

Chapter 6

China's Trade and Economic Relations with CLMV

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Chapter 6

CHINA'S TRADE AND ECONOMIC RELATIONS WITH CLMV

Hao Hongmei

ABSTRACT

This chapter aims to analyze China's trade and economic relations with Cambodia, Laos, Myanmar, and Vietnam (CLMV) and gives an objective evaluation of China's policy (existing and future) on regional economic cooperation, in particular, on China's impacts on CLMV's development. The paper also tries to provide an answer--or at least way of thinking--to the question: How will CLMV share in China's high-gear economic growth and follow up the regional economic integration?

1. CHINA'S TRADE AND ECONOMIC RELATIONS WITH CLMV

1.1 Bilateral trade

1.1.1 Status quo of trade performance in recent years

Cambodia, Laos, Myanmar, and Vietnam (CLMV) are China's neighbors in the southwest, all of which have good relations with China. Bilateral trade between China and CLMV has been growing rapidly in recent years, where China has an overall trade surplus with the four countries, although it suffers deficits with the ASEAN as a whole.

In 2006, the China-CLMV trade was US\$12.4 billion, which increased 584.8 percent from that of 1995. China-Cambodia trade increased 1,178.9 percent from US\$57.3 million in 1995 to US\$732.8 million in 2006. China-Vietnam trade in 2006 shared 78.3 percent of total China-CLMV trade and increased by 973.8 percent from US\$927.0 million in 1995 to US\$9,954.2 million in 2006. China-Laos trade increased 302.0 percent from US\$54.3 million in 1995 to US\$218.3 million in 2006.

China-Myanmar trade rose 90.3 percent from US\$767.3 million in 1995 to US\$1,459.9 million in 2006.

China had a surplus in its trade with CLMV. The surplus in 1995 was US\$818.4 million, which accounted for 45.3 percent of the total trade between China and CLMV. The surplus in 2006 was US\$6,718.7 million, accounting for 54.3 percent of the total China-CLMV trade in the year.

Table 1: China's Trade with CLMV (1995-2006)

(US\$ million)

	China-CLMV Trade	Change (%)	Export to CLMV	Import from CLMV	Balance
1995	1805.8	-	1312.1	493.7	818.4
Cambodia	57.3	-	51.6	5.7	45.9
Laos	54.3	-	47.8	6.5	41.3
Myanmar	767.3	-	617.8	149.5	468.3
Vietnam	927.0	-	594.9	332.1	262.8
2006	12365.3	584.8	9542.0	2823.3	6718.7
Cambodia	732.8	1178.9	697.7	35.1	662.6
Laos	218.3	302.0	168.7	49.6	119.1
Myanmar	1459.9	90.3	1207.2	252.7	954.5
Vietnam	9954.2	973.8	7468.3	2485.9	5162.4

Source: China Customs.

China's exports to CLMV are mainly machinery, iron and steel, and textiles. In 2006, China's export of textiles, footwear, and textile materials to Cambodia were valued at US\$454.7 million, accounting for 65.2 percent of China's total export to the country. Machinery and vehicles are China's major exports to Vietnam, Myanmar, and Laos. In 1995, China's export value of these products to Vietnam was US\$196.6 million, which was 27.3 percent of the total export in the year. In 2006, China's machinery and vehicles exports to Vietnam increased to US\$1,859.2 million, 9.4 times that in 1995, whereas the share fell to 24.9 percent in 2006. Currently, China's agricultural machinery

(walking tractor, diesel engine) accounts for over 90 percent in Myanmar's market.

Table 2: Composition of China's Exports to CLMV, 2006
(US\$ million)

HS	Description	Value	Share %
	Vietnam	7468.3	10.5
72	Iron And Steel	1346.7	18
84	Machinery	959.0	12.8
27	Mineral Fuel, Oil, Etc	791.2	10.6
	Myanmar	1207.2	1.7
84	Machinery	156.6	13
72	Iron And Steel	115.3	9.6
27	Mineral Fuel, Oil, Etc	113.9	9.4
	Cambodia	697.7	1
60	Knit,Crocheted Fabrics	207.6	29.8
52	Cotton+Yarn,Fabric	115.1	16.5
84	Machinery	53.2	7.6
	Laos	168.7	0.2
87	Vehicles, Not Railway	39.3	23.3
85	Electrical Machinery	34.7	20.6
88	Aircraft, Spacecraft	30.8	18.3

Source: China Customs.

On the other hand, China's imports from CLMV are mainly raw materials. Minerals fuels are China's major imports from Vietnam; however, its share in China's total imports from the country declined in recent years---from 69.7 percent in 2004 to 65.2 percent in 2005 and 42.7 percent in 2006. Meanwhile, China's imports of rubber from Vietnam grew markedly; such product's share in total imports grew from 6.6 percent in 2005 to 13.3 percent in 2006. Bilateral trade between China and Vietnam is targeted to reach US\$15 billion in 2010. In the coming years, China's imports of coffee and rubber from Vietnam will increase by a big margin. In 2006, its import demands for Vietnam's coffee, tea, and rubber was US\$100 million, US\$50 million and US\$2.8 billion, respectively. In comparison, the actual imports of the three products from Vietnam were only US\$13 million, US\$7 million and US\$773 million, respectively.

Here, one sees a fairly large gap between demand and actual import. Finally, wood enjoys absolute predominance in China's imports from Myanmar, Laos, and Cambodia.

Table 3: Composition of China's Imports from CLMV, 2006
(US\$ million)

HS	Description	Value	Share %
	Vietnam	2485.9	2.8
27	Mineral Fuel, Oil Etc	1061.9	42.7
40	Rubber	331.6	13.3
26	Ores, Slag, Ash	179.3	7.2
	Myanmar	252.7	0.3
44	Wood	152.2	60.3
40	Rubber	21.4	8.5
26	Ores, Slag, Ash	16.7	6.6
	Laos	49.6	0.1
44	Wood	23.3	46.9
40	Rubber	12.1	24.4
74	Copper+Articles Thereof	4.2	8.4
	Cambodia	35.1	0
44	Wood	12.1	34.4
40	Rubber	8.7	24.8
52	Cotton+Yarn, Fabric	6.8	19.3

Source: China Customs.

Rubber is another of China's major imports from CLMV. China's demands for this product will continue to rise due to its rapid industrial expansion. China recorded an annual growth rate of 22.4 percent from 2000-2005 in its automobile production. Therefore, the CLMV should take advantage of their proximity to China and expand their rubber exports to the nation. The surging rubber price in international market will, to some extent, help to reduce the trade deficits with China.

1.1.2 Analysis of CLMV's trade dependence on Chinese market

Although CLMV's trade with China remains small in absolute value, its import dependence on the Chinese market is relatively high. Myanmar depends heavily on trade with China while Vietnam's dependence is to a lesser extent because of the latter's

better-developed trade relations with the rest of Asia and the industrialized countries. If cross-border informal trade is included, the figure would be even larger.

Table 4: CLMV's Trade Dependence on China, 2006

(US\$ million)

	Exports			Imports		
	Value	To China	Share %	Value	From China	Share %
Cambodia	2602.4	35.1	1.4	2174.0	697.7	32.1
Laos.	254.7	49.6	19.5	423.6	168.7	39.8
Myanmar	3514.8	252.7	7.2	2115.5	1207.2	57.1
Vietnam	39605.0	2485.9	6.3	44410.0	7468.3	16.8

Source: China Customs, <http://www.aseansec.org/stat/Table17.xls>

Table 5: Comparison of CLMV's Import Dependence on China, 2001-2006

	2001	2002	2003	2004	2005	2006
Cambodia	13.5	12.7	17.2	14.3	18.9	32.1
Laos.	10.2	12.6	18.8	19.9	22.6	39.8
Myanmar	21	31.2	34.9	42.3	53.7	57.1
Vietnam	11.6	11.3	12.8	13.7	15.5	16.8

Source: China Customs, Aseansec (2006), WTO (2001-2005)

Data show that CLMV's dependence on the Chinese market is increasing. China's dependence on CLMV's raw materials will also increase in the future, but since China is a big country, it has other sources of imports. Due to China's industrial structure and huge domestic market, CLMV is more fragile in terms of trade.

There is, however, potential for more Chinese exports to CLMV in the future. This is because of the following:

- Favorable political climate between China and CLMV
- China's low-wage and competitive manufacturing sectors
- Geo-advantage, in particular, China's southwest region
- Lower tariffs
- Regional and sub-regional trade and investment facilitation in which China and

CLMV are members of.

On the whole, China has a relatively complete industrial structure, and can make most commodities by itself and of better quality than those of CLMV. There are at least two challenges facing China-CLMV trade relations in the future. One is how, how fast, and how much more the Chinese market can take of CLMV's products. The answer to this will partly determine the soundness of the China-CLMV trade relations. There is little room for import tariff reduction since most products already enjoy zero tariff. However, to become a big power in the world economic system, China has to show its ability in taking in CLMV's products and letting them feel the real interests in strengthening the trade cooperation. The Chinese government has noticed the problem of increasing trade surplus with CLMV amid the rapid development of bilateral trade, and it is possible measures will be taken to reduce the trade imbalance.

The second challenge is how to solve the problem of a similar industrial structure among these nations. According to the report issued by the US International Trade Commission, the competitiveness of Vietnam's textiles is second only to China, and its target markets are also the United States, European Union, and Japan. Meanwhile, Vietnam also enjoys a lower cost of labor. Therefore, trade disputes in the future are likely to occur. China is now stepping up its efforts to move from an export-oriented and extensive growth strategy in its foreign trade, but instant results will not be abruptly produced. Labor-intensive products will still be the mainstay for China's exports over a longer period of time. With this awareness, China will try to avoid the areas where they compete with CLMV's local companies and choose to trade more in areas that are mutually complementary such as raw materials.

1.1.3 China's foreign trade policy during 2006-2010 and possible impacts on CLMV

China's 11th Five-year Plan (2006-2010) will bring its economy into a new phase of steady growth. China's annual GDP growth is estimated at above 8 percent, while the

total retail sales of consumer goods and production factors will reach around US\$4.8 trillion by 2010.

During the 11th Five-year Plan Period, China's merchandise imports and exports will reach US\$2,500 billion to US\$2,700 billion in value terms. With a growth of around 15 percent, a roughly balanced trade position will be achieved.

Starting 2006, the Chinese government has made drastic adjustments and changes in its trade policy. The general trend is to transit progressively to a neutralized policy framework. Its major policy measures include the following:

- The RMB exchange rate is no longer pegged to the American dollar. China has adopted a managed floating exchange rate regime based on supply and demand;
- Imposition of export duty on high-energy consuming, environmental-harmful and resource-intensive products;
- A lowering of the export rebate rate for high-energy consuming, environmental-harmful and resource-intensive products and some labor-intensive products with lower value added;
- Policy adjustments in processing trade, which prohibited or restrained market access to high-energy consuming, environmental-harmful and resource-intensive products and some products with lower value added;
- Unified income tax of domestic enterprises and enterprises with foreign investment;
- Relaxed restrictions on foreign exchange and eliminated forced exchange settlement system;
- Adjusted import policy, cut-down or eliminated import license or quotas;
- Reduced or exempted import tariff and value-added tax on high-tech products and some resource products, raw materials and spare parts.

As China's economic size expands, the import demand will also increase. China's import would possibly come up to US\$1.2 trillion by 2010. The Chinese economy offers

abundant business opportunities in its more open market, and this would spur imports of natural resources and intermediate products from CLMV.

1.2 China's outward investment to CLMV

1.2.1 Still in its beginning stage

Mutual investment between China and CLMV is still difficult to achieve mainly due to the latter's weak economic standing. Chinese companies invest in CLMV mainly for three purposes: to ensure a steady and long-term supply of raw materials, to avail of local market potentials, and to keep an eye on the western markets.

By the end of 2006, China made an investment of US\$246 million in Vietnam. The 434 (excluding HK) Chinese-invested projects range from heavy industry, light industry, construction, hotel, transport, to catering and tourism. In November 2006, during Chinese President Hu Jintao's visit to Vietnam, the China Southern Power Grid Corporation signed an agreement to invest via a build-operate-transfer (BOT) scheme in the first phase of the coal-burning thermal power plant project in Binh Thuan in the south of Vietnam. The investment totaled US\$900 million and is the largest joint venture project of Vietnam. Along with the accelerated process of Two Corridors and One Ring, Vietnam will become a heavyweight choice for China's outward investment.

By the end-September 2006, China's investment stock to Laos totaled US\$55.86 million, mainly in the field of service trade, manufacturing, and resource development.

China is the top investor in Cambodia. China's investment in Cambodia concentrates on forest development, timber processing, power, textile, building material, contract engineering, and farm production. In the recent 10 years, 107 Chinese enterprises set up business in Cambodia. Although 28 countries, including the United States and the European Union, have granted a generalized system of preferences to Cambodia, only 20 percent of their enterprises can actually make profit.

On November 29, 2006, China reached an agreement with Cambodia over the Trade and Economic Cooperation Zone in Sihanoukville. The zone covers 2.4 square

kilometers and will be jointly established by the China Jiangsu Province and two Cambodian companies.

By the end of 2006, China had 27 investment projects in Myanmar with a total contract value of US\$475 million, making China occupy the sixth rank in foreign direct investment (FDI) inflows to Myanmar. In November 2006, during Prime Minister General Soe Win's visit to China, both sides agreed to strengthen their cooperation in power grid and hydropower station.

China's FDI in CLMV is underestimated because of some unregistered FDI flows, so it is difficult to create an accurate picture. On the whole, Chinese investment has achieved better results. For example, in Vietnam, TCL Group has set up a TV factory that aims to produce 500,000 TV sets annually while Lifan Motor has established an assembling factory for products that are already widely known in local markets.

Table 6: China's Investment to CLMV, 2003-2006 (US\$10,000)

	2003	2004	2005	2006	Stock by end-2006
Total	285465	549799	1226117	1763397	61648
Cambodia	2195	2952	515	981	10366
Laos	80	356	2058	4804	9607
Myanmar	-	409	1154	1264	16312
Vietnam	1275	1685	2077	4352	25363

Source: China Commerce Yearbook (2007)

Table 7: FDI Inflows to CLMV, 2006 (US\$ million).

Country	2006			
	Intra-ASEAN	Extra-ASEAN	Total net inflow	Year-on-year change in FDI net inflow
Cambodia	155.5	327.7	483.2	26.8
Laos	10.6	176.8	187.4	575.8
Myanmar	27.8	115.2	143.0	39.4
Viet Nam	181.9	2,178.1	2,360.0	16.8

Source: <http://aseansec.org/stat/>

Table 8: China's Contract Engineering and Labor Service in CLMV, 2006
(US\$10,000)

	Contract value	Business turnover
Total	7164800	3569497
Cambodia	31470	11381
Laos	36380	15207
Myanmar	30935	28158
Vietnam	269520	59275

Source: China Commerce Yearbook (2007)

1.2.2 Barriers and potentials

The CLMV countries have started to open their economies to the outside world and introduced liberal and attractive foreign investment laws since the late 1980s, but FDI inflows are slow to come due to a lack of infrastructure and an inefficient bureaucracy.

Although the rate of growth appears very impressive, China's investment to CLMV is still made up of small-scale enterprises. That is:

- Most Chinese enterprises that invested in CLMV are small in size and weak in market development. Mainly medium and small companies, they do not have huge funds to operate effectively.
- Although there exists rich natural and human resources, the four countries are in the primary stage of industrialization, the climate for investment and development, including market scale, is limited, and infrastructure is inadequate (i.e., poor roads, power, telecom, and water supply). These can raise the cost of the project. According to the *Handbook of Country Risk* issued by the China Export and Credit Insurance Corporation in 2005, indicators show that Vietnam, Laos, and Myanmar still pose a higher country risk for investors.
- China also lacks in-depth research and rich information of development in CLMV markets.

“Going global” is a major national strategy of the Chinese government. In fact, China's nonfinancial outward investment totaled US\$17.6 billion in 2006, a year-on-year increase of 43.8 percent. In the Chinese central government's blueprint, China's overseas investment will hit US\$60 billion within the 11th five-year plan period.

China already stands as the world's fourth largest economy and has a sizable foreign exchange reserve. Its urban and rural residents' savings is over RMB 1.4 trillion. Meanwhile, statistics from the Ministry of Commerce of the People's Republic of China (MOFCOM) shows that of the 600 major domestic commodities, 446 have supply exceeding demand. Excessive production exists in hardware, textiles, and electrical household appliances. In addition, avoiding trade barriers is also a factor that motivates the government to exert every effort to promote outward investment.

China now has outward investment capacity in various sectors such as light industry, machinery, textile, and electronics. More important, its outward investment in the resources sector is of long-term strategic significance. Enterprises in China's coastal areas currently face rising costs in labor and raw materials. The CLMV is a good choice for shifting its manufacturing base and expansion. The Chinese government will seriously consider creating a more favorable condition for its “going abroad” strategy by arranging for investment liberalization and facilitation in the Free Trade Area. Because there are characteristic differences across countries and regions, any practical move toward liberalization and facilitation, including liberalizing sectors and the “negative list”, will be made and revised flexibly, taking into consideration such differences per country.

From other countries' perspective, the potential inflow of Chinese investments is promising due to the Chinese government's intent to go global, with priority given to its neighbors. In the future, Chinese enterprises will be encouraged to engage in agricultural and forestry resource development, and prospecting and exploitation of minerals.

1.2.3 Policy trends

- For the Chinese government to be able to encourage and help its local enterprises to invest abroad, it has to establish overseas economic cooperation zones. Haier Group, one of China's leading home appliance makers, set up the first economic and trade cooperation zone in Pakistan in November 2006. Similar zones will be established in ASEAN countries, including CLMV, in the coming years with the Chinese government adopting some preferential policies concerning financing, insurance, taxation, entry-exit as well as some nonoperational risks.
- Corporate social responsibility will be highlighted. To gain the local society's wide acceptance and achieve sustained and long-term development, the government will urge local enterprises to improve their sense of social responsibility and temper their focus on seeking maximum short-term profit. This includes actively facilitating localization, providing more benefits to local employment, and participating in local environment protection and poverty relief activities.
- China MOFCOM will provide guidance on foreign investment in industries in different countries and promote investment facilitation.
- There is a need for systematic arrangements for bilateral economic cooperation---i.e., define the sector, project, financing, and cooperative mechanisms through framework agreements between governments.

1.3 Aid and other cooperation

1.3.1 Features of China's aids to CLMV

China's outward aid has three major types:

- Grant aid, mainly for small and medium social welfare projects such as hospitals, schools, low-cost housing, and water supply. Also includes humanitarian aid and personnel training.
- Interest-free loan, mainly for infrastructure and civil facilitation.

- Preferential loan, a kind of mid- and long-term low-interest loan provided by financial institutions designated by the Chinese government.

The gap between preferential interest rates and prime rates will be subsidized by the Chinese government. Preferential loans are mainly provided for joint venture projects between the recipient countries and China, productive projects, or plant and electromechanical equipment made in China. The annual interest rate of China's preferential loan is about 2 percent, with a maturity period of 20 years. Grant element is 40 percent, as compared with 72.3 percent of Japan and over 60 percent of World Bank.

The Ministry of Commerce is in charge of bilateral economic aid, which accounts for 80 percent of China's aid. Multilateral aids and aids in other sectors are managed by the Ministry of Finance, Ministry of Health, Ministry of Agricultural, Ministry of Education, etc. However, the lack of a unified administrative system led to a lack of authoritative and complete statistics on China's foreign aid.

Over the past 50 years, the Chinese government has provided, as far as its capacity allows, all types of assistance to CLMV, covering areas such as industry, agriculture, education, healthcare, transport, broadcasting and communications, hydropower and electricity, and infrastructure. At the same time, it has provided technical assistance and trained a large number of technical and administrative personnel.

China's aid to CLMV countries underwent three stages. The first stage began from 1950 to the early of 1980s, the period when China's foreign policy was focusing on building a coalition with developing countries. According to published data, China's aid to Vietnam alone was US\$20 billion (according to the world commodity price) until 1978. The second stage of China's aid is from the 1980s to the mid-1990s. During this period, the policy focus was to develop small- and medium-sized projects to meet local needs. The third stage started from 1995 until the present. The policy focus now is to combine aid with bilateral economic cooperation. In November 2006, the Chinese government announced to write off all government interest-free loans (that matured by

the end of 2005) given to least developed countries.

Unlike China's initial aid to CLMV in 1950-1960s, which aimed to support the socialist governments, the focus is now on commerce. China has offered a new model that centers on straight commercial relations and fair market prices without the ideological agenda. In the long term, China hopes that the overture will not only give Chinese companies an edge in the competition for local business, but will also tighten the political relations with those recipient countries. The positive effect of China's aid may be summarized as follows:

- Set up a good image in the world
- Help those countries in self-capacity building
- Win the friendship and trust of these countries
- Foster diversified economic cooperation with these countries. Of China's 50 largest foreign economic companies, two-thirds grew from enterprises that engaged in providing foreign aid. In general, China's aid projects also help to accelerate contract engineering since such is easier to be approved by the local government and people.

The economic and technical cooperation between China and Myanmar began in 1961. China supplied 22 complete plants (e.g., sugar factory, textile mill, stadium, theater, and thermal power plant) as well as technical aid to Myanmar. In February 2006, when Myanmar's prime minister visited China, the Chinese government agreed to provide a US\$8.7 million aid and US\$200 million worth of loans to Myanmar.

In 1993-2005, China's economic and technical aid (*gratis*, interest-free loans, low-interest loans) to Cambodia totaled RMB 2 billion. China provided training to 294 of Cambodia's government officials and technicians and dispatched 35 experts to Cambodia for technical guidance. In more recent years, China has increased its aid to Cambodia. Specifically, the figures were RMB122 million in 2000, RMB 87 million in

2001, RMB 125 million in 2002, RMB 251 million in 2003, and RMB 252 million in 2004.

Meanwhile, from 1989-2000, China's annual economic aid to Laos accounted for 2 percent of the total aid Laos received from overseas. Two years after Chinese president Jiang Zemin's visit in 2000, Laos received RMB 160 million gratis, RMB 80 million of free-interest loan and RMB 300 million of preferential loans, which is equivalent to the total aid Laos received from China in the past 10 years. Lao's Vang Vieng Cement Factory and National Cultural Centre which set up with Chinese aids received favorable feedback from local residents.

In 2001, during the Secretary of the Communist Party of Vietnam Nong Duc Manh's visit to China, China and Vietnam signed an economic and technical agreement, wherein China would provide RMB 30 million grant aid and US\$40.5 million preferential loan to Vietnam. In 2002, during Chinese President Jiang Zemin's visit to Vietnam, another agreement was signed. This time, the agreement indicated that China would extend a RMB 50 million aid and RMB 50 million preferential loan to Vietnam. In 2003, during Nong Duc Manh's return to China, China decided to exempt Vietnam's RMB 420-million debt and to provide an grant aid for the Sino-Vietnam Friendship and Culture Centre. In 2005, during Chinese president Hu Jintao's visit to Vietnam, China provided a RMB 60 million grant aid and RMB 550 million preferential loan to Vietnam.

Table 9: China's Major Aiding Projects to CLMV Since 2003.

Country	Project	Scale
Cambodia	Highway(Kratie-Cambodia-Laos Border)	186km
Laos	Na Teuy-Pak Mun highway	166.5km
Myanmar	International Conference Centre	30000m ²
Cambodia	Government office building	33970m ²

Source: China MOFCOM

China's aid policy and aid programs have the following features:

- The western approach of imposing its values and political system on other countries is not acceptable to China. The principles of friendship, cooperation and development underscore China's pledge not to discriminate or intervene. The outbound aid from developed countries follows the rules made by the Organisation for Economic Cooperation and Development (OECD), which takes into consideration the political condition and economic base of the recipient country. There are some poor countries in desperate need of assistance but fail to get this assistance because of the turbulent situation at home. However, China is not bound by OECD's rules.
- The aiding projects are determined through bilateral consultation, basically civil facilities that can truly benefit the people of the recipient country. China's aid to CLMV has heavily focused on construction of infrastructure. Taking into consideration the larger agricultural sector in these countries, China's aid also emphasizes agricultural technical training. Its ASEAN Agricultural Technical Training programs are extended to these four countries.
- Apart from goods and currency, China also sends medical and rescue teams to these countries.
- China's economic and technical aid to CLMV is not a unilateral donation. Instead, China aims to deepen the friendship and to achieve common growth.

1.3.2 Concerns around China's foreign aid

The cornerstone of China's foreign policy is the respect on the choice of political system and development path suited to other country's own national/specified conditions. This has been reflected in China's foreign aid policy. Two concerns arise regarding China's foreign aid, though. The first is with regards China's aid as a having a mercantilist pattern: that is, the aid helps extract raw materials for its industries and then

sell manufactured goods back to these least developed countries while failing to bring sustained growth to the recipient nation's local economy. The second concern is that China's unrestricted lending will undermine years of efforts to arrange conditional debt relief. That is, China does not follow the international lending standards intended to fight corruption in the region.

The fact remains that China's outbound aid shares many common interests with developed countries. Most of China's aiding projects are focused on public health, education, agricultural, and infrastructure. The bottomline of the Chinese government's action is to show solicitude for local people's livelihood, meet the needs of the public and provide what is practical for the people. China also hopes that the recipient countries can improve their public governance and reduce corruption. Whether a recipient country has a clean and honest government or whether this is a democratic government, an efficient infrastructure is a great concern of the recipient's citizens.

Aid programs generally carry a donor country's major policy goals and understanding of national interest. Building a harmonious world has become China's foreign policy. Its government believes that for any impoverished population, the top priority is to ensure its development.

China is the world's largest developing country with a huge population, by the World Bank's criteria. Nearly 200 million Chinese are still living on less than US\$1 per day. There are some 60 million disabled people in need of care in China. Despite a generally sound economic development, some deep-rooted problems such as its economic structure, extensive economic growth model, deficient mechanisms, and unbalanced regional development, remain unresolved. Both its economic and social development aspects still encounter difficulties and challenges: e.g., a less-developed foundation, a large gap between urban and rural development and among different regions. Per-capita GDP still ranks 100th in the world. Changing its under-developed productivity will be a long and arduous task. Therefore, the real challenges facing China are its financial constraints as well as expectation from CLMV countries.

2. PROGRESS OF ECONOMIC INTEGRATION

2.1 Early Harvest Plan (EHP) and ASEAN-China FTA

2.1.1 Analysis of trade interest under Early Harvest Plan

The most important policy China made that had significant impact on CLMV since its accession to the World Trade Organization (WTO) may be the signing of the free trade agreement (FTA) with ASEAN. The framework agreement and other subsequent related agreements are now under implementation. In the agreements, China made great concessions to the demand of ASEAN to open the agricultural market, especially in the Early Harvest Plan (EHP). Such made it possible for CLMV to export more products to China.

The EHP under the FTA, a special arrangement based on the requirements of ASEAN, commenced in January 2004. It can be regarded as a prelude to the overall tariff reduction on July 1, 2005. The EHP covered about 600 agricultural products that the ASEAN had most of the advantages. All 600 products in the EHP were divided into three categories:

- Category 1: Most-favored nation (MFN) tariff rates higher than 15 percent for China and ASEAN 6; 30 percent or higher for CLMV.
- Category 2: MFN tariff rates between 5 percent and 15 percent (exclusive) for China and ASEAN 6; between 15 percent (inclusive) and 30 percent (exclusive) for CLMV.
- Category 3: MFN tariff rates lower than 5 percent for China and ASEAN 6; lower than 15 percent for CLMV. China and ASEAN 6 will eliminate the tariff on about 600 tariff lines over three years: to 10 percent before 2004; to 5 percent before 2005; and to zero tariffs not later than January 1, 2006. The CLMV should eliminate their tariff on the products not later than 2010.

Although China enjoys a surplus in its total trade, its trade in agricultural products shows deficits over the years. So, agricultural products are considered among China's products with "comparative disadvantage". China's agricultural deficits are mainly from Indonesia, Malaysia, and Thailand. Therefore, tariff reduction and elimination in agricultural sector needs China's real attention. According to statistics from China's MOFCOM, by September 2007, China's imports of over 600 agricultural products under EHP grew by 500 percent.

In 2003, the average tariff for agricultural products was 16.8 percent for China, 21.9 percent for Vietnam, 20.7 percent for Cambodia, 18.7 percent for Laos, and 8.3 percent for Myanmar. According to the EHP, the MFN tariff rates above 30 percent are scheduled to be reduced to 20 percent by January 2004, and to 5 percent annually until it reaches zero. Meanwhile, the MFN tariff rates of 15-30 percent from Vietnam are scheduled to be reduced to 10 percent by January 2004, 5 percent by January 2006, and zero by January 2008. That of Cambodia, Laos and Myanmar should be 10 percent by 2006 and 5 percent by 2008.

For existing MFN tariff rates below 15 percent, Vietnam's are scheduled to be cut down to 5 percent by January 2004, and to zero by 2006. Similarly, that of the three other countries will be brought down to 5 percent by January 2006 and zero by 2008.

Table 10: Effects of ASEAN 10 by China's Export and Import of EHP Products.

	Increased greatly	Increased less greatly	Not or slightly Affected	Decreased
China's Export (46.49%)	Indonesia (13.14%) Thailand (13.09%) Malaysia (13.05%)	Vietnam (4.05%) Philippines (2.24%) Singapore (1.31%)	Brunei (0.04%) Cambodia (0.04%) Laos (0.02%)	Myanmar (-0.49%)
China's Import (66.74%)	Thailand (54.92%)	Indonesia (8.33%) Vietnam (1.83%) Philippines (1.68%) Malaysia (1.66%)	Brunei (0) Laos (0) Cambodia (-0.03%)	Myanmar (-0.58%) Singapore (-1.08%)

Source: Yuan Bo, CAITEC

Apart from providing a five-year transition period, China initiated a special preferential tariff program to CLM under the EHP. From January 1, 2004, a zero tariff was applied to CLM's 707 products (335 for Cambodia, 239 for Laos and 133 for Myanmar), mainly agricultural products and a few industrial manufactures. Later, China further confirmed that a zero tariff will be applied to 261 CLM products (83 for Cambodia, 91 for Laos and 87 for Myanmar) from January 1, 2006. The bottomline is to improve the bilateral trade position and to import more agricultural products from those less developed neighboring countries, ultimately to support their development. On the other hand, the Chinese government is confident it can control the negative influence or the possible risks arising from the special preferential tariff because China's imports from CLM is fairly small (about US\$2.8 billion in 2006) and the major imports from Cambodia and Myanmar is timber while those from Laos, although involving some agricultural products, are of small volume as well. In sum, the impact on China's similar products will be limited.

In the case of China Yunnan Province after the implementation of the preferential tariff policy, imports from Myanmar increased by a small margin, imports from Laos are tending downwards, while no imports came from Cambodia. According to China's Customs department, RMB 18.4 million and RMB 3.2 million worth of tariffs on imports from Myanmar and Laos, respectively, were exempted in 2004.

Table 11: Changes in China's Major Agricultural Imports from Vietnam, 2002-2006.

HS	Description	% Change			
		06/05-	05/04	04/03	03/02
	Vietnam	-2.5	2.9	70.4	30.5
07	Vegetables	138.1	1.2	22.3	114.4
08	Edible Fruit And Nuts	59	80.8	-53.6	-0.1
11	Milling; Malt; Starch	110.9	-7.1	50.1	110.6
03	Fish And Seafood	-24.2	68.5	28.9	0.7
09	Spices, Coffee And Tea	149.1	-4.7	-3.9	65.0

Source: China customs

Table 12: Changes in China's Major Agricultural Imports from Laos, 2002-2006.

HS	Description	06/05	05/04	04/03	03/02
10	Cereals	567.3	292.5	679.0	-75.1
12	Misc Grain, Seed, Fruit	76.6	3.4	-7.1	-5.6
13	Lac;Vegetable Sap, Extrct	366.5	0	0	0
09	Spices, Coffee And Tea	0	-100	-43.8	55.7
06	Live Trees And Plants	-49.3	471.3	0	0
01	Live Animals	0	0	0	-100
02	Meat	0	0	0	-100
04	Dairy, Eggs, Honey, Etc	0	0	0	0
07	Vegetables	0	0	0	0
08	Edible Fruit And Nuts	0	-100	0	-100

Source: China customs

- The CLMV will possibly become a main source of China's grain imports. The CLMV has a stronger comparative advantage in land-intensive agricultural products. According to the forecast made by China State Development Research Center, China's net imports of grain will reach 9.76 million ton in 2010 and 22.24 million ton in 2020. Vietnam is the world's major rice exporter; and Myanmar, Laos and Cambodia all have favorable conditions for agricultural development. The potential, therefore, is promising.
- Technical cooperation in the field of agriculture should be strengthened. Mechanization of agriculture in CLMV is still low, whereas China has a certain advantage in agricultural machinery, fertilizer, pesticide, seeds, packing, and preserving skills, which can help CLMV to improve their agriculture output and market share.
- The preferential tariff treatment can only be effective when the recipient country has the appropriate trading ability.

2.1.2 Assist CLMV to effectively participate in and benefit from the ASEAN-China FTA

The ASEAN-China substantive cooperation was further enhanced in 2001 when the leaders of ASEAN and China endorsed a proposed framework on economic cooperation

and an FTA for 10 years as well as identified five priority areas to move cooperation. This was in the areas of agriculture, information technology, human resource development, mutual investments, and Mekong cooperation.

The framework agreement designed the timetable of tariff reduction or elimination. This time, the measures “for promotion and facilitation of trade in goods and services, and investment” are listed as (1) standards and conformity assessment; (2) technical barriers to trade/nontariff measures; and (3) customs cooperation. Other measures mentioned in the framework agreement are: “increasing the competitiveness of SMEs; promotion of electronic commerce; capacity building; and technology transfer.” (Framework Agreement, Article 7.3)

According to the feasibility study report of 2001, the ASEAN-China Free Trade Area (ACFTA) can increase ASEAN’s export to China by 48 percent and China’s exports to ASEAN by 55.1 percent. The ACFTA can increase ASEAN’s GDP by 0.9 percent (US\$5.4 billion) while China’s real GDP can expand by 0.3 percent (US\$2.2 billion).

The ASEAN-China FTA is a regional agreement. It includes more contexts than pure “trade”. In fact, the mechanism will be conducive to improving the geo-political climate, cracking down cross-border crime, protecting the environment, and stopping drug smuggling. The cooperation will be also conducive for the two sides to gain more support in international affairs and regional security.

All cooperation must recognize the different stages of economic development among member states and the need for flexibility. In particular, it must recognize the need to facilitate the increasing participation of CLMV in the ASEAN-China economic cooperation and the expansion of their exports by strengthening their domestic capacity, efficiency, and competitiveness. Otherwise, fully economic liberalization means that these less developed economies close all their enterprises.

China is a strategic friend for CLMV. The latter looks to China for development support and cooperation, as it does its fellow members in ASEAN. The CLMV is

seeking to find a place in the ASEAN-China FTA, both on their own and as members of ASEAN.

To assure the success of the ASEAN-China FTA in the future, one needs to stress the following:

- Adopt more effective measures to support the economic development in CLMV and to break through the bottlenecks that limit the bilateral economic plans.
- Strengthen mutual trust and regional recognition among the people. Such trust and recognition will push the government to make concessions.
- Aim for “bridging the gap” as a long-term priority in ACFTA’s strategy. Desired projects should focus on the urgent needs of CLMV to improve their national environment, and should be conducted in a coordinated and effective manner so as to achieve and sustain long-term positive impacts on economic growth.
- Make sure that adequate funding for the desired projects is guaranteed.

2.2 Greater Mekong Subregion (GMS) cooperation

2.2.1 Progress and future plan

The GMS program, proposed by the Asian Development Bank in 1992---much earlier than the proposal of ACFTA---is a very important part in the cooperation among China, Thailand and all CLMV countries that received China’s official assistance over the years.

The GMS is an important corridor linking China with Southeast Asia and South Asia. The CLMV’s share in the total area of the Mekong basin is 66 percent, while China Yunnan accounts for 16 percent. The development of GMS depends mostly on the relationship between China and CLMV countries. Soon after the signing of Agreement on Commercial Navigation on the Lancang (Mekong) River in 1999 with Thailand and the CLMV, China invested US\$5 million to dredge the upper Mekong River.

In March 2004, China exchanged letters with Laos and Myanmar, agreeing to provide aid to their power projects and to grant nearly US\$300 million for the highway

project within Laos. China and Vietnam also agreed to set up closer working ties.

China decided to explore ways to participate in the development of hydroelectric resources in Laos, Myanmar, and Cambodia, and cooperate with Vietnam in the feasibility research on the joint development of Vietnam's coal and natural gas. China will actively exchange information with the relevant countries on economic development and power systems, and help establish an information exchange platform on power cooperation.

The GMS program is a choice of CLMV to build closer relations with China. On the other hand, it is also a strategic choice made by the Chinese government to create an opening for China's mid-western areas. The program will integrate the trade, tourism, transport, power, and information of China's western area with CLMV, and possibly shape a regional economic, financing, and logistic center. It will also attract the attention and participation of China's coastal areas, which in turn will provide the western area an opportunity to upgrade its industries.

China is both a beneficiary and a contributor to the GMS program. It provided the funds for the Kun-Bang Super Highway and local channel improvement in the upper Mekong River. It conducted 500 person-time training for member-countries in the field of agriculture, customs, and telecommunication. In 2004, China established a US\$20 million special fund in ADB meant for human resource development and poverty relief in Asian developing countries (in particular, the CLMV countries).

China has made the fastest progress in the area of trade and investment facilitation, setting an example to member-countries. It created a core group handling trade and investment activities. This group holds meetings every semester to review the implementation of the framework action plan. Based on the reviews, China has made its own action plan and implementation mechanism so as to ensure a stable and smooth progress. This program warmed up China's relations with CLMV, speeded up bilateral economic cooperation, and helped China to regain its influence in the Indo-China region.

In July 2005, China published *the Country Report on China's Participation in*

GMS Cooperation, which defines her new plans for the GSM program, to wit:

- 1) Decide the east-line plan for the Trans-Asian Railway;
- 2) Improve the technical reliability of power trading by shifting power cooperation from “End to Lan” to “Lan to Lan”;
- 3) Speed up the construction for the information superhighway;
- 4) Start cross-border prevention and control of animal disease;
- 5) Promote cooperation among GMS countries in environmental protection;
- 6) Further increase the inputs for training of human resources and lead the establishment of “the Golden Triangle Tourist zone” and “Tengchong-Myitkyina Tourist Zone”;
- 7) Provide modern facilities in Kunming and other port cities for commodity fair and trade talks; and
- 8) Push for a more stable cooperative mechanism at central government level on drug abuse and illicit trafficking.

2.2.2 Major contradictions in the cooperation process

Contradiction between upstream and downstream countries. An upstream country is in an advantageous position since the downstream countries have to passively accept the negative effects arising from development of water resources. If there is no agreement on joint management of water resources, disputes between upstream and downstream countries are inevitable. China’s large-scale dam construction gave rise to great concerns from downstream countries, who believe this will affect their eco-environment and livelihood and pose a threat to people’s lives in terms of flood and earthquake. However, Chinese scientists gave their own explanation, arguing that the bigger factor affecting the water level is the change in macro environment such as the climate and land utilization. In all these, China has taken relevant measures to protect the eco-environment of downstream regions. For instance, the hydropower station in Lancang River can control and adjust the water flows, which will ensure the safety of the downstream countries’ production, livelihood and property.

Contradiction between government and NGO. Joint actions taken by inward and outward nongovernmental organizations (NGOs) exert pressures on governments and international organizations that support the Mekong river development, such as the ADB and WB.

On the whole, infrastructure will still be the major focus in China's future cooperation in GMS, since railway and inland waterway development lag much behind highway development. China will play an important role in the GMS cooperation since it has the strongest in comprehensive economic plan and highest economic growth among the GMS member-countries. From a long-term perspective, China should establish its leading position in subregional cooperation.

2.3 China's action

2.3.1 Policy and administration on border trade

In 1992, to push forward the barter trade (including border trade) with the former Soviet Union and Eastern European countries, a package of policies were implemented, which shifted China's border trade into higher gear. However, the problems associated with disordered markets and low-grade export products emerged simultaneously, which led the government to rectify the order of border trading in 1994.

Land-growing products such as grain, vegetables and fruits, and textiles and garments, and light industrial products are the mainstay of China's border trade exports to LMV, while the major imports are raw material products, which included timber, steel, paper pulp, minerals, and nonferrous metals.

China's border trade system is a combination of centralized and decentralized administration. Local governments play a significant role in border trade administration, but as part of China's foreign trade, a unified administration is also imposed. In this regard, the Ministry of Commerce and related departments of the State Council are jointly held responsible for formulating policies and exercising macro administration on

border trade.

Border trade has now become a dominant force behind the economic growth of China's border areas and plays a substantial role in achieving China's goal of "vitalizing border areas, building a well-off society, benefiting the nation and bringing stability to the country." Currently, there exist two forms of border trade in China:

(1) Goods exchanged by border residents

Exchange of goods between border residents refers to the trade activity involving goods that are below the government-designated market's amount or quantity within 20 kilometers from the boundary line. The government imposes a ceiling on the value of goods exchanged by border residents. This form of border trading caters to the economic and daily conveniences of the people living on both sides, so that each makes up one's deficiency with the other's surplus.

(2) Border trade in small amounts

Border trade in small amounts refers to the trade activity between the enterprises or trading organizations along the borders of neighboring countries, and Chinese enterprises that are granted operational rights to trade in small amounts in the administrative areas of open border counties (banners) or towns along the boundary line. Trade activities other than exchanging goods shall be brought into the common administrator on border trade and subjected to its related policies.

In the early 1990s, the guiding ideology on border trade was "for each to make up the other's deficiency with one's own surplus". Its theoretical basis is the international division of labor in world trade and the principle of geo-economics, which calls for achieving complementary economic advantage for border regions, and enhancing regional economic cooperation and interchange.

The principal legal basis for China's border trade policies is the Law on the Regional Autonomy for Ethnic Minorities of PRC, Foreign Trade Law of PRC. Article

42 of the Foreign Trade Law of PRC stipulates that “the State applies flexible measures, provides favorable conditions and convenience to the trade between the towns on the frontier and those towns of neighboring countries on frontier as well as trade among border residents.”

According to the *Circular of the State Council on Issues Covering Border Trade* promulgated in 1996, goods (those for daily consumption only) imported as exchanged goods by border residents and valued at less than RMB 1,000 (later revised to RMB 3,000) per person per day shall be exempt from import tariffs and import linkage value-added tax. In case the amount exceeds RMB 1,000, the excess amount shall be taxed accordingly.

The registered capital of enterprises engaged in border trade of products in small quantities should not be less than RMB 500,000, and proof of a fixed business site, facilities, and funds are required. Furthermore, the enterprises should have a sound organizational system and personnel qualified to carry out the border trading activities.

Except for commodities that call for tender and chemicals for both military and civil use and as components of drugs, the quota and license system on exports up to the set quantity shall be eliminated. Enterprises engaged in border exports shall enjoy the export tax refunding policies that applied to ordinary trade, and go through the same refunding process.

On the other hand, the import of commodities is subjected to state quota and licensing system, or quantitative restrictions. The foreign trade and economic administrative departments of border provinces and regions shall be responsible for issuing import license.

2.3.2 China's border trade with CLMV

China's border trade with LMV is characterized by small-scale, limited varieties, and flexible trading arrangements. The Renminbi is used in settling trade accounts.

Table 13: Time of Border Trade Resumption.

Yunnan Province	1985	Myanmar, Laos
	1992	Vietnam
Guangxi Zhuang Autonomous Region	1992	Vietnam

Source: China MOFCOM

Table 14: Socioeconomic Development of Yunnan and Guangxi.

	Unit	2000	2006
Population			
Yunnan	Million person	42.4	44.8
Guangxi	Million person	47.5	46.9
GDP			
Yunnan	CNY Billion	201.1	400.2
Guangxi	CNY Billion	205.0	480.2
Annual GDP Growth Rate			
Yunnan	%	7.5	11.9
Guangxi	%	7.3	13.5
Growth Rate of Import and Export Value			
Yunnan	%	9.2	31.4
Guangxi	%	16.2	28.8
GDP per Capita			
Yunnan	Yuan/person	4742	8961
Guangxi	Yuan/person	4319	10240

Source: Commerce Yearbook of Yunnan and Guangxi, 2007

Table 15: Imports and Exports of Border Trade in Yunnan Province (RMB 10,000).

Year	Exports	Imports
1990	72148	35726
1995	96882	93153
2000	230180	64738
2001	190454	95881
2002	191642	115790
2003	209574	137870
2004	257197	179353
2005	321188	224143

Source: Kunming Customs

Table 16: China's Border Trade with Myanmar (US\$100m).

FY	Total trade	Border trade	Share %
04/05	7.8055	3.5499	45.5%
05/06	8.3309	5.1744	62.1%
06/07(ending in Feb)	10.3168	8.1505	79.0%

Source: Ministry of Commerce, Myanmar.

2.3.3 *Some noteworthy problems restricting the development of border trade*

After over 10 years, border trade in “small” quantities no longer remains small and encompasses areas beyond the border’s scope, tending in fact toward transit trade. There are, however, some noteworthy problems that restrict the development of border trade:

- In border trade, many import and export commodities still have quantitative quotas, and mobility of business people is still subjected to various formalities.
- China’s policy adjustment on its imports and exports poses a new challenge to border trade growth. The reduction in export rebate tax somewhat cripples the competitiveness of export commodities. Approval rights for import, inspection and quarantine were taken back by the State General Administration. Customs, forestry and technical quality supervisory entities had all tightened their control over border trade. State limits on export of grain also tend to tighten. Border personnel under the Ministry of Public Security are strict in their control over exit and entry.
- Trade logistics in border areas are still underdeveloped. In recent years, infrastructure of trading ports in these areas have improved, but because of limited funds, these have fallen far behind the growth in port logistics, particularly storage, freight yard, and parking sites. Currently, these ports can only satisfy the basic customs requirements.
- Highways across borders are not in good condition.

3. CHINA'S DEVELOPMENT STRATEGY WITH CLMV

3.1 Policy of friendship and partnership with neighboring countries

3.1.1 China's peaceful development

Chinese leaders have on various occasions aired their view of building “a coordinated world” and sticking to peaceful development. The way toward a coordinated world involves seeking for a common security through multilateralism, aiming for development and common prosperity through mutually beneficial cooperation, and working toward harmonious relations through mutual understanding.

After over 30 years since it opened its economy and initiated reforms, China has accumulated certain political influence, diplomatic skills and economic strength. Gaining a good impression and goodwill from the international community is the key to China's diplomatic affairs.

Peaceful development now has been adopted as a formal government strategy, a clear blueprint to guide China's future development in the next 20 years. Achieving development is the overriding principle.

Peaceful development is also China's contribution to the current international system. This concept is China's answer to the “China Threat” debate and the efforts of other countries to define China's evolving role in world affairs.

China's influence in international economic affairs is increasing. As one of the world's largest countries, China is ready to shoulder more responsibilities, pay greater attention to underdeveloped regions and people in poverty, and play an active role in promoting development, progress and harmony.

China has sent a clear message to the world that it will achieve its development mainly through its own efforts, which will help assuage the international community's notion that China is bound to engage in external plundering and expansion when it reaches a certain stage of its development. As China develops itself, it will contribute more to both the development of neighborhood areas and the whole world.

China does not use ideology or social system as a criterion in conducting diplomacy and economic cooperation, nor does it impose its values on others. This means that China will treat all countries, whether big or small, rich or poor, as equals. It also means that China will follow the principle of mutual benefit and mutual respect in expanding overseas business ties.

As China's overall national strength and international standing grow, the international community will have higher expectation from it. In the future, China will take an active part in the formulation of international rules for a fair and equitable international economic order, and in international and regional economic cooperation.

3.1.2 A favorable neighborhood is crucial to China's peaceful development

China's development involves striding toward the subcenter and center position of the global system. In the course of doing so, China needs the understanding and support of developing countries, particularly neighboring countries. The China-CLMV relations have come a long way from the initial removal of doubts to commencement of dialogue, to enhancement of mutual trust, and to establishment of strategic partnership.

In the political field, mutual trust is growing. China was the first ASEAN dialogue partner to join the Treaty of Amity and Cooperation in Southeast Asia and to establish strategic partnership for peace and prosperity with ASEAN. The two sides jointly issued the Declaration on the Conduct of Parties in the South China Sea.

The policy of "pursuing good neighborly relations and partnership with neighbors" and "fostering a harmonious, secure and prosperous neighborly environment" was first put forward during the 16th National Congress of the Communist Party of China since the party realized that China's development needs a peaceful international environment. China is also aware that in the past there was a good deal of suspicion over its intention.

A harmonious neighborhood means to live in harmony with neighboring countries. A secure neighborhood, meanwhile, means to solve differences through negotiation and improve mutual trust. A prosperous neighborhood does not simply mean one who gives

money to neighbors. Rather, it means a better use of resources from both sides and an ability to cooperate in adjusting each side's economic structure so as to cope with the challenges posed by economic globalization.

China's good-neighbor policy during the initial founding of the new China was determined by the pattern of world political affairs. The starting point was its own security. In the 1950s, its security threat was mainly from the United States. Now, the starting point of China's good-neighbor policy since its reform is its development. Only by winning over neighboring countries' trust can China break the anti-China ring and create a better international environment for its domestic development.

China's good-neighbor relation, to some extent, is a kind of investment. It will ultimately improve the nation's outward investment climate. China's participation in the GMS cooperation is a good example: China contributed to the development of the subregion, while at the same time, became a beneficiary of the subregion's cooperation. China's riparian areas and sectors have all benefited from such cooperation.

China's relations with her neighbors will give it more room for action in international affairs. More trading and cooperative partners mean China will not be controlled easily by world giants. Its success as a good neighbor will also benefit its image to the world. Now, the real Chinese "threat" is economic, not military strength. The world no longer worries about how China will feed itself but whether Chinese products will hit domestic markets.

China's relations with CLMV now have two features: close high-level contacts, and brisk economic cooperation. The Chinese government thinks that as a good partner, neighbor and friend of CLMV, it is obliged to lend a hand. China has experience in helping small and developing countries. Its government knows exactly what these countries need and can provide them with very practical skills and technology.

China is convinced that a united, stable, and prosperous neighborhood will make greater contribution to the world as well as to its own development. On the 15th anniversary of the China-ASEAN dialogue relations, China announced it will donate

US\$1 million to the ASEAN Development Fund and provide funding assistance worth US\$1 million to relevant projects under the Initiative for ASEAN Integration. China also offered to train 8,000 ASEAN professionals in different fields in the next five years and invited 1,000 young people from ASEAN countries to visit China.

3.1.3 Outside factors affecting China's long-term economic and trade relations with CLMV

Peaceful development environment in CLMV. The CLMV's economic development lags behind in the region. A large percentage still lives in poverty, which is coupled always with some form of turbulence. A peaceful development environment will depend on whether the current governments can commit themselves to improving their people's livelihood and safeguarding the rights of different ethnic groups. After all, any insurgency can threaten border security and any proposed economic cooperation.

ASEAN's diplomatic strategy. The ASEAN's current strategy is to stand between China, the United States and Japan, so as to balance their influences in the region. The ASEAN does not want to fully depend on China, and is unwilling to be forced to make a choice between big powers.

The ASEAN's views on the China issue are divergent. Some raise doubts about whether China's investment conforms to ASEAN's long-term interests. Some worry that China might challenge ASEAN's value system, and overdependence on China would isolate the ASEAN and cut itself off from help if China one day changes its policy. Although the ASEAN clearly defines the strategic partnership with China, its policy on China remains unclear. In the coming 15 years, China's position and influence on ASEAN's strategy, and the trend of China-ASEAN strategic partnership are issues that still need to be discussed.

US factor. In the post-cold war era, the United States changed its role in Southeast Asia

from peace keeper to coordinator. Today, the United States is still playing an important economic role in Southeast Asia. At the same time, it retains its military presence in the ASEAN countries.

China and the United States have different attitudes toward the military government of Myanmar. The United States appeals for more pressures on Myanmar's human rights record and urges Myanmar to release all political prisoners and move toward democracy, and stop forced labor. It thinks economic sanctions are necessary to punish Myanmar's government and force the issue of democratic change. The US trade sanction and embargo against Myanmar still stands. The US believes that China's influence on Myanmar is second to none and could be decisive in restraining the government from a violent confrontation with protesters.

Japan factor. The Indo-China Peninsula---where Laos, Cambodia, and Vietnam are located---produces a great impact on Japan and is regarded as Japan's sea lane. If Japan wants to reinforce its major role in Asia, it has to establish contact with these countries. The United States-Japan Joint Declaration on Security has extended its application to the South China Sea. Japan is involved in the Indo-China Peninsula mainly by two means: its Official Development Assistance and its leadership position in the Asia Development Bank (ADB).

Contest for South China Sea. The territorial dispute in the South China Sea has been an obstacle to the development of China-CLMV relations. China claims sovereignty over the Nansha Island and its surrounding waters, but is open to shelve disputes and carry out a joint development. The ASEAN worries that China's proposal of "shelving sovereignty" only means to put off the negotiations and wait until it grows strong enough to settle through military might. This is a hidden problem that can break out any time. It is unreasonable to think that the South China Sea issue will not lead to a strained relation with surrounding nations. Therefore, how to avoid

conflicts as well as to promote trust, understanding, and cooperation is still a challenge.

4. POLICY IMPLICATIONS

- There is a need to conduct more trade and investment promotion activities, so as to provide a platform for special products from these countries and an opportunity for Chinese counterparts to know more about the investment climate and policies in these countries.
- There is a certain difference among CLMV countries; therefore, a detailed assistance plan should be made for each country. China should continue to develop infrastructure that is in great demand in CLMV countries and provide assistance to improve bilateral trade positions.
- To reinforce the trade in border regions, give priority to the export processing industry and tourism, free administration on exit-entry, money flow, goods transaction, integration in bonded areas, warehousing, exhibition, packaging, processing, and tourism. Policies adopted in border regions should be more preferential than that of the ASEAN-China FTA and Early Harvest Plan.
- Weaken the industrial competition between China and CLMV and set up a development fund. The starting point is to provide more job opportunities in CLMV countries. China should pay attention to the political and social problems arising from the competition between China and CLMV, since market chances provided by China will first benefit the big companies, not the public, particularly the poor.
- In spite of material aid, China should help CLMV in systematic improvement.
- The GMS cooperation has brought a general concern: More and more international organizations are getting involved in this cooperation, which leads to a co-existence of multi-mechanisms, but lacks both supervising and dispute settlement mechanisms.

- To avoid repetition in scheme and projects, there should be a clear, coordinated and common target for assisting CLMV among China, Japan, and Korea.
- Consistent and regular studies on the impact of regional economic integration on CLMV should be jointly carried out so as to ensure their initiative and adopt effective policy measures, ultimately to help them coordinate with the global economic system.
- China and CLMV should jointly draw up a development plan for bilateral industrial cooperation, through which to guide and promote industrial integration and upgrading, shape up industrial gradient shift system, and better solve the problem regarding similarity in industrial structures among the nations as well as competition.

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