

**CHINA'S ACTIVE ROLE IN THE
GREATER MEKONG SUB-REGION:
A "WIN-WIN" OUTCOME?**

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EAI Background Brief No. 397

Date of Publication: 6 August 2008

Executive Summary

1. On 31 March 2008, Wen Jiabao attended the third Greater Mekong Sub-region (GMS) Summit in Laos where he noted the steady economic progress of the GMS and reinforced Beijing's commitment in the sub-region.
2. China and the GMS countries are close geographical and cultural neighbours with strong historical linkages. This provides Beijing with an ideal platform to establish a "win-win" strategy to lead the development in the GMS.
3. The GMS development is guided by the China-ASEAN-ADB led GMS Economic Cooperation Programme initiated in 1992. Starting off as a beneficiary of the programme, China is slowly taking on a benefactor role.
4. China's involvement in the GMS programme is mostly concentrated in the North-South Corridor where it constructs and refurbishes the area's physical infrastructure, including the recently completed Route 3 highway in Laos.
5. The transportation projects aim to facilitate cross-border movement of goods and people and lay the foundation for the integration of the GMS into regional and global trading environments such as the ASEAN-China Free Trade Area.
6. Constructing these transport networks looked set to increase the burgeoning China-GMS bilateral trade. Total trade volume has increased nearly 300 percent from US\$610 million in 1990 to over US\$12 billion in 2006.
7. Besides trade opportunities, better transportation networks would also break the isolation of inhabitants in the rural areas, leading to higher income generation and better living standards.
8. In addition, China is leading by example to encourage more inflow of investment to the GMS by increasing its investment from US\$60 million in

2004 to US\$115 million in 2006, which was about 35 percent of China's total investment in ASEAN.

9. Because of the development gap between China and the GMS, growing Chinese economic presence in the sub-region may lead to the rise of anti-Chinese sentiment.
10. Rather than viewing it as a catalyst for development, some Western and local observers called the increasing presence as a "Chinese invasion". They also accused Chinese-backed projects of damaging the environment.
11. Nonetheless, governments in the sub-region saw the growing Chinese investments as an opportunity to bring sustainable economic development and growth to the GMS.
12. China has also introduced other sub-regional economic initiatives to deepen its role in the GMS. One example is the establishment of the Pan-Tonkin/Beibu Gulf Economic Cooperation scheme.
13. The scheme seeks to deepen China-Vietnam trade and economic ties by aiming to weave Vietnam's growing industrial sector into the larger regional production networks. This may potentially provide the much needed boost for Vietnam's faltering economy.
14. Bringing development to the GMS could also complement China's western development programme by opening up more market opportunities for landlocked Chinese provinces in the south.
15. China's growing participation in the GMS is another example of the growing sophistication of Beijing's foreign policy. The incorporation of economic incentives and the policy of non-interference are proving to be successful in forging closer ties and building new regional architecture in Southeast Asia, Central Asia, Africa and now the GMS.

CHINA'S ACTIVE ROLE IN THE GREATER MEKONG SUB-REGION: A "WIN-WIN" OUTCOME?

LIM Tin Seng*

China's Leading Role in the GMS Economic Cooperation Programme

- 1.1 On 31 March 2008, Wen Jiabao attended the third Greater Mekong Sub-region (GMS) Summit in Vientiane, Laos. In his keynote speech, the Chinese Premier noted that the on-going development in the sub-region is well in line with the current trend of regionalism and globalism and has significantly strengthened the economic integration between China and countries in the Greater Mekong area.¹ As a result, Premier Wen assured the GMS countries that China would reinforce its commitment in the sub-region's development programme and help advance the programme into different areas of cooperation.
- 1.2 Wen Jiabao's assurance is a boost to the future sustainability of the GMS development programme. With a population of 1.3 billion, a Gross Domestic Product (GDP) of US\$3.2 trillion in 2007, and an economy growing at an average 9.7 percent annually for the past three decades, China could easily provide the economic capacity and resources to generate growth in the sub-region. Furthermore, having successfully guided China-ASEAN relations from one of animosity to one based on mutual understanding and cooperation, Beijing could also help create a political, "win-win" strategy for the economic and political integration of China and the GMS.

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¹ "Premier Wen Calls on GMS Nations to Enhance Competitiveness", *China Daily*, 31 March 2008.

- 1.3 Promoting this integration process is a challenge for Beijing even though both sides have a lot in common. Geographically, China and the GMS countries shared the Mekong/Lancang River, and Laos, Vietnam and Myanmar shared a common border with the southern provinces of China. The proximity coupled with the rich historical linkages between China and the GMS countries and the high density of ethnic minorities in the area have resulted in high levels of cross-border trade and migration in the area.² These cross-border exchanges are mostly conducted at the local level through official and unofficial channels. Despite the commonalities, the GMS countries and China still need to overcome their historical differences before they could begin the process of political and economical integration.
- 1.4 Because of the development gap between China and the GMS countries, Beijing has to be prepared for anti-Chinese sentiments due to the increase in China's economic pressure in the sub-region. It also has to ensure that the economic progress that it generated from its investments would not threaten the environment in the GMS.
- 1.5 To a certain extent, Beijing could learn from the Japanese experience when dealing with the potential rise in anti-Chinese sentiment in the sub-region. In fact, when Japan began the "flying-geese" development process with increased investments in the then emerging economies of South Korea, Taiwan and Singapore, Japanese investors were faced with anti-Japanese sentiment. Wary of historical aggression and economic supremacy of Japan, the people in these countries were unhappy with the increased arrival of Japanese products and investments. However, because of the economic opportunities that the Japanese brought, these countries eventually integrate themselves into the Japan-led "flying-geese" development model.

² There are 51 ethnic minority groups in Yunnan and 38 in Guangxi, accounting for about 40 percent of the total population in both provinces. In Laos, there are 47 ethnic groups with the ethnic minorities accounting for nearly 48 percent of the country's population. In Vietnam, the 53 minority groups made up 15 percent of the country's total population, while the 36 minority groups in Cambodia comprised 5 percent of the total population.

- 1.6 Nonetheless, as the world globalised, it is certain that the sub-region will be able to adopt a different mindset and embrace development through greater integration with China. Indeed, development of the GMS is guided by the GMS Economic Cooperation Programme. It was initiated by the Asian Development Bank (ADB) in 1992 and is seen as a China-ASEAN-ADB joint effort to lay the proper foundation for the GMS countries to adapt to trade and investment initiatives such as the World Trade Organisation, ASEAN Free Trade Agreement and ASEAN-China Free Trade Agreement. But more importantly, the GMS programme is to bring sustainable economic growth and social progress to the less-developed GMS countries – Cambodia, Laos, Myanmar and Vietnam. This would in the long run eradicate poverty and facilitate the establishment of the newly found peace in the sub-region.
- 1.7 Although the GMS economic development programme started in 1992, the implementation and consolidation stage did not take place until after the first GMS Summit held in Phnom Penh, Cambodia in November 2002. Prior to that, particularly from 1992 to 1996, most of the activities of the GMS programme were directed to the planning of the framework of cooperation and the determination of key projects. The implementation stage was then delayed after the region was hit by the Asian financial crisis (1997-2001).
- 1.8 The strategic framework of the GMS Economic Cooperation Programme was based on a series of “flagship” programmes. Collectively, these programmes revolved mainly around identifying key projects that would enhance sub-regional cooperation.³ As accessibility was a major problem in the Greater Mekong area, the initial focus of the projects was to develop or improve the transportation infrastructure in the area to reduce physical barriers to trade and investment. These development projects were carried out in a number of designated economic corridors, namely the North-South, the East-West and the Southern Economic Corridors (See Appendix 1).

³ Altogether the GMS Programme identified nine areas of cooperation. They are agriculture, energy, environment, human resource development, investment, telecommunications, tourism, trade and transport. Asian Development Bank, “Building on Success: A Strategic Framework for the Next Ten Years of the Greater Mekong Subregion Economic Cooperation Program”, November 2002.

- 1.9 As the southwest provinces of Yunnan and Guangxi made up the region of China that is part of the GMS development programme, most of China's participation in the GMS development programme is concentrated in the North-South Corridor. This corridor stretches from the southern Chinese city of Kunming in Yunnan Province to Bangkok. It covers the sparsely populated Luang Namtha province in northern Laos, the Shan state in western Myanmar, and the northern Thai cities of Chiang Rai, Chiang Mai and Phitsanulok. The North-South Corridor also includes the area southeast from Kunming to Hanoi.
- 1.10 China's participation in the GMS development programme is very much in line with its economic rise. One of the beneficiaries of the programme in 1992, China is slowly taking on a benefactor role, particularly after hosting the Second GMS Summit in 2006. In fact, since then China has set up a US\$20 million poverty reduction fund in ADB and spent around US\$4 billion building highways connecting Kunming with different parts of the GMS.⁴ Since January 2006, Beijing has also unilaterally removed tariffs for more than 200 items from Cambodia, Laos and Myanmar in an effort to boost bilateral trade with the GMS countries and increase their competitiveness. It is also pushing private and state-owned Chinese companies to invest in the GMS countries and has reportedly been providing "no-strings attached" loans similar to those offered to African nations to the GMS governments mostly for the construction of transportation infrastructure.
- 1.11 During the third GMS Summit in March 2008, Premier Wen announced that China would be spearheading efforts to expand development projects in the GMS into other fields, particularly in human resource development, trade and investment facilitation and telecommunications development.⁵ He also proposed accelerating cooperation by forming a unified power market in the sub-region and in the areas of telecommunication network and environment

⁴ Asian Development Bank, "People's Republic of China Regional Cooperation and Poverty Reduction Fund", February 2005.

⁵ Ministry of Foreign Affairs of the People's Republic of China, "Wen Jiabao Attends Third Summit of Greater Mekong Sub-region", 31 March 2008.

protection. Many of these are reflected in the Vientiane Plan of Action for GMS Development for 2008-2012 which was adopted during the third GMS Summit.

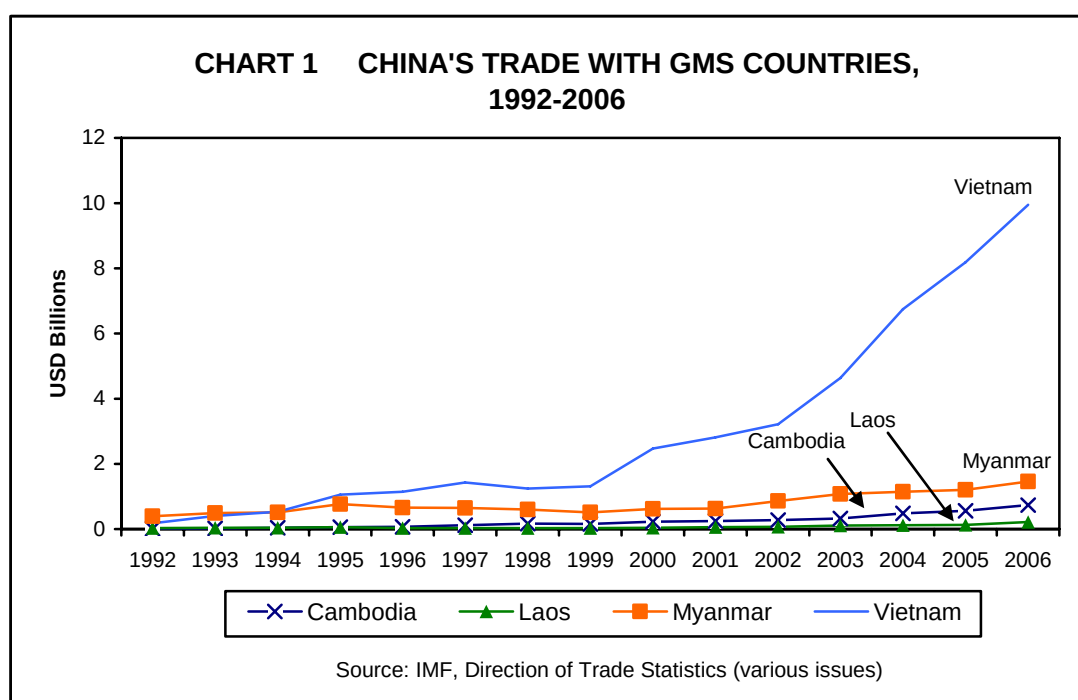
Roads, Rails and Waterways: Connecting the GMS with China and ASEAN

- 2.1 China's involvement in the GMS programme is mostly concentrated in the North-South Corridor and one of the highlights was the completion of the Route 3 highway in March 2008. The 220-kilometre highway, which passes through nearly 100 villages in Laos' poor, northwest province of Luang Namtha, replaces the previous horse trail that has to be closed for four months each year during the raining season. More importantly, Route 3 is the final link of the network of roads that links Beijing to Singapore via mainland Southeast Asia. The total cost of Route 3 is about US\$97 million. China, Thailand and the ADB each contributed US\$30 million while the remaining sum was provided by the Laotian government.⁶
- 2.2 Besides Route 3, China is also involved in the construction and refurbishing of a series of roads and bridges in the North-South Corridor in countries such as Myanmar, Laos and Viet Nam. These roads are the Kunming – Lashio road system (Route 4), the Kunming — Hanoi — Haiphong road system (Route 5), the Lashio – Loilem – Kengtung road system (Route 7), and the Luang Namtha — Hanoi road system (Route 8) (See Appendix 1). It is also providing assistance to building water transport along the Upper Lancang/Mekong River and providing rail links to connect Yunnan with the countries in the Greater Mekong area and eventually with ASEAN's Singapore-Kunming Rail Project which is expected to be completed in 2015.
- 2.3 Collectively, these linkages aim to facilitate cross-border movement of goods and people in the GMS and lay the foundation for the gradual integration of the GMS into regional and global trading environments such as the ASEAN

⁶ Asian Development Bank, "New Highways Revitalize Ancient Tea Horse Roads", 31 March 2008. "Route Completed Linking S China with N Thailand via Laos", *Xinhua*, 1 April 2008. "S-E Asia and China Forge Links with Road Network", *The Straits Times*, 1 April 2008.

Free Trade Area, the ASEAN Investment Area and the ASEAN-China Free Trade Area. The development of transportation system in the GMS would also prepare the GMS countries for larger regional production networks and open up opportunities for further expansion of trade and investment with regional markets, in particular China and the original ASEAN 5 members.⁷

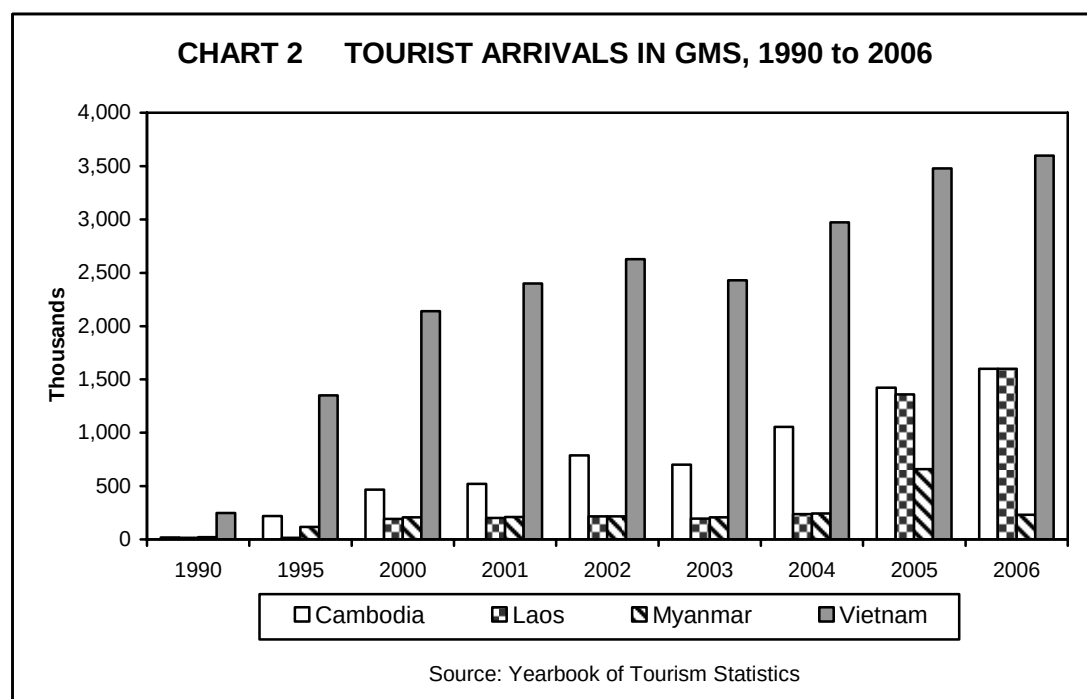
- 2.4 Even before the completion of Route 3, bilateral trade between China and the GMS countries has been increasing steadily. From 1992 to 2006, total trade volume between the two sides has increased nearly 300 percent from US\$610 million to over US\$12 billion (See Chart 1). Constructing these transport networks looked set to enhance the burgeoning bilateral trade between China and the GMS countries.



- 2.5 Trade between China and the GMS countries consists of mostly mineral commodities, forestry items and resource-based products such as oil, gas, and hydro-energy. As industries in the sub-region are still agricultural-based, agriculture items such as food grains, sugar, edible oils, furniture together with fishery products are also part of the trade flow.

⁷ Asian Development Bank, "Building on Success: A Strategic Framework for the Next Ten Years of the Greater Mekong Subregion Economic Cooperation Program", November 2002.

2.6 Besides bringing trade opportunities, better transportation networks in the GMS would also break the isolation endured by inhabitants located in the rural areas by connecting them to major towns and cities and providing them with access to basic needs such as education and healthcare. It would also help generate better income and improve living standards of rural residents who are now able to sell their products in larger local or regional markets at a lower transportation cost. This is significant because goods produced by the residents in the rural regions are mostly low profit agricultural products such as tiger bones, low quality tea leaves and handicrafts. In addition, as stated by Alinda Phengsawat, head of tourism planning in Laos' Luang Namtha province, the newly built roads would bring tourists to the remote regions of the country. This would create another income source for the rural residents as they would then be able to sell their products to the visitors.⁸ In fact, tourist arrivals are growing steadily in the sub-region (Chart 2). It is likely that this trend will continue with the improvement of transportation infrastructure in the sub-region.



⁸ Thomas Fuller, "China's Road into Southeast Asia", *International Herald Tribune*, 31 March 2008.

Reducing Non-physical Barriers in the GMS

- 3.1 Over the years, the GMS programme has made significant strides in developing the transportation infrastructure of the sub-region. However, as Premier Wen Jiabao noted during the third GMS summit in March 2008, the GMS does not have the environment for trade and investment nor the production capacities. As a result, the sub-region may not be able to tap on the opportunities brought about by the progress of the GMS programme.⁹
- 3.2 Nonetheless, China is helping the GMS countries to overcome these problems by stepping up efforts to materialise proposals put forward by the GMS development programme to reduce non-physical barriers to trade and investment in the GMS. This is illustrated by Beijing's move to endorse the Vientiane Plan of Action for GMS Development for 2008-2012 during the third GMS Summit in March 2008. One of the tasks that China will be embarking on as stipulated by the Vientiane Plan is to assist GMS countries to simplify customs procedures along the North-South corridor by helping to establish common cross-border passage points and standardise customs procedures to ensure smoother cross-border flow of goods and people.¹⁰
- 3.3 Beijing will also be involved in enhancing the competitiveness and participation of the private sector in the development of GMS by sharing its experience in microeconomics reforms and providing direct financial assistance to SMEs in the area.¹¹ In fact, part of the US\$20 million China poverty reduction ADB fund set up in 2005 has been set aside for this purpose. Furthermore, China supports calls for better sharing of business information among GMS countries and potential foreign investors through the GMS

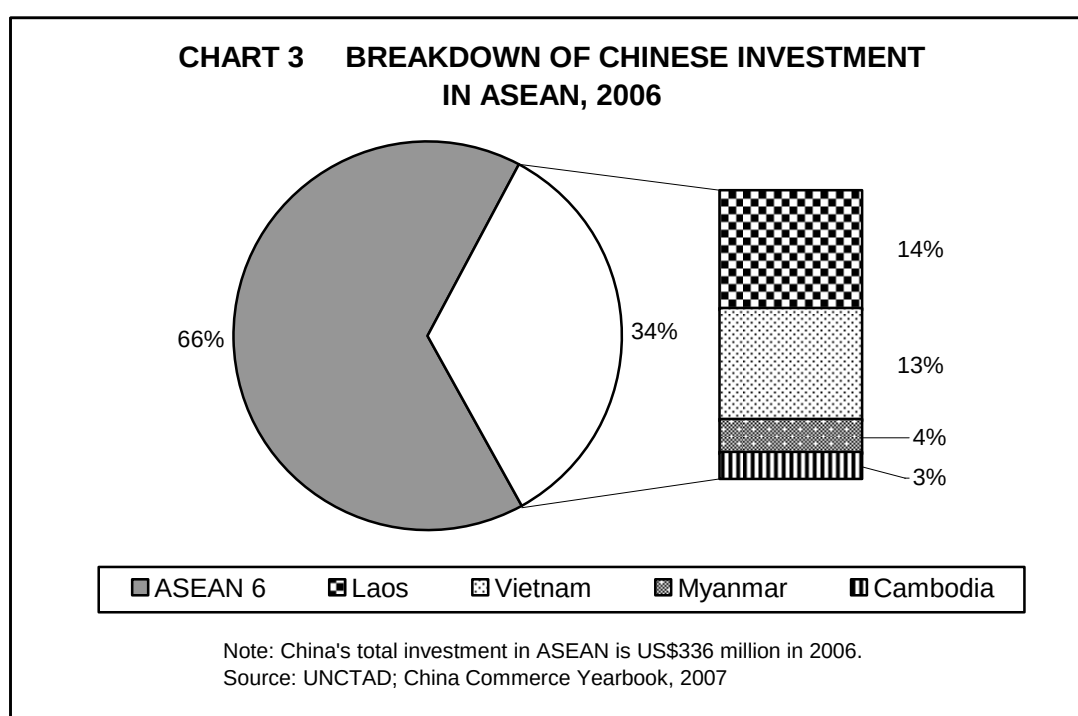
⁹ "Premier Wen Calls on GMS Nations to Enhance Competitiveness", *China Daily*, 31 March 2008.

¹⁰ Asian Development Bank, "North-South Economic Corridor", *GMS Flagship Initiative*, 26 June 2005.

¹¹ Asian Development Bank, "Enhancing Private Sector Participation and Competitiveness", *GMS Flagship Initiative*, 26 June 2005. Asian Development Bank, "People's Republic of China Regional Cooperation and Poverty Reduction Fund", February 2005.

Business Forum platform so as to provide investors with a better understanding of the opportunities available in the sub-region.¹²

- 3.4 In fact, China is leading by example to encourage more inflow of investment to the less developed GMS countries, namely Cambodia, Laos and Myanmar. In recent years, Beijing has incorporated the GMS into one of the destinations in its “going global” overseas investment strategy. Indeed, since the initiative began in 2004, China’s investment in the GMS had been increasing steadily from US\$60 million in 2004 to about US\$115 million in 2006, which was about 35 percent of China’s total investment in ASEAN.¹³



Chinese Investments in the GMS

- 4.1 Generally, Chinese investments in the GMS countries are mostly in the energy and transport sectors as well as agribusiness and tourism industries. For

¹² Ministry of Foreign Affairs of the People’s Republic of China, “Chinese Premier Wen Jiabao Attends the GMS Business and Investment Dialogue”, 30 March 2008.

¹³ China is the largest foreign investor in Cambodia, Laos and Myanmar in 2006 and the 15th largest in Vietnam in the same year.

example, in Laos, Chinese rubber companies such as the Ruifeng Rubber Company had invested about US\$20 million to set up rubber plantations in the northwest Luang Namtha province since 2004.¹⁴ It was also reported that the Laos government had awarded the contract of building a casino in Bo Ten, a small town located in Luang Namtha province to attract tourists using the recently built Route 3 highway, to a Chinese company.¹⁵

4.2 Furthermore, the Suzhou Industrial Park Overseas Investment Co was granted a deal by the Laos government to build a sports stadium for the Southeast Asian Games that the country will host in 2009. This project is facilitated by a loan given by the China Development Bank. The Laos government also announced in September 2007 that the same Chinese firm is teaming up with another two Chinese companies to embark on the “New City Development Project”, an ambitious plan endorsed by Vientiane to transform 4,000 acres of rice fields located in the Luang Namtha province into “a modern city” with “Manhattan-like skyline”.¹⁶

4.3 In Cambodia, Chinese companies are investing in the country’s energy industry. For example, China is funding the construction of four hydropower plants in Cambodia, including the US\$280 million 193 MW Kamchay hydropower station by China’s Sino-Hydropower Corp. The Kamchay plant is the largest investment project in Cambodia to date.¹⁷

4.4 In addition, China National Overseas Oil Corp is in joint venture with Cambodia’s National Petroleum Authority to exploit the country’s gas reserve along the coast of Cambodia. Besides the energy sector, Chinese companies are pumping investments into the agro-industry sector. For instance, China Cooperative State Farm Group and Cambodia’s pulp-and-paper producer Pheapimex are investing more than US\$70 million to establish pulp

¹⁴ Brian McCartan, “China Rubber Demand Stretches Laos”, *Asia Times*, 19 December 2007.

¹⁵ Fuller.

¹⁶ Dennis D. Gray, “Laos Fear China’s Footprint”, *Associated Press*, 6 April 2008.

¹⁷ David Fullbrook, “China’s Growing Influence in Cambodia”, *Asia Times*, 6 October 2006.

plantations in Kompong Chhnang and Pursat provinces while Chinese firm Green Rich plans to establish an acacia plantation in Koh Kong province.

- 4.5 In Myanmar, Chinese fishing companies are making headway into the country's fishery industry as they catch fishes along the Andaman Sea coast before transporting them back to markets in Yunnan province through the central Myanmar city of Mandalay and the remote northeast Shan state via road and rail links which were built with "no-strings attached" Chinese loans.¹⁸ In addition, a Chinese consortium headed by the partly state-owned Shanghai Jinqiao Export Processing Zone Development Company is setting up a special economic zone near Yangon's Thilawa port and helping to build deepwater ports in Tilowa and Rakhain.
- 4.6 Furthermore, Chinese oil and gas companies such as China National Petrochemical Corp, PetroChina and China National Offshore Oil Corp are setting up joint ventures with local oil companies and pumping billions to tap into the country's oil and gas reserves in the Andaman Sea. They are also constructing pipelines from these offshore platforms to Yunnan province. One example is the US\$2 billion gas pipeline from Sittwe which is scheduled for completion in 2009. Following the footsteps of these big Chinese companies, smaller Chinese private firms such as the Yunnan Machinery and Equipment Import and Export Company are selling equipment, and acquiring loans from the Chinese government, to build hydropower plants in Myanmar. They are also setting up factories, stores and farms in cities such as Mandalay and Yangon.
- 4.7 Finally, private and state-owned Chinese firms are also increasing their investment in Vietnam. Similar to Chinese investors in the aforementioned GMS countries, their investment strategy is to develop the country's energy and transportation sectors.¹⁹ Some of these projects include the US\$710 million Cao Ngan thermal-power station, the US\$340 million Hanoi — Ha

¹⁸ David Fullbrook, "China Paves Way to Myanmar Riches", *Asia Times*, 1 November 2006.

¹⁹ Karl D. John, "China and Vietnam Put Business First", *Asia Times*, 25 October 2006.

Dong railway project and the US\$130 million project to upgrade the railway signal system in northern Vietnam and on the Vinh — Ho Chi Minh city railway line. In addition, Chinese oil companies such as the China National Offshore Oil Corp are setting up joint ventures with Vietnamese oil companies to explore for oil and gas in the Tonkin/Beibu Gulf.²⁰

Challenges to Growing Chinese Economic Presence in the GMS

- 5.1 The growing Chinese investment in the GMS countries has, however, drawn criticism from some western and local observers. Rather than viewing it as a catalyst for development, they called the increasing presence of Chinese investors a “Chinese invasion” that is threatening the sovereignty of the countries. In fact, some Laotians even branded the promising “New City Development Project” as a “Chinese city” in the making.
- 5.2 Echoing the concerns, western observers are also criticising Chinese-led development projects in the sub-region. They viewed the projects together with the economic progress brought about by the Chinese as damaging the environment and affecting the eco-system in the GMS. For instance, the Switzerland-based World Wide Fund for Nature stated that the city development project would damage the marsh in the area, resulting in more flash floods and other environmental damages.²¹
- 5.3 Similarly, in Cambodia, environmentalists and local residents are condemning China’s hydropower projects. In fact, residents who live near the development sites perceived the projects as unnecessary as they have been living there for many generations without electricity and do not want to see their ancestral lands “stolen” by the projects.²² Similarly, environmentalists like U.S.-based

²⁰ A closer study on the areas where Chinese firms are investing in the GMS countries revealed that they are well located within the North-South Corridor of the GMS economic programme. Furthermore, these areas are linked to the roads and most of the transportation linkages built in the corridor actually connect these investment projects to China.

²¹ Gray.

²² Ek Madra, “Chinese Dams Threaten Cambodia’s Forest”, *Reuters*, 26 March 2008.

International Rivers Network Carl Middleton criticised the dam projects as “poorly conceived... needlessly and irreparably damaging Cambodia’s river system with serious consequences”. They also claimed that the projects are depriving local residents who still rely on agriculture for their livelihood of their lands.

- 5.4 Contrary to the above, government officials in the GMS countries saw the growing Chinese investment as an opportunity rather than a threat. This perception is reflected in Laos’ Deputy Prime Minister Somsavat Lengsavad’s view that the “New City Development Project” and other Chinese-backed investment projects would “stimulate the business and investment climate” of the country.²³ This is something that Vientiane seeks as Laos is one of the poorest countries in the world. Besides, these investment projects could create jobs, thus improving the living standards of the people.
- 5.5 In fact, the GMS is among the poorest region in the world. According to the ADB, the GDP per capita of Cambodia, Laos and Myanmar in 2006 were US\$453, US\$599 and US\$281 respectively. This was far below the world’s average GDP per capita of US\$10,200 in the same year. Furthermore, the World Bank indicated that more than 30 percent of the population in Cambodia, Laos and Myanmar live on less than US\$1 per day in 2006. With this high level of poverty, GMS countries need to embrace development and economic progress urgently.
- 5.6 GMS governments are also hailing Chinese investments in the energy sector. For example, Cambodian Foreign Minister Hor Namhong proclaimed in January 2008 that the on-going hydropower projects are “important” to the country’s development because it is often plagued by power outages.²⁴ In fact, Cambodia’s domestic power supply can only meet 75 percent of its total energy demand. It has to import the rest from Thailand and Vietnam. The situation is becoming a burden due to rising energy prices.

²³ Gray.

²⁴ *Ibid.*

The Pan-Tonkin/Beibu Gulf Economic Cooperation Scheme

- 6.1 Besides increasing its investment in the GMS, China has introduced a number of economic initiatives independent of the ADB-sponsored GMS economic development framework to boost bilateral ties and to complement the sub-region's development and integration with China and Southeast Asia. One example is the establishment of the Pan-Tonkin/Beibu Gulf Economic Cooperation scheme between Guangxi Province and Vietnam, the fastest growing economy in the GMS.
- 6.2 The economic initiative can be seen as a confidence-building measure for China and Vietnam to bury their historical differences and to put aside their sovereignty and resource claim disputes in the Tonkin/Beibu Gulf. Although China-Vietnam relations are currently at its best, Hanoi still harbours mixed feelings about China's economic rise. The Vietnamese leadership feared that China's economy may challenge the sustainability of its own economic growth especially when the country's double-digit inflation and ailing stock market is pushing the economy into recession.²⁵
- 6.3 The Pan-Tonkin/Beibu Gulf Economic Cooperation scheme should help allay these fears as it seeks to deepen China-Vietnam trade and economic ties by aiming to weave Vietnam's growing industrial sector into the larger regional production networks and improve Vietnam's consumer ties with China's southern provinces of Yunnan and Guangxi.²⁶ The Pan-Tonkin/Beibu Gulf cooperation scheme also focuses on helping Vietnam to develop its electronics, telecommunications and services sectors by improving the country's linkages with the Pearl River Delta.
- 6.4 In fact, in Nong Duc Manh's, the Party Secretary of the Vietnamese Communist Party, joint statement with Hu Jintao, issued during the former's visit to China in May 2008, the Vietnamese leader pledged to deepen China-

²⁵ Martha Ann Overland, "Vietnam's Troubled Economy", *Time*, 9 June 2008.

²⁶ Liu Fu-Kuo, "Beijing's Regional Strategy and China-ASEAN Economic Integration", *China Brief* (Vol. VIII, Issue 10), 13 May 2008, pp.6-7.

Vietnam ties, particularly in trade and economic cooperation.²⁷ He also called for decisive steps to resolve outstanding border issues so that cross-border trade and transportation could be improved.

- 6.5 The initiatives laid out by the Pan-Tonkin/Beibu Gulf cooperation scheme were envisioned by its “two corridors and one ring” component. Unveiled in 2004, this component is to improve the transport networks between China and Vietnam by connecting areas in Vietnam via land with Yunnan and Guangxi provinces, thus establishing two corridors of linkages, and improving maritime links as one ring between major ports and markets in Vietnam and those in Guangxi, Hainan and Guangdong via the Tonkin/Beibu Gulf.
- 6.6 To follow up on the announcement of the “two corridors and one ring” initiative, Vietnam recently announced a lucrative package to upgrade transportation linkages with China in July 2008. The package will allocate US\$1.4 billion to upgrade the road between Hanoi and Nanning into a six-lane expressway and an undisclosed amount to increase the annual capacity of its main northern deep-sea container port of Haiphong to 25 million tonnes by 2010 and 40 million tonnes by 2020.²⁸
- 6.7 Besides enhancing China-Vietnam ties, the Pan-Tonkin/Beibu Gulf cooperation scheme, to a larger extent, aims to complement the economic integration between China and ASEAN through the establishment of the ASEAN-China Free Trade Area.²⁹ In fact, the cooperation scheme is part of the “M-shape” China-ASEAN regional economic strategy proposed by Beijing to improve air, sea and land transportation and communication linkages between Guangxi province and Southeast Asia.

²⁷ Ding Ying, “Oh, So Good! China and Viet Nam Promote their Ties to an All-round Strategic Cooperative Partnership”, *Beijing Review*, No.25, 19 June 2008.

²⁸ “Vietnam to Boost China Highway Links”, *Channel News Asia*, 17 July 2008; accessed at http://www.channelnewsasia.com/stories/afp_asiapacific_business/view/360959/1/.html, 18 July 2008.

²⁹ The ASEAN-China Free Trade Area will take effect for the original ASEAN 6 members (Indonesia, Malaysia, Philippines, Singapore, Thailand and Brunei) in 2010. It will be extended to the GMS ASEAN members (Cambodia, Laos, Myanmar and Vietnam) in 2015.

- 6.8 Subsequently, this “M-shape” strategy would: 1) extend sea links between Guangxi and the original ASEAN 5 members, namely Malaysia, Singapore, Indonesia, Brunei and the Philippines; 2) construct a Nanning-Singapore economic corridor featuring railway and road linkages from Nanning to Singapore through major Southeast Asian cities or towns such as Hanoi, Phnom Penh, Bangkok and Kuala Lumpur; and 3) improve and enhance communication networks between provinces in southern China and the GMS countries.³⁰

Geo-political and Geo-economical Implications

- 7.1 China’s growing participation in the GMS is clearly another example of the growing sophistication of Beijing’s foreign policy with its immediate neighbours as well as developing countries. Rather than political means, China’s incorporation of economic incentives and policy of non-interference are proving to be more successful in forging closer ties and building new regional architecture. This is a step away from the zero-sum game mentality to a more conducive creation of a “harmonious” world.³¹
- 7.2 So far, this strategy has proven its worth as Beijing has quelled fears of its ASEAN neighbours on its economic rise, gained new allies in Africa, and established closer ties with previously hostile neighbours in Central Asia and now the Greater Mekong Sub-region. This in turn allowed China to demonstrate its “peaceful rise”, and more importantly, helped secure peace and harmony in its backyard by bringing growth and prosperity to neighbouring countries.
- 7.3 Besides, bringing development in the GMS could also benefit China’s western development programme. Both Yunnan and Guangxi have been included in the programme since it was introduced in the early 1990s. However, due to

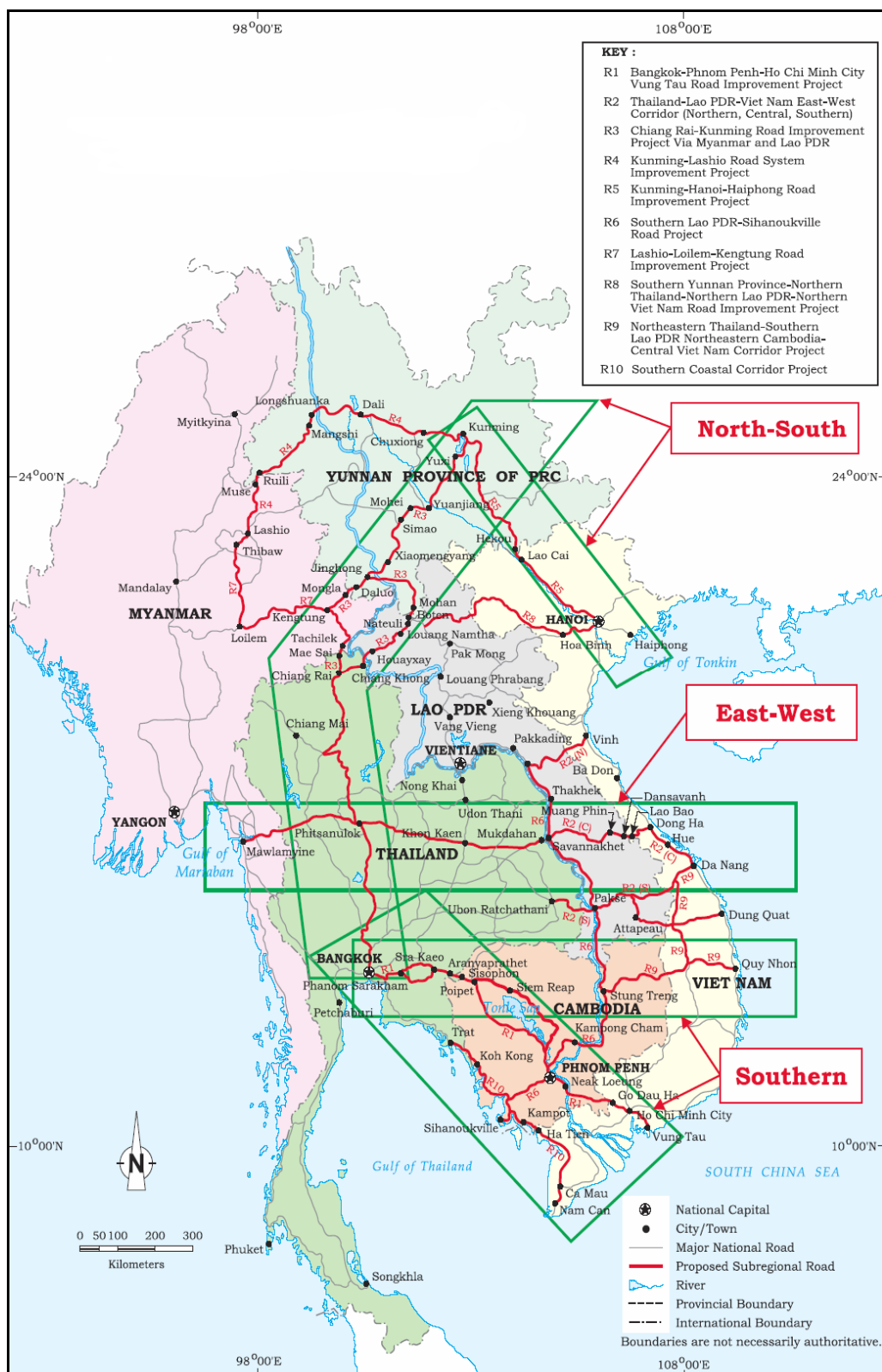
³⁰ Liu.

³¹ Ellen L. Frost, *Asia’s New Regionalism: The Rise of China and The Role of the United States*, NUS Press: Singapore, 2008. J. Peter Scoblic, *U.S. vs Them: How a Half Century of Conservatism Has Undermined America’s Security*, Viking Adult: NY., 2008.

their location and lack of market opportunities, they were unable to achieve any real progress in inducing substantial growth. The GMS development programme and the gradual integration of China with the GMS should improve the situation. By installing a better transportation system and improving the economies in the area, more opportunities would be created to bring growth to the Greater Mekong area and the southern parts of China.

- 7.4 As a result, China's active role in spearheading the development of the GMS should not be seen as Beijing's attempt to "hijack" the sub-region's development programme. Rather it should be perceived as an extension of Beijing's overall strategy to build a "win-win" ASEAN-China relation.

APPENDIX 1 GMS ECONOMIC CORRIDORS AND PROPOSED ROAD SYSTEMS



Note: Guangxi Province joined the GMS Programme only after the 2nd GMS Summit in 2006.
Source: ADB (2002)

APPENDIX 2 CHINA'S AND GMS COUNTRIES' BASIC PERFORMANCE INDICATORS

	Population (Mn), 2006	GDP per capita (US\$), 2006	Total GDP (US\$ Mn), 2006	Structure of GDP output (%), 2005			Growth of GDP (%)								
				Agriculture	Industry	Services	1990	1995	2000	2002	2003	2004	2005	2006	2007
China	1,328	2,024	2,666,772	12.5	47.5	39.9	3.8	10.9	8.4	9.1	10	10.1	10.4	11.6	11.9
<u>GMS</u>															
Cambodia	14	453	6,431	30.8	25.1	38.9	1.2	6.5	8.4	6.9	8.5	10	13.5	10.8	9.6
Laos	6	599	3,451	44.8	29.5	25.7	6.7	7.1	5.8	5.9	5.8	6.9	7.2	7.3	8
Myanmar	49	281	13,612	48.4	16.2	35.4	2.8	7	13.8	12	13.8	13.6	--	--	--
Vietnam	87	673	57,983	20.4	41.6	38.1	5.1	9.5	6.8	7.1	7.3	7.8	8.4	8.2	8.5

Note: Myanmar's figures are subject to discrepancies

Sources: UNdata, *Key Indicators of Developing Asian and Pacific Countries*, 2007; *China Statistical Yearbook*, 2007