

Material for the Book's Web Site

Chapter 7

Page 188 in the book:

Long-standing China-Vietnam trade ended abruptly in 1979 when a bloody border war between the two former Communist allies broke out. Trade between China and Vietnam resumed in 1989 when they (re)normalized official relations. Market reforms and opening policies in both countries helped to push bilateral trade up considerably during the early and mid-1990s and keep it at a steady level through the decade, with another jump at the beginning of the 21st century. In 2001, China-Vietnam trade accounted for 6.8% of China's total trade with the 10 Southeast countries (the five Greater Mekong Subregion [hereafter GMS] countries plus Singapore, Malaysia, Indonesia, the Philippines, and Brunei), up from 4.8% in 1999 (Xu, 2002). The interruption of China-Myanmar trade due to China's Cultural Revolution and the nationalization of trade and industry in Myanmar lasted into the early 1980s. After Myanmar formalized border trade with China and implemented an open-door policy in 1988, trade between Myanmar and China rose quickly. Myanmar's trade with China as a share of its total trade grew from 3%-8% during 1962-1988 to as high as 30% by the mid-1990s (Than, 1996). By 2001, China became Myanmar's third largest trading partner behind Singapore and Thailand. While China traded very little with Lao PDR and Cambodia through the 1980s and most of the 1990s, its trade with both countries surged toward the end of the last decade and the beginning of the 21st century. In 2001, trade with China accounted for 27% and 6% of Cambodia's and Lao PDR's total foreign trade, respectively (Xu, 2002). As table 7.1 shows, China-Thailand trade increased steadily

from the late 1980s and through 2001 when it accounted for 17% of China's total trade with the 10 Southeast countries mentioned above, only behind 25% for Singapore and 23% for Malaysia (Xu, 2002). It is not surprising that China's largest trading partner among the five GMS countries has been Thailand, which happens to be the most important and developed economy in the Mekong River region.

Both China and Thailand maintained large trade surpluses with the other GMS countries in the 1990s. Thailand's exports to Cambodia and Lao PDR were about 10 times more than its imports from the two countries. Given the varied levels of industrialization, Thailand and China, particularly in the Yunnan province, tend to export a lot more manufactured goods to the other countries, while importing primarily agricultural products and raw commodities. The most illustrative example is China-Myanmar trade. In 2001, 83% of China's exports to Myanmar were manufactured products such as machinery, electrical equipment, and consumer electronics, while 94% of Myanmar's exports to China were raw or lightly processed materials such as timber and precious stones. In 2001, China-Lao PDR bilateral trade was similarly unbalanced in the relative shares of manufactured products vs. raw materials, and so was China-Cambodia trade (Xu, 2002). Typical exports from the less industrialized GMS countries include rice, rubber, fish, and jade from Myanmar; timber, coffee, and metals from Lao PDR; and timber, rubber, and tobacco from Cambodia. Vietnam, on the other hand, has a more balanced export profile of rice, rubber, crude petroleum, and footwear (Than, 1997). Since many of these items are involved in the informal border trade among the GMS countries, this information is more revealing of the kind of cross-border economic links within the GMS.

Page 194:

Trade at the Myanmar border town of Tachilek and the Thai town of Mae Sai, at the northern tip of Thailand's Chiang Rai province (see map 7.1), came to a halt in October 1999, when Myanmar authorities closed the border after Thailand released five exiled Myanmar student activists. The border closing severely restricted the activity of both Myanmar and Thai border traders but ironically opened up more opportunities for smuggled trade and extortion by and bribing of border guards.¹ Across the border between the northern Thai town of Chiang Khong and northwestern Lao PDR (see map 7.1), the Lao immigration police regularly harass petty traders while Lao military brokers demand a large payment from Thai timber traders in return for future price stability. The strengthening of the Thai naval unit stationed in Chiang Khong also discouraged border liberalization (Walker, 2000). Right after the anti-Thai riots erupted in the Cambodian capital of Phnom Penh in January 2003, the Thai government closed the border and strengthened troops to control it. But it quickly decided to reopen the border as Thailand could not afford to keep its border with Cambodia closed for long, which would disrupt its annual exports worth of US\$1.2 billion to Cambodia.² These examples point to the considerable unevenness and uncertainty in the opening of bilateral borders and trade flows across them in the GMS.

Page 207:

Jinghong port, which is located 73 km from the Myanmar border, is an international passenger port primarily and a freight port secondarily. As table 7.4 shows, Jinghong processed an increasing amount of cargo from 1993 to 1997, while the number

of passengers and vehicles through the port fluctuated. In addition, the Jinghong port received 3,596 visits of boats in 1996-1997 (Wang and Li, 1998). Given its location, the passenger and freight flows through the port involve trade and tourism between Yunnan and Myanmar. The Simao port, 85 km north of Jinghong, handles more freight than passengers, although it was less busy in all functional areas than Jinghong (see table 7.4). Also a national-level river port, Simao has already received substantial state investment, which has led to better port facilities and more effective dredging of the downstream riverbed. The Simao port was projected to be capable of handling one millions tons of cargo and 500,000 passengers by the year 2020 (Wang and Li, 1998). Old vessels with small tonnage, slow speed, low technology, and low fuel efficiency that can only carry bulk cargo mean low shipping efficiency and high shipping cost. The average shipping distance has rarely exceeded 300 km. The occupancy rate of many commercial vessels has been as low as in the teens (C. Tang, 1999).

Since 1993, China, Myanmar, Lao PDR, and Thailand have conducted four joint surveys of the long stretch of the Mekong north of Vientiane and introduced corrective strategies. They have agreed to invest a total of US\$240 million to bettering commercial navigation. As part of the focus on transport as a priority sector, the Asian Development Bank (hereafter ADB) proposed to raise US\$81 million to improving navigation between Lao PDR and Yunnan, including port upgrades, dredging, shoal realignments, and building navigation markers (*Asia, Inc.*, 1996). China designed and built a special type of boat at the 100-ton and 200-ton weight with light draught, shoal-clearing capacity, and maneuvering flexibility for navigating the Mekong. In 1997, this type of boat

successfully plied between Simao port in Yunnan and the northern Thai port of Chiang Kong.

Underdeveloped commercial shipping aside, other commercial uses of the Mekong River have been explored despite their uneven benefits and uncertain consequences. With the second planned cascade of 14 hydroelectric dams in Yunnan completed, there are concerns on the part of lower Mekong countries about potential environmental harms downstream such as increasing industrial pollution, obstacles to fish migration, and the trapping of silt that enriches downstream soils (Crispin, Cohen, and Lintner, 2000). On the other hand, controlling the upper reaches and at least half of Mekong's water volume, Yunnan is eager to expand its hydropower stations near Jinghong to generate more electricity to sell to energy starved Thailand. Again, the challenge to balance between the pressing need for economic development in some areas and the longer-term necessity for preserving biodiversity and shared international water resources for all parties in the GMS is similar to that facing the countries and subnational units involved in the GTS (see chapter 6 of the book).

Page 208 (1):

Building a Grid of Railways

Geographically speaking, Yunnan and much of landlocked southwest China are far closer to the ports, roads, and rail systems of Myanmar, Thailand, and Vietnam than to such faraway domestic ports as Guangzhou and Shanghai. Kunming is less than 900 km away from Haiphong port by rail. Hekou is closer to Vietnam's capital, Hanoi, than it is to its own provincial capital, Kunming. Ruili is 4,000 km away from Beijing, but

only 1,100 km from Rangoon. Shipping goods southeast to the Gulf of Tonkin and south to the Indian Ocean or Gulf of Thailand, instead of going east to Chinese seaports, can save several thousand km and weeks of traveling time for goods destined for Southeast Asia or Europe (Mellor, 1993). Consequently, the Kunming-Haiphong Railway built by the French serves as a vital shortcut. Businesses in eastern Thailand also realized that they are closer to underutilized, deep-water ports of Vietnam than to congested and expensive Bangkok. Shipping goods overland to the Vietnamese ports through Lao PDR can save US\$40 a metric ton in freight charges and many days of traveling time for goods going to and from China's coast, Japan, and South Korea (Mellor, 1994). Given the economic opportunities and constraints created by distance, there have been major efforts to either upgrade existing or build new rail and road lines into an integrated cross-border transport network.

The Kunming-Haiphong Railway best exemplifies an important historical rail route that has been reopened for growing cross-border passenger and freight today. To explore the perceived riches of Yunnan and other parts of China's southwest after conquering Tonkin, now northern Vietnam, French colonialists built the narrow-gauge railway with tremendous human, financial, and time costs at the beginning of the 20th century.³ Although not always prosperous, the rail route remained in service for several decades until 1979, when the Sino-Vietnamese border war forced it to shut down and the trains to end their runs at the Chinese border town of Hekou and Lao Cai on the Vietnamese side. The stations between where the up and down trains terminated are separated by a mere two km. In 1993, the border rail and footbridge, which had been destroyed during the war, was rebuilt. Through train service, however, was not yet

restored as of this writing due to a dispute over the freight charge demanded by the Vietnamese, while the cost of US\$65 million for improving the section within Vietnam was another constraint. In the meantime, the town of Hekou, which was a thriving gateway between China and Southeast Asia at the turn of the last century, (re)emerged as a booming frontier city in the 1990s (Mellor, 1996). Most recently, a new 160-meter-long bridge linking Hekou and Lao Cai jointly built by China and Vietnam has been opened to meet the growing traffic demand of trucks, cars, motorbikes, and heavily laden porters not met by the old rail bridge completed in 1910. It won't be long before trains will roar past the border crossing, which will allow some Chinese businesses to obtain that long-awaited saving in transport cost.⁴

While the Kunming-Haiphong Railway is already in place, its service scope is somewhat confined to the bilateral transportation between Yunnan and Vietnam and to some links beyond the GMS. The planned Kunming-Thailand (Bangkok) rail route, however, will run straight down as a central artery through the heart of the GMS. The idea for this route originated at the First Conference on Economic Cooperation in 1992 in Manila. It emerged as a GMS priority transport project at the subsequent ministerial conferences through 1998. According to the consensus plan, the rail would originate from Kunming through Xiangyun and Dali down to Simao, Jinghong, and Mengla in Yunnan, enter Lao PDR at Shyangyong and extend straight south through Luang Prabang and Vientiane, and the connect to the existing Thai rail system at Nong Khai and terminate at Bangkok (see map 7.1).⁵ As the completed feasibility study sponsored by the ADB showed, this rail route would be very costly to build, as the estimated budget for building 1,270 km of new track and improving the existing line would amount to US\$2

billion (ADB, 1996a). However, if built, this rail route will have several distinctive advantages including the shortest travel distance, high-standard tracks, fast travel time, and creating rail presence in parts of Yunnan and the entire Lao PDR. Just as the Kunming-Haiphong Railway parallels the east north-south economic corridor, the planned Kunming-Thailand rail route will run along the central north-south economic corridor in the GMS.

While both the Kunming-Haiphong and Kunming-Thailand rail routes are located within the GMS' physical boundary, another proposed, more ambitious rail project will link GMS with maritime Southeast. Proposed by Malaysia at the ASEAN Heads of States Conference in December 1995, the so-called "Pan-Asia" or Kunming-Singapore rail route would see passenger and freight trains running from Singapore through Kuala Lumpur, Bangkok, east to Aranyaprathet, entering Cambodia at Poipet and through Sisophon and Phnom Penh, and to Loc Ninh and Ho Chi Minh City, before turning northward to Hanoi, and on to Kunming.⁶ Despite its length, there are only three missing links: between Poipet and Sisophon (45 km), between Phnom Penh and Loc Ninh (303 km), and from Loc Ninh to Ho Chi Minh City (135 km). Since 1995, Malaysia has acted as the coordinator and collected information from the various feasibility studies conducted by the countries directly affected by the project. After the project was endorsed by the inaugural Asian-European Summit in 1996, it received expressed interest from France and other European countries for technical assistance. Although this rail route runs a round-about route and requires cooperation with the non-GMS countries of Malaysia and Singapore, it has great potential in linking with the Kunming-Thailand rail line at Bangkok and, through the Chinese border and rail system, with the

transcontinental rail bridge between Asia and Europe. Once in place, it will help to plug GMS' planned rail system⁷ into a much larger transport and economic network.

Page 208 (2):

By 1996, ADB had sponsored a feasibility study of the Bangkok-Phnom Penh-Ho Chi Minh City-Vung Tau (a Vietnamese oil port) Road Project (estimated cost US\$490 million), which would run parallel with a major segment of one of the two east-west economic corridors through the GMS. Another ADB-sponsored feasibility study underway was for three possible road routes that link Thailand's impoverished northeast with Vietnam via Lao PDR. One of these routes would connect the Thai province of Mukdahan and the Lao border city of Savannakhet, the starting point of Indochina's Highway 9 leading to Vietnam's largest port, Da Nang (see map 7.1). This road link would overlap with a substantial stretch of the other east-west economic corridor through the GMS. Another proposed priority project was to revitalize the historical "Burma Road" from Lashio to Kunming (estimated cost US\$629-909 million), which in turn would be linked by rail to Rangoon (ADB, 1996b; *Asia, Inc.*, 1996). Several other priority road projects would cost additional hundreds of millions.⁸

The arguably most critical road links Kunming to Bangkok for about 1,800 km, via two separate routes in Myanmar and Lao PDR respectively. It is the main overland transport artery through south Yunnan leading toward Southeast Asia. The Yunnan segment is the longest, covering 688 km to the border. While the Myanmar route goes to Jinghong and Daluo from Kunming and passes through Kengtung in Myanmar before reaching Chiang Rai, the Lao PDR route (247 km long) veers from Jinghong toward

Mohang at the Chinese border and Louang Namtha and Viangphoukha in Lao PDR before reaching Chiang Khong through Huey Sai and ending in Chiang Rai (see map 7.1). The segment within Thailand stretches 813 km from Chiang Rai at the northern border to Bangkok.

In 2000, facilitated by the ADB, China, Lao PDR, and Thailand signed a cooperative agreement to upgrade the existing cross-border road to a through highway for connection to the highway systems in Malaysia and Singapore through the Thai-Malaysia border. With a combined investment of US\$1.5 billion from the central and provincial governments since 2000, Yunnan has completed upgrading several segments of the highway to the border, with low-interest loans from the ADB for one of the key segments. The remaining segments that would extend the highway all the way to the Yunnan-Lao border are scheduled to be completed by 2006.⁹ To appeal to having the highway routed through Myanmar instead of through the shorter Lao route, the Myanmar government has already completed 75% of the improvement project from the border to Kengtung (Tang, Zhu, and Hu, 1999). The Lao portion of the Kunming-Bangkok road has been in the worst shape. For example, the segment from the Sino-Lao PDR border to Louang Namtha, 62 km in length, was built through China's foreign assistance program in the 1960s. Due to a lack of proper maintenance, the road had damaged surface, potholes, and partial cave-ins, which reduce the average travel speed to about 25 km per hour. Since the Thai government has provided assistance to Lao PDR for improving the segment to Huey Sai, the Lao government became committed to strengthening the maintenance of the road (Li and Liu, 1999). Through the coordination by the ADB, the Chinese government has recently agreed to offer favorable loans and construction teams

to the Lao government for improving the Lao segment of the cross-border highway. If this difficult segment can be successfully completed, the entire Kunming-Bangkok cross-border highway is likely to be opened for through traffic by 2010.¹⁰

Other progress has been made in road construction and improvement within Yunnan. Reconstruction and resurfacing has taken place for the various sections between Kunming, Yuxi and Simao. Improvements have been made to a road that originates from Kunming and goes through Chuxiong and Dali to the booming border city of Ruili before entering Myanmar at Muse and connecting to the road from Bhamo to Myitkyina. Of the 809 km from Kunming to Ruili, over 500 km have already been rebuilt from roads to highways. A cross-border road connecting Tengchong in Yunnan directly to Myitkyina was opened in 1993. Some of these road projects also have received financial backing from the ADB in terms of low-interest loans (G. Tang, 1995; Than, 1996). The improvement and connection of these roads have contributed to the busy traffic of people, vehicles, and cargo through the overland border crossings of Mohan, Daluo, and Menglian.¹¹

Several other bridges across the Mekong have been proposed as priority projects by the GMS countries and the ADB.¹² Assuming that the bridges can help link the various means of transportation over the water and on the ground, the GMS' cross-border transport links won't be complete until and unless inter-city air travel becomes more extensive than the limited, uneven flights now. Current international flights are confined to a small number of national capitals and other major cities. There are no flights between the eight regional airports near both sides of the China-Myanmar border, even though Air China flies from Kunming via Mandalay to Rangoon and can use the airport facilities like

Mergui and Tavoy near the Gulf of Martaban at Myanmar's southern tip for refueling (Than, 1996). While not sufficient, the number of priority airport projects proposed or completed by the GMS countries ADB¹³ is an important step in improving and enlarging the aviation network of the GMS.

Page 210:

Photo of a Dai border village in Yunnan province

Page 223:

Map of BIMP-EAGA air links

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¹ Despite the border closing, smuggled trade took on new ingenuity. According to journalistic witnesses, a young Burmese trader in Mae Sai folded a bundle of banknotes inside a handkerchief, secured his little package with rubber bands and hurled it across the narrow river between Mae Sai from Tachilek in Myanmar. A few minutes later, his partner on the other side tossed back two cartons of brand-name American cigarettes that the young trader's Thai customer had ordered. The trader faced the problem of packing more money than he used to for the smuggled cigarettes. After the border closing, Myanmar border guards began to charge 200 Thai Baht to let Tachilek traders across the river to the Thai side and demanded 400 Baht to let them back in again (Lintner and Tasker, 1999, p. 24).

² I would like to thank Sedara Kim from Cambodia for sharing this information and observation during our conversation in Hanoi, February 28, 2003.

³ French colonialists mobilized a massive work force to build the Kunming-Haiphong Railway, which cost the lives of over 25,000 Vietnamese and Chinese coolies who died from malaria and accidents. The builders drove the track from the steamy Red River Delta, across the northern Vietnamese plains, and up nearly 2,000 meters through a winding and steep valley into the mountains of Yunnan. The most difficult stretch was from the border at Lao Cai to Kunming, as it took five years for the first train to reach Kunming after the line crossed the border in 1906. Altogether, the builders constructed 3,422 bridges and drilled through 15 tunnels totaling 18 km in length (Mellor, 1996, p. 34).

⁴ A Kunming-based Chinese company has been shipping its products to Europe via the southeastern city of Shenzhen, which is twice as far as Haiphong. Access through the Vietnamese port will cut the delivery time to Europe by at least 40%, as estimated by the company (Mellor, 1996, p. 32).

⁵ The Kunming-Thailand rail route had two other proposed options. One would split from Jinghong to Daluo in Yunnan and connect through Kengtung in Myanmar back to Chiang Mai. The other would turn west at Louang Namtha in Lao PDR to Huey Sai and enter Thailand through Chiang Rai to Chiang Mai and eventually to Bangkok. These two side lines dropped to lower priorities as both Lao PDR and Thailand wanted to connect the line through Nong Khai (see Map 7.1).

⁶ An alternative route would run through Vientiane, Lao PDR and Simao, Yunnan, and would require the building of costly tunnels and bridges.

⁷ In addition to the three major north-south railways, the GMS countries, with input and help from ADB, have identified several other rail projects including east-west routes. They are 1) extending the Southeast Asia rail network to Lao PDR across the Friendship Bridge, which would cost US\$210 million; 2) rail links between Yunnan and Myanmar with four alternative routes costing US\$700-1.2 billion; 3) extending rail lines in northeast Thailand to Lao PDR with US\$70 million-475 million per line; and 4) creating rail links between Lao mineral developments to Vietnamese ports. For the last proposed project, one line would run from Xieng Khouang to the port city of Vinh, mainly for the export of iron ore, US\$650 million. A second line has been mooted to connect Thakhek to the Vietnam rail system, though the cost of the link through the Annamite mountains could prove prohibitive (ADB, 1996a; Asia, Inc., 1996).

⁸ These other projects include improving the route from Kunming to Hanoi (US\$48-57 million); constructing a new road from southern Lao PDR to Sihanoukville, the Cambodia port city (US\$33 million); Lashio-Loilem-Kengtung improvement (US\$108 million); improving the road from southern Yunnan to northern Vietnam, via northern Thailand and northern Lao PDR (US\$99 million); and constructing a new road from northeast Thailand to central Vietnam, via southern Lao PDR and northeast Cambodia (US\$61 million) (Asia, Inc., 1996).

⁹ Reported in *Renmin Ribao* (The People's Daily), August 5, 2002, p. 2.

¹⁰ *Renmin Ribao* (The People's Daily), January 4, 2003, p. 6.

¹¹ Located at the southwestern corner of Xishuanbanna prefecture, Mohan is Yunnan's only land border crossing to Lao PDR and just 60 km from Louang Namtha. Mohan was designated by the central government as a national grade-one land port and officially opened upon an official bilateral agreement between China and Lao PDR. Since then it has become the primary channel for Sino-Lao PDR border trade and tourism. The crossing sees the entry and exit of approximately 700 Chinese and foreign visitors and 300 vehicles. Daluo borders the eastern boundary of the Shan State of Myanmar and is only 86 km from Kengtung in Myanmar. Daluo also is one of the closest pathways to Thailand via Myanmar. A customs office was established at Daluo as early as 1938 to facilitate commerce and travel between China and Burma. Daluo was designated as grade-two open land port by the Yunnan government in 1991. It became one of Yunnan's busiest land crossings for people, vehicle, and cargo flows (see Table 7.4). Located in the southwest of Simao prefecture, Menglian borders the Shan state of Myanmar. It offers access to Rangoon via Kengtung and Lashio. Menglian was designated as a grade-two land crossing by the Yunnan government in 1991. The flows of people, vehicles, and cargo through Menglian grew rapidly in recent years (Wang and Li, 1998).

¹² The proposed bridge projects include 1) a new bridge across the Thai-Lao border between Nakhon Phanom and Thakhek (estimated cost US\$50-83 million); 2) a new Mekong bridge across the Thai-Lao border between Mukdahan and Savannakhet (US\$60 million); 3) a bridge that would cross the Mekong in southern Lao PDR near the Cambodia border; and 4) another all-Lao bridge at the key trading town of Pak Neng in northern Lao PDR. The last proposed bridge, to be technically simple to build at a narrow point of the Mekong, would help link northern Thailand with Yunnan (Asia, Inc., 1996).

¹³ For Yunnan, a new US\$45 million passenger terminal, aircraft maintenance building, and freight center has been added to Kunming International Airport. For Myanmar, a US\$250 million expansion of Rangoon's airport has been underway since 1988; construction of a US\$150 million international airport has been underway at Mandalay. For Vietnam, the government planned a US\$1.6 billion upgrade of Ho Chi Minh's Tan Son Nhut airport, including a new terminal building. A US\$100 million terminal has been built at Da Nang, as well as a runway for fully loaded long-haul planes. A new US\$60 million international passenger terminal at Hanoi's Noi Bai was completed in 1998. For Lao PDR, a US\$40 million project to refurbish Vientiane international airport has been underway. Airport improvement projects are also in various stages at Louang Prabang, Pakse and Savannakhet. For Cambodia, feasibility studies are underway for airport at Siem Reap and Sihanoukville. For Thailand, phase I of Bangkok's new US\$4.9 billion Nong Ngu Hao International Airport was to open in 2000 but has been delayed by resettlement wrangling. With two runways and a 500,000-square-meter terminal building, it could serve 30 million people a year (Asia, Inc., 1996).