

**YUNNAN-GMS ECONOMIC COOPERATION
IN THE CONTEXT OF
“BRIDGEHEAD STRATEGY”**

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Executive Summary

1. On 27 July 2009, in a concluding speech on his visit to Yunnan, President Hu Jintao said that Yunnan, by taking advantage of its location as a mainland passageway, can be an important connector between China and South and Southeast Asia, especially the Greater Mekong Sub-region (GMS).
2. In an effort to promote friendly relations with its southern neighbours, China is perceived by some as pursuing a “Bridgehead Strategy” (桥头堡战略), which Yunnan has an important role to play.
3. The “Strategy” aims to not only further China’s economic and political ties with South and Southeast Asian countries, especially the GMS countries, but also extend China’s economic and political reach beyond the region and towards the Indian Ocean, the Middle East and even Africa.
4. The Yunnan Provincial Government hopes that the “Strategy” will become a grand national strategy for China’s south-western region and accelerate Yunnan’s economic development, maintain stability at the border and promote regional cooperation between China and its neighbors. However, China’s neighbors, especially in South Asia and the GMS, are highly suspicious of such a move.
5. While the “Bridgehead Strategy” seems to emphasise the development of Yunnan, the essential issue is actually cross border regional economic cooperation, especially that between Yunnan and the GMS countries. This is perceived to be the most effective way for Yunnan to participate in regional and sub-regional cooperation.
6. In recent years, Yunnan has been active in promoting economic relations with various GMS countries via bilateral trade and energy cooperation. Yunnan has also initiated projects like the Opium Substitute Plantation (OSP) (罂粟替代种

植) and undertaken some foreign aid projects, mainly in terms of non-rewarded assistance, interest-free loans and discounted loans for the GMS.

7. Yunnan's economic cooperation with GMS countries is not without its problems. Trade between Yunnan and its southwestern neighbours is unbalanced. The market capacity of GMS countries is limited and the room for further growth in bilateral trade is small. More significantly, there is not much complementarity between the two regions in terms of industrial structures.
8. Other geopolitical factors could also influence China (Yunnan)-GMS economic cooperation. Some GMS countries are still sceptical about China's rising influence. India is wary of the southward spread of China's influence towards the Indian Ocean.
9. Concerns over environment and enterprises' social responsibility in China's investments in the GMS loom large. Weak institutions and political instability in some GMS countries also hinder Yunnan's economic cooperation with the GMS countries.
10. China has in recent years adopted a more open and transparent approach to regional environment cooperation and water resource development. Nevertheless, economic cooperation remains as China's main mechanism to open up its southwest regions.