China's Reach: Subregional Economic Cooperation in Southeast Asia

BY KESA RIN PHANARANGSAN

In November 2001, Chinese Premier Zhu Rongji addressed the Fifth Leaders’ Meeting between the Association of Southeast Asian Nations (ASEAN) and China, Japan, and the Republic of Korea in Bandar Seri Begawan, Brunei. Vowing to promote greater regional economic integration and common development in the East Asian region, Rongji cited an old Chinese saying: “A close neighbor means more than a distant relative.” Greater regional economic integration both strengthens China’s position in the region and helps allay concerns over the impact of China’s economic growth on neighboring states.

Although much attention has been paid to regional initiatives between China and ASEAN such as the ASEAN-China Free Trade Area (ACFTA) and ASEAN Plus Three (APT), the Chinese government is also making significant efforts to lay a cooperative framework at the subregional level. These arrangements are as dynamic and important as the broader cooperative framework and also function as the building blocks of regional cooperation. This article examines economic cooperation between the southwestern Chinese province of Yunnan and the five mainland Southeast Asian nations.

Specifically, this essay will analyze China’s Western Development Strategy, Xibu Da Kaifa, a top-down effort to address the economic disparity between the prosperous coastal regions and the poorer western region, and will focus on the important role it plays in the promotion of this subregional scheme. The Western Development Strategy serves as a potential channel for China to advance economic integration with mainland Southeast Asia, a subregion close to China, both in geography and in long-standing social and cultural exchange. Subregional cooperation also enhances China’s domestic economy.

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in Yunnan while generating goodwill among the five Southeast Asian nations. Moreover, this small-scale initiative offers immediate benefits for the participating nations and provides a first step to broader cooperation in the region.

**Three Levers of Subregional Cooperation**

Against the backdrop of ACFTA, China and the five ASEAN nations have encouraged subregional economic cooperation inspired by three considerations: the political and economic factors within China; the interests of the ASEAN nations; and the geographical, social, and cultural conditions within and among those countries.

China’s Western Development Strategy and recent ascension to World Trade Organization (WTO) membership have served as catalysts for cooperation with its ASEAN neighbors. Since its accession to the WTO in 2001, China’s economic rise has been closely followed by other nations. China competes with its ASEAN neighbors for export growth and foreign direct investment (FDI), but here cooperation serves China and the five ASEAN nations. China can mitigate its five neighboring nations’ concerns over the impact of its economic growth and, at the same time, foster closer economic ties with each of them. Meanwhile, ASEAN nations reap economic benefits from China’s economic expansion and are able to offset losses from China’s exports with gains from access to the enormous Chinese market.

China has thus sought to promote political and economic relations with the neighboring ASEAN nations since 1999 via the Western Development Strategy. The formally titled Circular of the State Council Concerning Several Policies on Carrying Out the Development of China’s Vast Western Regions sets forth several key tasks to accomplish: speeding up the construction of infrastructure facilities; improving the protection and development of the environment; consolidating the basic status of agriculture; adjusting the structure of industry and developing tourism; and developing undertakings in science, technology, education, culture, and sanitation. These goals are to be realized primarily through flexible investment and free trade policies, massive infrastructure development, ecological construction, and environmental protection.

The strategically situated province of Yunnan has been a target for investment and economic development. Its close economic relations with the five neighboring ASEAN nations offer a favorable environment for the expansion of trade and investments within the province. Such trade and investment
will pave the way for the success of China’s Western Development Program by demonstrating that the regional development gaps within China have gradually declined.\textsuperscript{7}

China is concerned not only with economic issues but also with geopolitical and security issues. Since Southeast Asian nations are considered the key “swing” states in the East Asian region, and the ASEAN nations have long allied themselves with the United States, China inevitably has strategic interests there.\textsuperscript{8} If China wants to balance U.S. influence in East Asia, it must work to assuage its neighbors’ concerns about its own rise. Accordingly, China now presents itself as a friendly and responsible neighbor that will contribute to peace and prosperity in the region.

The Asian Financial Crisis of 1997 served as a wakeup call for East Asia, revealing the need for regional collaboration to contain economic contagions.\textsuperscript{9} The resulting dynamic of East Asian regionalism has had a positive effect on promoting more substantial economic relationships. For example, the Greater Mekong Subregional Development initiative was revived and placed on the cooperative agenda.\textsuperscript{10}

The economic development goals of the five ASEAN nations further stimulate an atmosphere favorable to the border cooperative arrangement with China. In the post-crisis era, Thailand—where the crisis began—has enjoyed strong economic growth and has vociferously supported subregional cooperation between China and ASEAN countries. Vietnam’s economy is also growing, which encourages border trade with China—especially in Honghe, Yunnan province, near Vietnam’s border.\textsuperscript{11} Meanwhile, the governments of Cambodia, Laos, and Myanmar are also pursuing ambitious national economic development goals. An influx of capital and technology into these three less-developed nations should promote continued economic development.\textsuperscript{12} China has simultaneously actively supported ASEAN’s efforts to narrow the development gap within these three less-developed nations through subregional frameworks such as the Greater Mekong Subregion (GMS) Program for Subregional Cooperation, the ASEAN Mekong Basin Development Cooperation (AMBDBC), and the ASEAN Mekong River Commission (MRC).\textsuperscript{13} The ASEAN nations recognize the need to cooperate with China as its economic power grows. Indeed, China’s rise has motivated the establishment and promotion of ASEAN cooperative arrangements, including APT, ACFTA, and several other frameworks.\textsuperscript{14}

Geographic proximity between Yunnan and its Southeast Asian neighbors plays an important role in its strategy for economic development. Yunnan
borders Myanmar, Laos, and Vietnam, and is near Thailand and Cambodia, enabling the peripheral province to serve as China’s gateway to Southeast Asia and positioning it to emerge as an important leader of subregional economic integration.\textsuperscript{15} Transportation and communication costs are lower between economies in the same geographic region.\textsuperscript{16} Moreover, the benefits of the extensive transportation networks across borders can boost the economic development of the participating countries, especially in such landlocked areas as Yunnan province and Laos. The extensive transportation networks that exist along the border and the establishment of the sister city networks of Thailand’s Chiang Rai and Chiang Mai, Myanmar’s Kengtung, China’s Jinghong, and Laos’ Xieng Thong further exemplify this phenomenon.\textsuperscript{17}

As a result of this propinquity, these nations have already co-developed natural resources, a precedent that can provide further impetus to current intergovernmental collaboration. In the Mekong River, the development potential is abundant in some areas, such as hydropower, irrigation, transportation, tourism, and development of water resources. Cooperative development potential has been studied and some projects have already been initiated. For example, a survey team from the four countries of the Quadrangle of Economic Cooperation Plan—China, Laos, Myanmar, and Thailand—conducted a joint investigation of waterway transportation along the Upper Mekong River in 1993.\textsuperscript{18}

The sociocultural proximity among the six nations likewise facilitates deeper economic cooperation. Similar linguistic and cultural backgrounds, which often prevail between geographically proximate areas, promote and enhance business relationships.\textsuperscript{19} In border towns of the GMS, where a number of citizens are of Chinese descent, various dialects of Chinese are regularly spoken. Ethnic Chinese businesspeople, in particular, play an active role in economic transactions in the region. They use ethnic ties and personal connections, or guanxi, for the benefit of their business transactions. For example, Chinese businesspeople in Chiang Rai, a province in northern Thailand, were instrumental in the initiation of the Quadrangle of the Economic Cooperation Plan, the precursor to both the Greater Mekong Subregional Development and the economic cooperation now underway.\textsuperscript{20} Sino-Thai businesspeople had personal connections with Yunnan authorities, and the two jointly conducted the initial surveys of the waterways in the Mekong for transportation development that paved the way for the Quadrangle of the

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Economic Cooperation Plan. Today, ethnic Chinese businesspeople account for a large share of the economic activities and investments across borders between southern China and mainland Southeast Asian countries.

**Booming Borders**

Economic cooperation between Yunnan and the five ASEAN nations complements the broader cooperative scheme of ACFTA. Tremendous potential exists for deeper economic integration through trade, investment, and tourism. In the first half of 2004, Yunnan’s border trade reached $2.5 billion, an increase of 25.4 percent over the same period the previous year. Since China and Vietnam normalized relations in the early 1990s, border trade between the two nations has increased rapidly in the Chinese prefectures of Honghe and Wenshan. Yunnan’s general border trade has been concentrated in the cities of Baoshan, Dehong, Honghe, and Xishuangbanna. In 2000, they accounted for approximately 90 percent of total border trade in the province. Particularly in the Dehong autonomous prefecture, many small border towns such as Ruili, Wanding, and Mangshi have developed rapidly. Consequently, dynamic trade has stimulated economic development in the border areas in Yunnan, Cambodia, Laos, Myanmar, Thailand, and Vietnam. The November 2002 Framework Agreement on Comprehensive Economic Cooperation between ASEAN and China, with the objective of establishing ACFTA, facilitates the border trade among the six participating countries. These countries benefit from liberalization programs operating under the nascent ACTFA framework, including the Early Harvest program, a preliminary step for implementing the agreement. Early Harvest liberalized the trade of some 600 agricultural products in early 2004, while most of the remaining agricultural products were liberalized in 2005.

In addition, under the agreement, China consented to accord World Trade Organization Normal Trade Relations treatment to non-WTO ASEAN states Laos and Vietnam upon their ascension to the Framework Agreement.

To promote trade in Yunnan, the Chinese government has implemented several policies preferential to border trade that ease limits on import and export commodity quotas, license administration, and personnel entry and exit across borders. The Chinese government has also reduced by half an import value-added tax on goods imported through border trade. Domestically

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funded enterprises registered in Yunnan may also enjoy preferences when applying for qualifications to engage in the import and export business.\textsuperscript{28} Moreover, to make progress on the trial implementation of tax refunds, the Department of Public Finance and the Bureau of State Taxation of Yunnan Province adjusted the rate of refundable taxes from the present 70 percent to 100 percent in Renminbi, via banking transfer in Yunnan, for export of goods under small-scale border trade.\textsuperscript{29} These and other Chinese policies provide incentives that can encourage the private sectors of the ASEAN nations to increase cross-border trade.

In addition to granting investors tax holidays, the Yunnan provincial government has implemented a system of further financial incentives to attract FDI, thereby providing added economic impetus. Foreigners and citizens, legal professionals, and organizations that solicit foreign investments in Yunnan will receive a monetary award if there is a return on the initial investment. The provincial or prefectural department of public finance of Yunnan funds these awards, also known as agency fees.\textsuperscript{30} In a move designed to prompt local initiatives, the Chinese central government recently raised the provincial-level special economic zone of Kumming, the capital of Yunnan, to national-level status, allowing Kumming to offer more generous incentives to investors.\textsuperscript{31}

Moreover, under the Framework Agreement between ASEAN and China, negotiations for the liberalization of the services and investment sectors began in 2003. These negotiations helped promote these countries’ already booming tourism and service industries, such as hotel and restaurant businesses, health services, educational services, and real estate. The governments have also promoted tourism among the six nations. For instance, the Yunnan government has simplified visa and customs procedures to promote easier border crossing.\textsuperscript{32}

The construction and development of transportation networks are also critical to the improvement of the overall trade, investment, and tourism environment in the six countries. As such, ASEAN and China signed a Memorandum of Understanding (MOU) on Transport Cooperation on the sidelines of the ASEAN-China Summit in November 2004 in Vientiane. The MOU was aimed at strengthening ASEAN-China cooperation on transport development in a more holistic and integrated manner, laying a solid medium-to-long-term foundation for ACFTA. This transportation infrastructure, which links all six nations, promotes trade, accelerates cross-border logistics services, and facilitates the transmission of electricity and gas pipelines.\textsuperscript{33}
The development of transportation infrastructure is a top priority in the Greater Mekong Subregion and is being pushed forward by the momentum of the GMS development program. According to the Plan of Action to implement the Joint Declaration on ASEAN-China Strategic Partnership for Peace and Prosperity, signed at the Seventh ASEAN-China Summit on October 8, 2003 in Bali, Indonesia, several projects were proposed to strengthen GMS cooperation. As a result, successful transportation cooperation has occurred along the Kumming-Bangkok Highway and the Lancang-Mekong River subregion. The Lancang-Mekong River subregional project, for example, has been in operation for ten years and has resulted in the development of open border cities and ports among China, Vietnam, Laos, and Myanmar.

**Prospects and Challenges**

This subregional cooperative scheme contains three features that suggest the deepening of economic relations among the six participating nations. First, border economic cooperation operates as an extension of ACFTA, complementing rather than conflicting with the broader existing frameworks. The principles and regulations that guide border economic cooperation are mutually reinforcing with those of ACFTA. Such cooperation is built on what is already present and planned, and follows WTO principles; this situation indicates that ASEAN-China’s subregional and regional arrangements can serve as building blocks within the framework of the multilateral trading system as set forth in the Framework Agreement on Comprehensive Economic Co-operation between ASEAN and China.

Second, border economic cooperation also offers immediate benefits and acts as an experimental ground for ACFTA, because it is smaller in size and scope and hence more easily implemented. This smaller, subregional economic cooperation has an advantage over broader cooperation since, as Kenneth A. Oye notes, “the prospects for cooperation diminish as the number of players increases.” Furthermore, the national governments can learn from the relatively small-scale cooperation and adapt it to achieve goals specific to the region. Because the subregional cooperation typically imposes fewer adjustment costs, it is especially helpful for the less-developed economies of Cambodia, Laos, and Myanmar which may not have the institutions to offer credible large-scale agreements immediately. Their participation in economic cooperation along the border can serve as a stepping stone for the participation in broader arrangements such as ACFTA and the APT.
Finally, the private sector and other nonstate actors have become more active in spurring the development of border economic collaboration. The private sector has participated in several communication and transportation infrastructure projects, and has also invested substantially across borders in other industries such as real estate, tourism, services, and energy.\textsuperscript{40} Border economic cooperation also involves ethnic minority groups such as the Tai, who inhabit the area between Yunnan and mainland Southeast Asia. The Yunnan government has worked to tap into the affinity that exists between groups by promulgating specific policies to encourage ethnic minorities and border residents to engage in trading and business. A good example of the Yunnan government’s success is its policy toward the Dehong Tai minority. The provincial government encouraged the Dehong Tai to play an active role in the local economy by following the policy “straddle over border and ethnic boundary.”\textsuperscript{41} Consequently, towns along the border have emerged to cater to the needs of the growing markets, and border trade now comprises more than 50 percent of the revenue of Dehong county.\textsuperscript{42}

In spite of the bright future for this cooperative program, some challenges will require special attention from China and these ASEAN states if its full benefits are to be realized. Border relations not only carry economic implications, but also impact politics and security. Although ethnic minorities can promote economic development, they can also become economic liabilities. They are often vulnerable to exploitation and divisive politicization. Their extensive trading networks, cross-border contacts, and their national loyalty might appear ambiguous and invite the various governments’ suspicions. Those living and traveling along borders that do not have citizenship are an even more serious concern, since the governments cannot thoroughly supervise them and are likely to associate them with illegal transactions. Governments also have difficulty deciding which nation should take responsibility for them.

Despite the economic advantages of geographic proximity, borders are politically sensitive areas that can be open to the flow of undesirable and unintended influences. This unfortunate reality is especially true among these nations, the borders of which are porous and difficult to control. Many of the resulting problems, such as the illegal immigration of workers and prostitutes and the smuggling of goods, drugs, and wildlife, require intergovernmental action. These informal transactions—the “black economy”—account for a large portion of the total productive activities in this subregion. In 1993, the value of rice exports from Thailand was around $1.32 billion, while the value of heroin exported from Myanmar was around $33 billion.\textsuperscript{43} In 1996, the value of the black economy was estimated to be at least as high a proportion of the
formal economy in Laos, North Vietnam, and southern China. Borders are also used as a passing point for fugitives and transnational criminals. These political and security issues pose serious problems not only for the security in each of the six nations, but also for the prospects of economic cooperation in the subregions.

The collective action problem in subregional cooperation results not only from a lack of will, but also from the governments’ inability to address these issues. In the Burmese military government’s State Peace and Development Council (SPDC), some military leaders and ruling elites are themselves believed to be involved in the trafficking of narcotics and other illegal goods. Because informal trading activities are embedded in the Burmese economy and serve as a secret income source for government officials, the government lacks an incentive to renounce their informal business interests, and may therefore fail to promote the legitimate economic sector. Moreover, financial constraints remain a major challenge for some less-developed economies such as Cambodia, Laos, and Myanmar. Indeed, the transportation and infrastructure development in the GMS can be very costly. Historically, China has contributed large sums of money to finance the transportation and infrastructure projects, but the financing requirements in some projects far exceed the capacity of either the public or private sources alone. Therefore, greater collaboration and partnerships among governments as well as private enterprises will need to occur.

Even though prospects for cooperation in the subregion remain promising, intergovernmental tension along this long border should be expected. If the political climate in the subregion is friendly, economic transactions will increase; but when political relations are frayed, the border region will become economically unstable. For example, Myanmar occasionally closes its border, prohibiting all cross-border trading and business activities in response to its disputes with neighboring countries.

An Integrated Future

East Asian economic cooperation does not occur only on a regional scale. Against the larger backdrop of ongoing regional economic integration in East Asia, subregional cooperation between Yunnan and the five mainland Southeast Asian nations has emerged. The two levels of economic cooperation, subregional and regional, are progressing in a simultaneous and symbiotic manner. The various subregional cooperative schemes complement and accelerate regional economic integration and need not be a zero-sum proposition for the participating nations. Moreover, they
help China realize the goals of its Western Development Strategy in Yunnan and stimulate economic growth in the five Southeast Asian countries.

This border economic cooperation is neither unrealistic nor difficult since it builds upon such existing cooperative arrangements as ACFTA, GMS, and AMBDC. However, the political and security problems remain a significant challenge to successful implementation. Although border cooperation is primarily intended to promote economic growth, it inevitably carries political implications for each nation involved. Despite favorable conditions, the six participating countries will not appreciate the full benefits of subregional cooperation unless they effectively manage the resulting challenges of collective action. In the end, given a careful consideration of all of the dimensions of increased economic integration, China and Southeast Asian nations can successfully implement border economic cooperation as a part of a broader framework.

NOTES


2 Mainland Southeast Asia includes Cambodia, Laos, Myanmar, Thailand, and Vietnam.


4 See Rodolfo C. Severino, Jr., “ASEAN and China: Partners in Competition,” ASEAN Faces the Future: Collection of Speeches of Rodolfo C. Severino, Jr., Secretary-General of the Association of Southeast Asian Nations (Jakarta: The ASEAN Secretariat, 2001), 212-217.


7 Markus Taube and Mehmet Ögütçü, “Main Issues on Foreign Investment in China’s Regional Development: Prospects and Policy Challenges.”


20 The Quadrangle of Economic Cooperation was the initiative among Yunnan, Laos, Myanmar, and Thailand to develop cross-border economic infrastructure. It was officially approved in 1991 but was progressing slowly. This initiative was revived and transformed into the current Greater Mekong Subregion.


28 The qualifications are applied to two types of enterprises. One is an enterprise that engages in foreign trade circulation. The other is a production enterprise that engages in self-support import and export business. See PRCLEG 3507: “Notice of the Ministry of Commerce on Adjusting the Standards and Approval Procedures for the Qualifications to Engage in the Import and Export Business,” 30 July 2003 in Chinalawinfo Laws & Regulations, available in Lexis-Nexis Library.


34 Rodolfo C. Severino, Jr., “Developing the Greater Mekong Subregion.”

35 For more information, see “Mekong River Basin Development Cooperation” in Plan of Action to Implement the


41 Kuah Khun Eng, “Negotiating Central, Provincial, and County Policies,” 94.


