

# Progress of GMS Economic Integration and its Carrier Role in the Construction of CAFTA

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## **Abstract**

In recent years, regional economic integration gains increasing attention in the world. Both China and other East Asian countries have played an important role in promoting various cooperation mechanisms in this area. In 1992, ADB proposed to initiate GMS economic cooperation program, which brought forward GMS economic development strategic plan. China's Yunnan province is one of the parties participating in GMS cooperation program. The *Framework Agreement on China-ASEAN Comprehensive Economic Integration* Signed in November 2002 activated the progress of the construction of CAFTA.

This paper demonstrates the current status of GMS Economic Cooperation and the China's active participation in promoting the economic integration in East Asian area. It argues that the GMS economic cooperation can help to pave the way for the construction of CAFTA by bridging the economic development gap and creating sound investment and free trade environment. The paper also points out that the cooperation mechanisms of GMS and projects driven programs have the demonstration effects on the further establishing of CAFTA. It concludes that the GMS cooperation is the carrier of the construction of CAFTA, which will also motivate the SMEs to participate in the regional economic integration.

**Key Words: GMS, CAFTA, economic cooperation**

Through practising more than ten years, GMS (Greater Mekong Subregion) economic cooperation sponsored by ADB (Asian Development Bank) plays a key role in promoting the social economic development of GMS countries, driving the construction of CAFTA (China-Asean Free Trade Area).

## **1 The current status of GMS Economic Cooperation**

In 1992, ADB proposed to initiate GMS economic cooperation Program, which brought forward GMS economic development strategic plan. The program was expected to help GMS countries to reduce poverty, improve people's living standard and promote the economic and social development of the region through regional cooperation, especially

economic cooperation and the provision of loans and technical assistance. In 1992, the GMS countries established the mechanism of economic cooperation ministerial conference. The ministerial representatives of the six GMS countries, which are China, Cambodia, Laos, Myanmar and Thailand, attended the meetings, which have been held for thirteen times until now. The conferences have decided eleven core cooperation projects, including north south, west east, south economic corridors, transports, energy, trade investment, human resources development, environmental protection, telecommunications, agriculture and the Greater Mekong tourism, etc.

### *1.1 Current Co-operation mechanisms*

Despite the GMS countries and other ASEAN countries, some developed countries like Japan, Australia, European Union and many international organizations are also interested in various dimensions of economic cooperation in the region in recent years. They participated in the cooperative development of the region through different systems. The main cooperation mechanisms are the GMS economic cooperation that is sponsored by ADB; the Mekong regional sustainable development cooperation that is led by MRC (Mekong River Commission); AMBDC (ASEAN Mekong Basin Development Cooperation) that is initiated by the leaders of ASEAN; “Golden foursquare” regional economic cooperation that is initiated by Thai, Lao, Burman and Chinese government; comprehensive development plan of Indochina which was presided by the Ministry of Foreign Affairs of Japan; Cambodian, Laos, Burman economic cooperation working groups projects initiated by ASEAN financial ministerial conference and Ministry of International Trade and Industry of Japan; U.N. development project agreement and other multilateral organizational cooperation development projects. In these cooperation systems, the GMS economic cooperation sponsored by ADB is the most important international cooperation mechanism in the region. Its main institution is the GMS economic cooperation ministerial conference. In December 2002, the GMS Ministerial Conference on Sub-regional Economic cooperation was held in Phnom Penh of Cambodia for the first time. The leaders or officials of the six GMS countries attended the meeting. Theme of the meeting was “To achieve the strategy of increase, equality and prosperity on GMS economic cooperation”. And the conference decided that the meeting would be held in the member counties by turns

every three years in future.

In the above cooperation mechanisms, the GMS economic cooperation driven by ADB is so far the most successful program. As an important regional financial institution in Asia, ADB provides economic technical assistance in a variety of ways for development of the region. Actively driven by ADB cooperation mechanism, the GMS countries have gained the common recognitions on the development objectives, with cooperation sectors expanding increasingly. ADB has organized ten professional working groups which include agriculture, transport, energy, environmental protection, human resources, trade and investment, etc., looking for feasible cooperation development programs by organizing various dialogues among the experts in the correlative sectors. Up to now, the total investment of GMS economic cooperation program has reached 2 billion US dollars and ADB has invested more than \$US 1 billion. Therefore, it is hard to make a smooth progress for the GMS economic cooperation without the active proposal and action of ADB.

### *1.2 Key cooperative sectors*

Since 1992, the focal points of GMS economic cooperation has been gradually expanded to transport, energy, human resources development, trade, investment, tourism, agriculture, environment, anti-drugs, etc. In the last decade, the cooperation has exerted obvious effects on transport, energy, tourism and many other sectors. And, transport is a significant project in GMS economic cooperation development that mainly involves the development of international navigation on Lancang-Mekong River, “The Pan-Asia Railway” and the construction of regional road network. In 1990s, ADB proposed 100 construction projects, among which 34 were in the transport sector. In June 2001, China, Laos, Myanmar and Thailand achieved to be open to navigation officially. The navigation capacity of Lancang-Mekong River will have enhanced remarkably by 2005. It was Malaysian Prime Minister Mahathir Mohamad who first brought forward the idea of “The Pan-Asia railway” that was approved on the 7<sup>th</sup> ASEAN summit Meeting in November 2001. The railway is totally 5500 kilometres long that starts from Singapore, through Malaysia, Thailand, Cambodia and Vietnam, finally reaches Kunming, China. It is estimated that the project needs a total amount of US\$2.5 billion and will be completed within 10 years. The road from Kunming, China to

Bangkok, Thailand is an important overland door between and among the sub-regional countries. It has a total length of 1887 km., with the 247 Km. in Laos's territory, which needs to be reconstructed. Presently, it is confirmed that the experts from China, Laos and Thailand will be organized to form an associated experts working group which is led by ADB. These three countries are responsible for building one-third of the road respectively. They will solve the financing and constructing problems by themselves, with the separate project finished at the same time. The whole road is scheduled to be completed in 2006.

In addition, there are abundant hydropower resources in the Mekong River region. Its hydropower potential is estimated as being 285TWh, making it the 12th largest in the world (ADB, 1995). Therefore, the hydropower resource development is another one of the key projects in the GMS cooperation. At the moment, 25 key projects based on hydropower resource development on Lancang-Mekong backbone are undergoing, with 14 in Chinese territory, 4 in Laos's territory, 4 on the boundary between Thailand and Cambodia and 3 in Cambodian territory (Wang, 2004). These planned projects can provide wide cooperation room for the sub-regional countries in project contracting, financing, hydropower sale, facility and material imports/exports, etc. For example, the 1500 MW Jing Hong hydro project in Yunnan is being jointly developed by Yunnan and MDX Power of Thailand (X. Yu, 2003).

## **2 The establishment of CAFTA and its influence on China's economic development**

In 2003, the ratio of China's total value of imports and exports (openness) to its GDP reached over 60 per cent. The foreign dependency of the Chinese economy has been ever increasing during the 20 years' reform and openness and almost each of its successful miracles has been linked to foreign economies.

From the close economic trade relations between China and East Asian countries, the dependency of the Chinese economy on East Asian countries has ever increased. China's future economic development will continue to rely on its cooperation with its neighbour nations.

As far as the ASEAN is concerned, China's active attitude toward the establishment of the CAFTA implies ASEAN's great importance to China in the near future. China

will devote to forging a close relation with ASEAN economies in order to develop the domestic economy. The ASEAN's influence on the Chinese economy can be described as follows.

## 2.1 Trade

In the East Asian economies, ASEAN and China have important and rapidly growing trade relations (see Figure 2.1). From the structure of ASEAN-China trade, the exports of ASEAN do not compete seriously with Chinese exports. On the contrary, they are complementary to each other.

Over the last decade, the strongest rate of growth has been in the trade of manufactured products, with trade in computers/machinery and electrical equipment growing fastest. The fact that these products were the major exports and imports of both the ASEAN and China suggests the importance of intra-industry trade, brought about by product differentiation and economies of scale.

The establishment of an FTA between the ASEAN and China will create a huge market with 1.7 billion consumers. It will be the biggest FTA in the world in terms of population size. The removal of trade barriers between the ASEAN and China will definitely lower transaction costs, increase intra-regional trade and increase economic

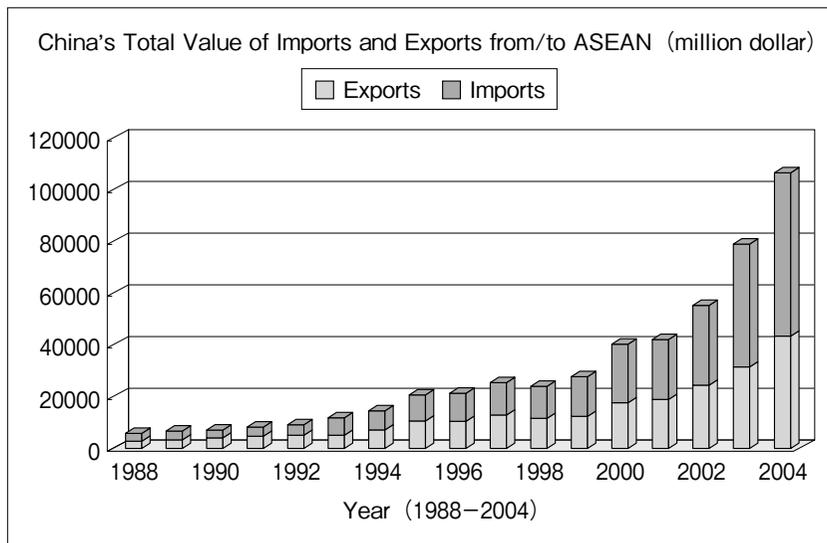


Figure 2.1 China's trade relations with ASEAN

Sources: China Statistic Yearbook from 1989 to 2004, and Chinese Customs Statistics.

efficiency.

It is known that, if protected by trade barriers, domestic enterprises face little competition and pressure. As a result, they operate inefficiently. With the formation of an FTA and with trade barriers among members eliminated, the ensuing fierce competition will further promote specialization, and, as a result, increase productivity and economic welfare.

According to the calculation by ASEAN experts, after the creation of CAFTA, China is to gain an increase in real GDP of 0.3 per cent with a physical rise of US\$ 2.2 billion. China's exports to the ASEAN will increase by US\$ 10.6 billion or by 55.1 per cent. Besides, the establishment of CAFTA will create a sense of community among ASEAN members and China. This will provide another important mechanism for supporting economic stability in East Asia and allow both the ASEAN and China to have a larger voice in international trade affairs on issues of common interest.

## *2.2 Foreign Direct Investment*

Both the ASEAN and China are major destinations for foreign direct investment rather than significant investors in each other's economy.

But with the formation of the CAFTA, more investment should be attracted into the region. Not only will more ASEAN and Chinese companies be willing to invest within the integrated market, but the US, European and Japanese companies, which are interested in making inroads into the Asian market, will also be attracted to invest in the region since market risk and uncertainty are lowered. The integration of ASEAN with China can entice more foreign corporations, which each market alone cannot otherwise achieve so successfully.

By applying a general computable equilibrium modeling tool known as the Global Trade Analysis Project (GTAP), Chirathivat (2002) came to the assessment that in terms of attracting FDI, the impact of tariff and non-tariff liberalization on China is 0.7 per cent and 3.3 per cent respectively.

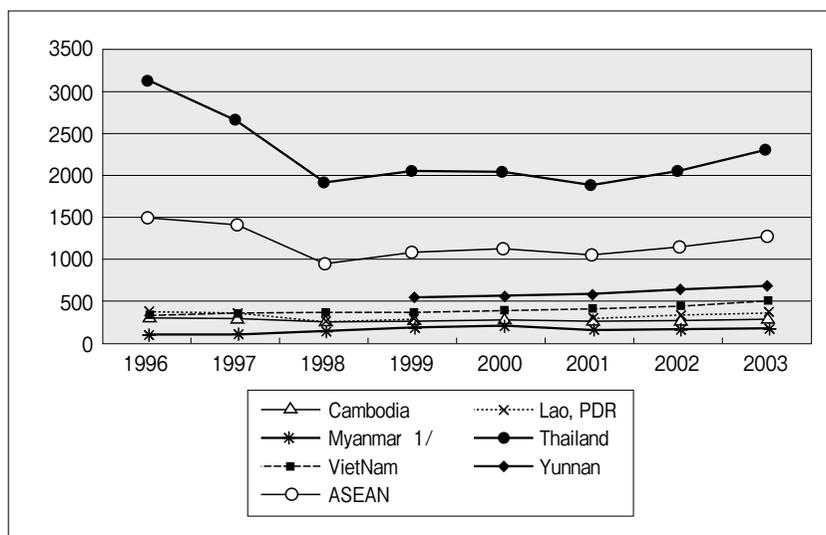
The development of the Mekong Sub-region is not only an important element of ASEAN integration of process, but also a key cooperation area between China and ASEAN. The development of GMS plays a very important role in the construction of CAFTA.

### 3 Economic Integration of GMS helps to expedite the accomplishment of CAFTA

Although economic globalization trend cannot be reversed, trade globalization is continuously on stuck with the failure of the WTO Kankun Conference. However, regional economic contact is reinforcing gradually by establishing various preferential trade arrangements and looking for a bigger development space of economy, which has been a key policy choice in most countries all over the world. Establishing CAFTA has made an important strategic choice under this background, but GMS cooperation can help to reduce economic gap among ASEAN member countries and effectively promote Chinese enterprises to enter into AFTA (Asean Free Trade Area). Hence, the GMS cooperation can be an important carrier of CAFTA construction.

#### 3.1 Reducing economic gap among member countries, promoting ASEAN's integration progress

Among the five GMS countries, apart from Thailand, the other four----Vietnam,



As a proxy, combined GDP of ASEAN is computed as the sum of the GDP of ASEAN Member Countries, and the GDP per capita as GDP/member of population  
 Source: 1.ASEAN Finance and Macroeconomic Surveillance Unit (FMSU) Database  
 2.www.stats.gov.cn (same source for figure 3.2a,b)

Figure 3.1 Gross Domestic Product per capita (in US Dollar)

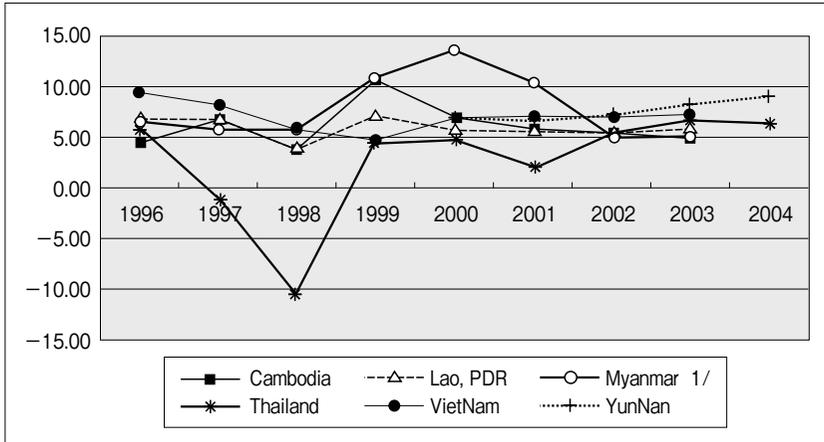


Figure3.2 (a) Growth of Gross Domestic Product

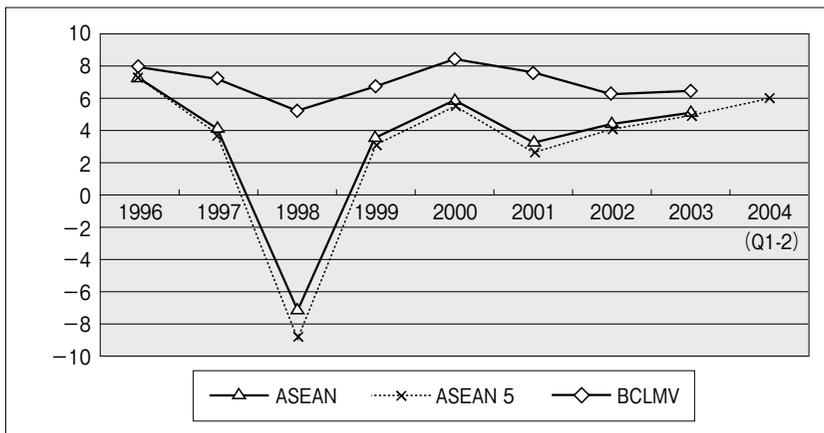


Figure3.2 (b) Growth of Gross Domestic Product

- 1/ Fiscal year beginning in April and ending in March of the following year
- 2/ ASEAN 5: Indonesia, Malaysia, Philippines, Singapore, and Thailand
- 3/ BCLMV: Brunei Darussalam, Cambodia, Lao PDR, Myanmar, and Viet nam

Laos, Cambodia, Myanmar, are all new comers and also are the undeveloped members of ASEAN. From figure 3.1, the GDP per capita of these countries are much lower than ASEAN average level. To achieve the common prosperity of ASEAN members, the developed ASEAN old members like Singapore, Malaysia and Thailand promise to take action to reduce poor and rich gap in ASEAN, while the new members also set their development goals to reduce economic gap with the old members. GMS development is absolutely one of the measures to fulfil the goal. Because all circles attach importance to GMS economic cooperation in recent ten years, GMS undeveloped countries and regions

have dramatically developed at the fast speed exceeding ASEAN average development speed (figure 3.2a,b). Among BCLMV members, four are GMS countries, whose average development speed (if the economic growth rate of Brunei (about 3%) is eliminated) is much higher than that of 10 ASEAN countries and that of the original 5 ASEAN countries. Therefore, to expedite the economic development of the undeveloped GMS countries will bridge the economic development gap in ASEAN and create advantageous conditions for the smooth construction of CAFTA. So the GMS cooperation is a main carrier for the construction of CAFTA

### *3.2 Providing hardware platform*

CAFTA is expected to be established before 2010, when the liberalization of trade and investment and their facilitation will be achieved. In terms of trade and investment facilitation, fast, convenient, mutually connected transport and telecommunication infrastructure are the fundamental conditions. GMS cooperation regards infrastructure construction and mutual connection, as prior areas of the cooperation. The key cooperation projects, which have been on the move, are the “platform” of CAFTA construction and are laying the foundations for CAFTA construction. Through the cooperation between Yunnan Province and other GMS countries, China will extend this cooperation relationship to both other parts of China and other ASEAN countries, which will finally help the construction of the CAFTA.

### *3.3 The mechanisms of GMS cooperation promotes the progress of CAFTA*

As mentioned above, since the early 1990s, there had been several comparatively influential cooperation mechanisms that were proposed by ADB and other organizations, which promoted the implementation of a set of key cooperation projects. These cooperation mechanisms not only helped to improve the basic condition of cooperation, but also helped to set the rules of economic trade operation which enhanced the construction of software environment. By a series of ministerial and senior official conferences, technical assistance, joint research, integrated programme and standard, the GMS cooperation provided a mechanism template and some legal system foundation for the establishment of CAFTA.

The GMS economic cooperation mechanism led by ADB opens up an effective way

for constructing CAFTA. The mechanism ensures that each participant starts with the jointly confirmed prior cooperation sectors and projects, building mutually connected infrastructure, financing the key cooperation projects and coordinating the construction of projects. Practice has proved, the cooperation mechanism driven by joint project and backed up by legal guarantee system is a win-win method, providing the obvious evidence to make some ASEAN countries get rid of their concerns over constructing CAFTA.

From some points of views, the cooperation mechanism of AMBDC is somewhat the preform of China's cooperation with ASEAN, which will urge the birth of CAFTA. China is a core member country when AMBDC started, and it plays an important role in the progress. The 15<sup>th</sup> AMBDC Ministerial conference was held as scheduled in Yunnan in the summer of 2003.

Since the day that MRC was established, MRC invited China and Myanmar, two countries at the upper river of Mekong, to join the organization which holds dialogue meetings with the two countries in fixed time since 1996. As Yunnan Province of China is located at the upper river of Mekong, hydrology information has quite an effect on preventing or controlling flood, reducing mischance and implementing continuous development for the downriver countries, Chinese government and MRC signed agreement about offering correlative hydrology information. Since April of 2002, the Ministry of Hydrology of Yunnan Province has formally offered hydrology information report to the downriver countries.

#### **4 China's (Yunnan) participation in GMS cooperation**

It has been more than 12 years until now for China to participate the GMS economic cooperation since 1992. Yunnan, a province which China directly participates the sub-regional cooperation, occupies an important position in cooperation development. In recent years, Yunnan Province is actively promoting the cooperation of infrastructure construction on transport and also the cooperation on energy, trade and investment, agriculture, tourism, environment, human resources development, anti-drugs, etc. Yunnan Province has made great achievements that have laid firm foundation for further cooperation.

#### *4.1 Transport cooperation*

Lancang-Mekong River is the longest river in Southeast Asia and the 10<sup>th</sup> longest river in the world. It flows for 4880 Km through Yunnan, Myanmar, Laos, Thailand, Cambodia and Vietnam before entering the South China Sea (Xiaojiang Yu, 2003). It is an important international river in Asia that is called “Golden waterway” of future. In early 1990s, China, Laos, Myanmar and Thailand continually improved the condition of navigation by investigating and researching for many times. In 1990 and 2001, Ministry of Transport of China and Yunnan Province invested more than 600 million Yuan (RMB), renovating 293 Km-long navigation route from Simao port of the lower river of Lancang to No 243 mere stone at the border of China and Laos. Now this section of the navigation route has reached Class 6 standard. Other national ports, such as Simao, Jinghong port and four cargo docks, Olive dam, Jinghong, Menghan, Guanlei, have also been built. Chinese government has invested US\$5 million to explosively remove 10 dangerous shoals and 11 reefs along 331 Km navigation route from China-Laos No 243 mere stone to Huay Xai (Laos). The section of the route has reached the objective of safety navigation with above 200-ton ships on it. Yunnan Province is scheduled to invest totally 190 million Yuan (RMB) to upgrade navigation route from Class 6 to class 5. In the end of 2003, Yunnan Province first invested 90 million Yuan to implement the first period project. The whole project is estimated to be completed by 2005. Moreover, China also will cooperate with other correlative countries to negotiate on the aspects, such as charges on going through the formalities at port, custom frontier defence inspection, safety and management on the river, to facilitate trade freedom in the Mekong region.

As mentioned above, “The Pan-Asia railway” is an important project in the GMS transport cooperation program, ASEAN leaders have approved to build Singapore-----Kunming Railway which connects Middle south peninsula and China. China thinks that the implementation with priority of east-line plan brought forward by ASEAN tallies with Chinese railway construction layout. Hence, according to the construction progress of the new line between Vietnam and Cambodia, China is to implement the project of east-line plan in Chinese territory synchronously. Meanwhile, China holds an open attitude towards the pre-work of middle and west plan. In order to finish the pre-work of “The Pan-Asia Railway” (from Singapore to Kunming), related Chinese departments

have worked out a scheme called *Scheme of New Route Connecting with Foreign Railway in Yunnan Province* and the feasible researching reports of east, middle and west plan in Chinese territory have also been completed. To support early accomplishment of "The Pan-Asia railway", China has decided to reconstruct the railway line from Kunming to Hekou in Chinese territory. Also, China announced to finance the feasible researches of the route section of "The Pan-Asia railway" in Cambodian territory.

The road from Kunming, China to Bangkok, Thailand is a vital landway door with a total length of 1800 Km that consists of three sections in Yunnan (China), Laos and Thailand respectively. It is the most direct, convenient way to Bangkok, Thailand, which is connected by Chinese South-west landway and the most important South-north door of Lancang-Mekong subregional cooperation as well. Now, lower-class open to traffic has been realized while the reconstruction of higher-class road surface is being undertaken intensively. Kunming-Bangkok Road is from Kunming to Mohan in Chinese territory, with a total length of 704 Km, which is totally divided into six sections. It bridges Luangnamtha and Bokeo province in Laos territory, starting from No 29 mere stone of China and Laos, ending with Huay Xai, with a total length of 704 Km. On 3 November 2002, Shi Guang Sheng, the former minister of Ministry of Foreign Economic Trade of China signed with Laos government in Phnom Penh on an agreement called *The protocol on the Construction of the Laos Section of the Kunming-Bangkok Highway*. Chinese government has offered a total amount of 249 million Yuan (about \$US 30 million) with 199 million Yuan interest-free loans and 50 million Yuan free assistance. Besides, Chinese government is also responsible for the construction of Kunming-Bangkok Road of 69.44 Km road in Laos's territory and the reconstruction project of 16.5 Km road in Luangnamtha Province.

Furthermore, China is financing for upgrading the reform of Kunming-Ha Nam (Vietnam) Road and Kunming-Yangon Road.

#### *4.2 Hydropower resources development and management cooperation*

In Lancang-Mekong region, there are abundant hydropower resources, the development of which is the key project of GMS cooperation. The exploitable quantity of Lancang water and electricity resource of the upper river of Mekong is 2723 GWh

that is one of the most important exploitative hydropower stations in China, which has immense generate electricity and flood-preventing/controlling benefit with those projects which have been or will be built soon, such as Manwan (a total installed generating capacity of 150 GWh), Da Zhao Shan (135 GWh), Xiaowan (420 GWh), Jinghong (150 GWh), Nuo Zha Du (550 GWh) (Fig. 4.1). At present, China starts to cooperate with GMS countries on developing hydropower. Jinghong hydropower station is the cooperation development project between China and Thailand and Banglang hydropower station is the cooperation between China and Myanmar. In 1998, a memorandum signed between China and Thailand, in which both sides agreed that China would deliver electricity of 3 million KWh to Thailand until 2017.

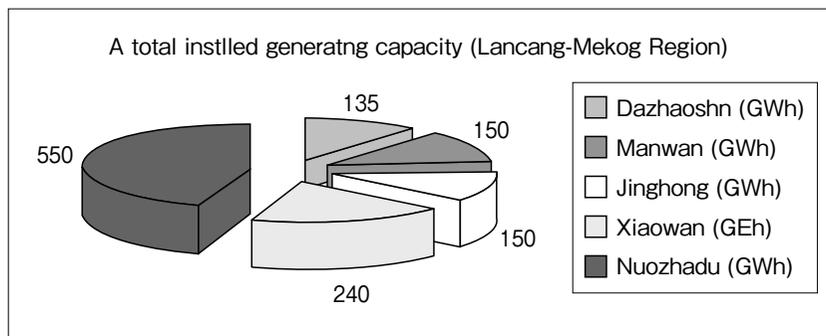


Figure 4.1 some projects using hydropower resources and their total installed generating capacity

### 4.3 Trade and investment cooperation

In recent years, bilateral trades between China and GMS countries have rapidly increased. Statistics have shown that the accumulative trade amount of China with Myanmar, Cambodia, Laos, Thailand and Vietnam from 1996 to 2004 is \$US 5.059 billion, \$US 5.743 billion, \$US 5.584 billion, \$US 6.234 billion, \$US 9.98 billion, \$US 10.799 billion, \$US 13.027 billion, \$US 18.797 billion and \$US 25.827 billion respectively (figure 4.2). Yunnan Province is one of the key provinces that China opens up its trade with GMS countries. The total trade amount between Yunnan Province and GMS countries in 2000 reached \$US 515 million (including border trade amount). The border trades among Yunnan Province, Myanmar, Vietnam and Laos starts from barter trade. At present, border trade with Myanmar, Vietnam and Laos has been a key part of foreign trade of Yunnan Province. In 2002, the small amount border trade of Yunnan Province

reached \$US 371 million.

Meanwhile, China and GMS countries are continuously expanding mutual investments. Statistics showed that the projects in China of direct investment from Myanmar, Cambodia, Laos, Thailand and Vietnam have increased from 28 to 196, with contract amount from \$US 41.73 million to \$US 405 million from 1990 to 2002. Statistics showed at the end of 2001 our national enterprises invested 283 projects in total in Myanmar, Cambodia, Laos, Thailand and Vietnam, with a total investment amount of \$US 447 million.

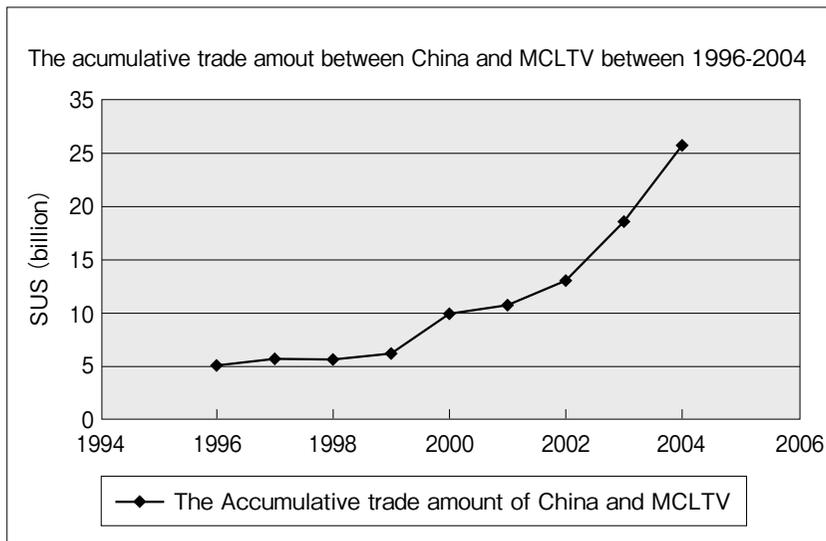


Figure 4.2 the accumulative trade amount of China with MCLTV (1996-2004)

#### 4.4 Agricultural cooperation

GMS has advantageous conditions on developing agriculture. Thailand and Vietnam are the most important rice exporters in the world. There are about 70% cultivable lands in Laos, Cambodia and Myanmar, which wait to be developed. Yunnan Province of China is an agricultural province. In spite of its low cultivable lands, Yunnan province's agricultural technologies, especially research on good variety of paddy, farmland irrigation construction, have comparative advantage over other GMS countries. In November 2002, China and ASEAN signed on *Memorandum of Understanding of Agricultural Cooperation*, which indicated that agricultural cooperation between the governments has entered into a steady and systematical development stage. According to another agreement called *Country's Report on China's Participation*

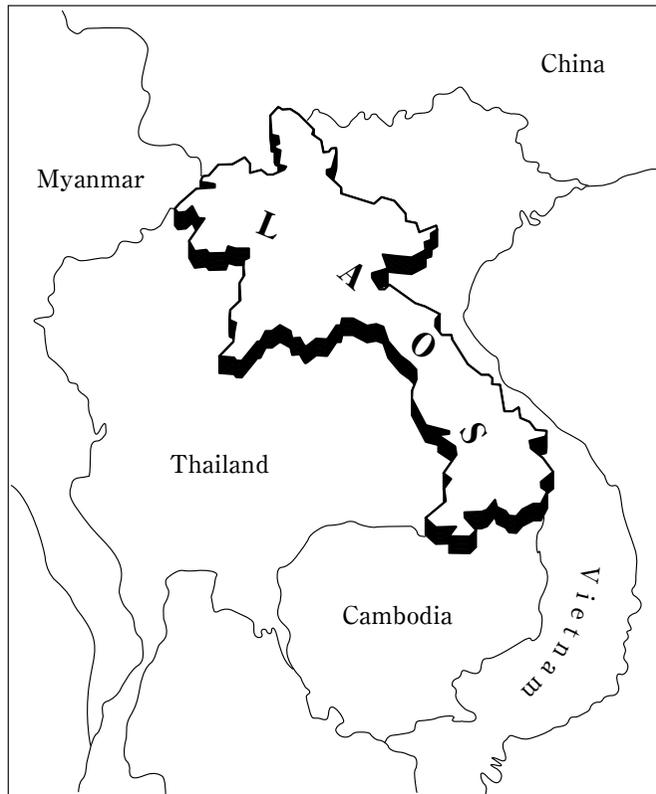
*in GMS Cooperation*, China will develop the investigating research on agricultural producing condition, development status, product characteristics; standardize farm produce trade activity; continuously enhance the technologic cooperation with GMS countries on growth, cultivation and farm produce process and so on; actively negotiate about building epidemic disease monitoring, preventing and curing system; take advantage of applied production technology and equipment to provide training, technology service; continuously promote to substitute drug planting for agricultural industry with wide market prospect.

Besides the above success in the cooperation areas, China also closely cooperates with its neighbour countries on the aspects of tourism, ecological environment, human resource development and anti-drug campaigns to actively promote GMS economic cooperation.

## **5 Conclusion**

With the coordination and promotion of ADB and other international organizations, Lancang-Mekong subregional cooperation has equipped with certain foundation at present. Substantial progress in infrastructure construction cooperation led by transport, energy, trade and investment, agriculture has been made with active participation of GMS countries. China regards GMS cooperation as a unique and effective way of promoting CAFTA construction; hence GMS cooperation is highly regarded.

The GMS cooperation helps to increase the whole economic development level in ASEAN as well as promote ASEAN and regional cooperative development. As a leading demonstration region, GMS cooperation will be a key carrier of the establishment of CAFTA. According to the decision made on the 13<sup>th</sup> Ministerial Conference of GMS ending on Dec.6, 2004, GMS still has a wide cooperation and development prospect in various areas, such as infrastructure construction, social and legal framework, information and communication technology and electricity trade etc. Each correlative country and organization including small middle size enterprises should catch opportunity, make use of advantages, get rid of disadvantages, and actively participate to keep on pushing the GMS cooperation in depth.



The Great Mekong Sub-region

Source: [www.Laoembassy.com/news/download/mekong.html](http://www.Laoembassy.com/news/download/mekong.html)

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