferated in and around border towns. Many of these businesses are well established and highly profitable.

34. Despite the improvements in accessibility and effort to eliminate poppy production, significant volumes of illegal drugs (mostly amphetamines produced in northern Myanmar) are still being traded across the borders in the area—contributing to drug use problems among upwardly mobile youth in major cities of the PRC and other countries in the region.

35. Recent measures to improve surveillance and an increased presence of border guards and patrols have reduced some of the more obvious smuggling activities (e.g. illegal timber exports) and have necessitated other operators to resort to more indirect or clandestine methods.

36. However, improved access has brought increased activity and more people and goods crossing the borders. This has increased the opportunities for illegal activities to take place and requires that counter-measures be enhanced. Thus while the advantages (to the smuggler) of the remoteness and lower enforcement and control have been reduced, the opportunities to conceal activities within a larger volume of legitimate movements have increased.

37. Improvements and upgrading of border crossing facilities thus has a two-fold impact on potential smuggling activities. The greater official presence, through increased numbers of border guards, custom officials and police, clearly has a beneficial effect in deterring crime and illegal activities. However, the larger volumes of people and goods crossing the borders provide greater opportunities for smuggling and the concealment of prohibited goods. In response, this requires an increase in the level and standard of checking and inspection to ensure that the borders will be secure and safe.

E. Trafficking of Children and Women

38. Trafficking in women and children in the PRC increased at an alarming rate since the 1980s. It threatens the social stability and development of many rural communities as well as causing distress to many individuals and families. In Yunnan, an average of over 1,000 children and women are trafficked annually.

39. The following is based on an International Labour Organization (ILO) Study conducted in 2002 as part of the Mekong Subregional Project to Combat Trafficking in Children and Women, which included fieldwork in Jiangcheng County on Pu'er's border with Lao PDR and Viet Nam. The county was identified for study because it was among those with the highest incidence of internal and cross-border trafficking in the province. It is situated in a very mountainous border area and populated overwhelmingly by ethnic and national minority groups. A distinctive feature was that most women and children were trafficked for forced marriage or adoption. Rural men are willing to pay substantial sums for a trafficked bride who can bear children and extend the family line. Two factors driving this are the very high costs associated with traditional weddings, which even the poorest are expected to pay; and the great number of young rural women who are leaving their villages to seek a better life in the cities. Similarly, families will pay traffickers for infants, almost always boys, who they will adopt.

40. While trafficking for forced marriage and adoption still accounts for most internal trafficking of women and children in Yunnan Province, the number of women and children trafficked for sexual exploitation is increasing rapidly. This is particularly true in areas that provide easy access to other relatively wealthy countries (including smuggling to Thailand or Malaysia for sexual exploitation). In Jiangcheng County, which borders on Lao PDR and Viet Nam, all identified instances of trafficking were for forced marriage.

41. Another trend is the growing number of young women from poor, underdeveloped farming communities migrating to find better work and opportunities in the cities. Even in low-paid, low-skilled work like waitressing or domestic service, young women can often make much more money than they can in agriculture, and experience a more modern consumer lifestyle. As well as exacerbating the problem of trafficking for forced marriage, this female labor migration is creating easy opportunities for traffickers, who can lure victims with false offers of work.

42. Some fundamental factors make women from remote rural areas particularly vulnerable to trafficking. Many adults in these rural areas are poorly educated. This limits the knowledge

and skills they can pass on to their children, as well as limiting their awareness of the risks their children may face from traffickers and of the legal protection available.