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A Cambodian View on the Status and Functions of GMS in China-ASEAN FTA

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Abstract:

The GMS Program is aimed to promote closer economic ties and other forms of economic cooperation among the six countries that share the Mekong River. GMS has emerging as a visible mechanism with many project to link people and share development in the region. China has become more and more active role player in the GMS and China-ASEAN Free Trade Area. The study examines a Cambodian perspective in participating the GMS program and the link between GMS and China Free Trade Area. The paper concludes that the GMS Program can play a very active role in ASEAN-China FTA. Though there are constraints in the process of GMS cooperation, the GMS scheme not only provides huge opportunity for the future economic development in the region but it also reduces political and security tensions that plagued peninsular South-East Asia throughout the 1970s and 1980s.

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A Cambodian View on the Status and Functions of GMS in China-ASEAN FTA

1. Introduction

Linking the Mekong riparian members of ASEAN (Cambodia, Laos, Myanmar, Thailand and Vietnam) with Yunnan Province of the People's Republic of China, the Greater Mekong Subregion (GMS) comprises approximately 300 million people, 2.6 million square kilometers of land and an overall Gross Domestic Product of about US \$300 billion and is estimated to grow to US\$863 billion by the year 2010¹. The average per capita GDP in the GMS in 2003 was US\$787.²

Table 1: GDP per capita in GMS

	1996	1997	1998	1999	2000	2001	2002	2003
Cambodia	317	320	265	295	291	283	296	310
Lao, PDR	396	360	259	285	332	328	333	362
Myanmar	109	100	144	189	210	162	175	179
Thailand	3,134	2,656	1,900	2,046	2,029	1,887	2,050	2,291
Viet Nam	337	361	361	374	403	415	439	481
China						890		1,100
Average								
GMS						661		787

Note: ASEAN data from ASEAN secretariat and data of China from ADB Outlook, 2003, 2005

The Mekong River, which defines the sub-region, stretches over 4,800 kilometers from the Tibetan plateau to the delta in southern Vietnam before reaching the South China Sea. The GMS economies are predominantly based on subsistence agriculture, but they are gradually

¹ source: <http://www.adb.org/GMS/about.asp>

² ASEAN data was from ASEAN secretariat website and data of China from ADB Outlook 2005

diversifying into several modern economic sectors and rooted in a more transparent, market-based system.

Endowed with abundant but relatively unexploited natural resources and a large potential market, the subregion has a significant potential to be a growth center in the Asia-Pacific region. It is therefore attracting international attention to the future development of this subregion. The countries of the GMS could indeed benefit from more focused and coordinated development assistance efforts among the donors and international agencies in addressing such areas as maintaining macroeconomic stability and creating an enabling policy environment, promoting trade and investment agencies with the participation from the private sector. In this sense, many interested international agencies including Asian Development Bank (ADB) and Economic and Social Commission for Asia and the Pacific (ESCAP) are helping these countries to work together through coordination and technical assistance as well as providing grant and loan to the projects.

2. Dimension of GMS

The GMS Program is aimed to promote closer economic ties and other forms of economic cooperation among the six countries that share the Mekong River. While per capita incomes are very low in most parts of the subregion, there have been rapid improvements in economic activity over the past decade, reflecting the growing interest of international investors and the success of economic reforms. The Asian economic and financial crisis has been a serious setback for the subregion, but the long-term prospects are bright. The subregion has an industrious workforce and rich natural resources.

When the GMS Program began in 1992, relations among the six member countries were still strained and trade and other forms of cooperation were very limited. However, peace and economic reforms in the subregion provided a window of opportunity to draw the countries more closely together through a program of regional economic cooperation. ADB took up the challenge and initiated inter-country consultations leading to establishment of the GMS Program. (ADB, 2000).

In the highly sensitive context then prevailing, the GMS Program first focused on basic infrastructure that would help link the subregion and enable development of the resource base. Transportation and energy infrastructure were the main preoccupation. In this manner, the Program contributed to both the freer flow of people and goods and to sharing of resources key to industrial development and modernization. It also led to international recognition of the subregion as a growth area.

The dimension of the program has been increasingly expanded. Transportation projects involving bilateral or multilateral agreements among GMS countries are now either being implemented or are close to implementation, complementing earlier projects that embodied subregional benefits but which were implemented on a purely country basis. Energy projects involved bilateral agreements from the outset, but these were essentially commercial agreements concerning electricity purchases from specific hydropower sites. Now member countries are discussing power market and trade possibilities that would rationalize electricity supply and use on a subregional basis. Progress has also been made concerning the identification of communications “loops” for the subregion, enabling the telecommunications industry to more efficiently invest in connecting major centers.

Increasing attention under the GMS Program has also been given to other sectors: human resource development, tourism, the environment, investment and trade. Human resource development initiatives have included attention to training standards and accreditation/certification, and to ways for mitigating the transborder spread of communicable diseases. Subregional initiatives in tourism access, promotion and product development have been highly successful, supported by active involvement of the private sector. Environmental cooperation - in addition to careful scrutiny of individual development projects - is increasingly concerned with broader transborder issues, such as the cumulative effects of development in the subregion. Very importantly, the Program includes initiatives to resolving policy, regulatory and other non-physical barriers to the cross-border traffic, complementing investment in transportation infrastructure.

There have been several meetings and discussions among senior officers, and ministers of the subregional program. As example, Senior Ministers from the six Mekong nations met in Phnom Penh on 23- 25 September 2002 to promote regional cooperation and economic development. The ministers have finalized plans for their leaders who will meet at the

Greater Mekong Sub-region (GMS) Summit in Phnom Penh in November. They also evaluated the GMS economic program, which has a total cost of about \$2 billion in infrastructure development. Barend Frielink, the ADB's senior programme officer, said that a new development plan for the next ten years meant "the coming decade is the decade of the Mekong". The development of economic corridors linking the region's nations is seen as key. As part for that, Thai military engineers have been working in Cambodia to rehabilitate the road No. 48 from Koh Kong to Sre Ambel for a Southern Coastal Corridor. The other projects will include East West corridor linking Thailand, Laos, Vietnam and China³. In the meeting, Thai deputy Prime Minister said, Thailand will provide technical cooperation for the Thai-Cambodia Economic Cooperation Plan, and \$800,000 scheme that will include feasibility studies for tourism, agriculture and industrial projects.

The resource commitment to the GMS Program has been considerable. Since 1992, almost US \$40 million in technical assistance has been provided by ADB, co-financiers, and the GMS governments. So far, ADB has loaned \$770 million and mobilized US \$234 million in co-financing for six transportation and energy projects⁴. For its part, Cambodia will have 2 major projects with a combined cost of \$70 million, Siem Reap's airport and the high way between Phnom Penh and Ho Chi Minh City. The overall investment associated with these projects is about US\$2 billion. The GMS Unit at ADB's Mekong Department provides advisory and secretariat-type support to the Ministerial Conferences and the sector forums and working groups. The GMS Unit, in turn, has been supported by the technical expertise of the Sector and other Departments of ADB.

3. Rationales and Objectives

Regional economic cooperation is an important element of development program. Although the main focus for developing countries is normally on policy and regulatory reforms, institutional strengthening, infrastructure investment, and human resource development, they must also build the connections allowing them to trade effectively with international markets. These markets include those next door, with neighboring countries. Also, many development

³ Phnom Penh Post, September 27-October 10, 2002, p 4

⁴ Ibid.

opportunities can only proceed if neighboring countries cooperate. This includes cooperation to ensure that environmental effects are properly addressed (ADB, 2000).

Over the past decade or more, much of the Mekong Subregion has been experiencing a double transition: from subsistence farming to more diversified economies, and from command economies to more open, market-based economies. This double transition, spurred by foreign direct investment and donor assistance, has led to rapid expansion of commercial relations among the six Mekong countries. Peace in the subregion has encouraged the natural process of economic integration - including cross-border trade, investment, and labor mobility. Increasingly, natural resources, such as agricultural land and hydropower and petroleum resources, are being developed and utilized on a subregional basis.

The GMS Program has played a catalytic role. The participating countries have shaped the Program to contribute to shared goals, notably sustainable economic growth, improved living standards and poverty reduction. The primary strategy for realizing these goals is to let the market forces of demand and supply function more freely, and to reduce government intervention and state ownership in the allocation and use of human, natural and capital resources. Market liberalization has led to industrialization and modernization, and greatly expanded trade and investment. To be competitive, the six Mekong countries must develop their natural resources and employ their human resources efficiently. Subregional economic cooperation facilitates this. It also facilitates the resolution of environmental and other transborder issues, better ensuring that economic growth will be sustainable.

The GMS Program is results oriented, designed to serve the interests of the participating countries in greater economic cooperation. The projects selected for inclusion in the Program generally have one or more of the following objectives or results:

- facilitating subregional trade and investment: clearly, improvements in transportation and telecommunications systems linking the subregion has this result;
- facilitating subregional development opportunities: subregional cooperation is a necessary condition for many energy projects; it is also a facilitating factor for tourism promotion, access, and product development;
- facilitating resolution of transborder issues: cooperation in protecting critical watersheds, in mitigating the transborder spread of communicable diseases, and in

harmonizing training standards and accreditation/ certification illustrates the types of projects involved;

- facilitating fulfillment of common resource or other needs: this is illustrated by cooperation in meeting training needs and in developing an environmental data base for the subregion; subregional cooperation is prompted by economies of scale or other benefits.

4. Progress

Progress in Subregional Infrastructure

Substantial progress has been made in feasibility assessments of major transportation infrastructure projects linking the subregion, and for hydropower development projects. Most encouraging, ADB approved in December 1998 a US \$40 million loan for Cambodia and a US \$100 million loan for Viet Nam for the Phnom Penh-Ho Chi Minh City Road Project. Civil works commenced in 1999. Also very encouraging, the East-West Corridor Project is well advanced and loan negotiations are expected before year-end, with civil works commencing in 2000. These two projects are truly subregional, and will open up new areas to trade and investment. Discussions are progressing regarding the Chiang Rai-Kunming Road Project and the Kunming-Hanoi Transport Corridor Project, both of which would contribute significantly to linking Southeast Asia and China. Air links in the subregion have also been improved.

Complementing investment in transportation infrastructure, progress has been towards subregional agreement on how best to reduce non-physical barriers to the cross-border flows of people and goods. These barriers include customs procedures, rights of cross-border passage for vehicles and drivers, vehicle and load specifications, insurance provisions, and transit or user fees. Workshops have been conducted in the six participating countries, detailing the barriers to cross-border traffic that currently exist in the subregion, and the proposals and measures for their reduction or removal. In addition, a comprehensive agreement has been reached for the minimization of non-physical barriers for the Phnom Penh-Ho Chi Minh City Road Project, and a similar agreement is expected to be concluded soon for the East-West Corridor Project.

Regarding energy, the most successful project to date has been completion of the 210 MW Theun Hinboun Hydropower Project, which has contributed significantly to Lao PDR's GDP and foreign exchange earnings; Thailand, which has a long-term agreement with Lao PDR for purchase of the electricity, is assured of another source of energy supply. Other Lao PDR-based projects underway are the Nam Leuk Hydropower Project and feasibility assessments of the proposed Nam Ngum 3 Hydropower Project and Nam Ngum to Udon Thani (Thailand) Transmission Line. The Se Kong-Se San and Nam Theun River Basin Studies have been completed, identifying additional possibilities for hydropower development. The GMS Electric Power Forum, with participation by the World Bank, is examining the possibility of establishing a subregional power grid and power market system.

Subregional cooperation in telecommunications has been in partnership with the private sector. The objective of technical assistance projects in this field has been to help create a reliable, high quality, low cost telecommunications service linking the six GMS countries. A framework plan has been agreed upon, and feasibility studies completed for several of the proposed telecommunications links.

Progress in Other Sectors

Important progress has also been made in promoting regional economic cooperation in other sectors: human resource development, tourism, environment, trade and investment. Since 1992, the Bank has supported 26 technical assistance (TA) projects under the GMS Program, involving - in addition to extensive staff time - US \$38 million of resources from the Bank, co-financiers, and the GMS governments. Some of these TAs were for the preparation of infrastructure projects and support of Ministerial and forum/working group meetings (ADB, 2000).

Regarding human resource development, two TAs have been completed: one relating to labor market management, skills training, and standards, certification and accreditation; the second relating to prevention of HIV/AIDS in the subregion. Another project is underway, concerning the cultural, socio-economic and physical constraints faced by ethnic minorities in mountainous and border areas in assessing health and education services.

Regarding tourism, six TAs have been financed by the Bank, co-financiers and GMS countries: promotion of the subregion as a tourist destination; training the trainers in the basic skills of tourism; training resource managers in conservation and tourism; a Mekong/Lancang River tourism planning study; a village-based tourism project; and a north-south tourism corridor project. A seventh project, the Mekong River tourism infrastructure development project, is being processed. The GMS Working Group has worked in partnership with the private sector, resulting in establishment of the Mekong Tourism Forum - which meets annually. Also, GMS countries have established the Agency for Coordinating Mekong Tourism Activities, located in the tourism department of the Royal Government of Thailand.

Almost US \$15 million has been directed to environmental technical assistance under the GMS Program. Two projects have been completed: the Subregional Environmental Monitoring and Information System; and Subregional Environmental Training and Institutional Strengthening. Three other projects are underway or in process: Poverty Reduction and Environmental Management in Remote Watersheds in the GMS; Strategic Environmental Framework for the GMS; and Protection and Management of Critical Wetlands in the Lower Mekong Basin. The GMS Environment Working Group has expanded its activities from basic information, training and standards to transborder issues, such as the cumulative effects of hydropower projects and illegal trade in timber and endangered species. Regarding trade and investment, the main activity has been a series of international investment forums organized by the Bank. Investment forums or presentations have been held in Australia, Europe, Japan, Thailand and the Republic of Korea. Trade and investment activities under the GMS are being coordinated with the ASEAN Secretariat and ESCAP. The GMS Program has focused on infrastructure and non-tariff barriers to trade and investment, leaving policy issues to other forums (e.g., ASEAN, APEC and WTO).

Dialogue Among Participating Countries

The GMS Program has provided forums for the six participating countries to discuss issues and opportunities of mutual interests, and in so doing the Program has helped strengthen trust and confidence in subregional economic cooperation. Ministerial Conferences and sector forums or workshops, as well as other activities, have provided opportunities for senior government representatives to exchange views and better understand each other. Strong

friendships have been formed, encouraging further economic cooperation initiatives - both bilateral and multilateral. The first GMS Summit, which brought all member countries to discuss and speed up the process with political commitments, was held in Phnom Penh on 3 November 2002.

5. Next Steps

Strategic Initiative: Economic Corridors

The Asian economic and financial crisis has made the environment for subregional economic cooperation more complex and uncertain. Investment prospects have been weakened and GMS countries need to pull together to recapture international investor interest. Although the crisis poses real challenges for the GMS Program, it also presents opportunities. The current economic environment calls for a more proactive and comprehensive approach to link infrastructure investments with development opportunities. During the Ministerial Conference in October 1998, GMS countries endorsed the concept of economic corridors. Under this concept, key transport corridors, such as the East West Corridor, would be linked more directly with trade, investment and other development opportunities along these corridors. Using this approach, the GMS Program would address a broader set of cross-border trade and investment issues, and promote nodes of economic activity such as special production and trade zones.

Projects and Activities in Priority Sectors

Over the next two to three years, the Program will consolidate progress to date and ensure completion of projects in the pipeline. To the extent possible, the Program will contribute to economic recovery in the subregion.

For the transport sector, the priority projects are implementation of the Phnom Penh-Ho Chi Minh City Highway Project, the East West Corridor Project, and the Chiang Rai-Kunming Road Improvement Project. Project preparation activities will be initiated for the Kunming-

Hanoi Corridor. The facilitation of cross-border movement of people and goods will continue to be an important area for further cooperation.

In telecommunications, the feasibility study for the so-called East Loop project will serve to help guide telecommunications investments linking Cambodia, Thailand, Lao PDR and Viet Nam. Financing for two telecommunications links has been secured and portions are being implemented. Financing has been secured from Kreditanstalt für Weideraufbau (KfW) for the section from Cambodia to the Thai/Viet Nam border. Financing has also been secured for links in Viet Nam. Links in Lao PDR need further assessment. Studies on training needs, mobile telecommunications and tariffs policy have been proposed.

For the energy sector, some projects will likely be phased in over a longer time frame due to the Asian economic crisis and slower growth in energy demand. The proposed 500 kV transmission line from Nam Ngum to Udon Thani may be one such project, as the Nam Ngum 2 and Nam Ngum 3 hydropower projects could be delayed due to financing difficulties by independent power producers. Construction of the Nam Leuk hydropower station was expected to be completed in 2003. As mentioned earlier, the Se Kong-Se San and Nam Theun River Basin studies have identified additional possible power projects, follow-up studies of which will be needed. Consideration of a full-scale subregional electricity trade system will continue under the auspices of the Experts Group on Power Interconnection and Trade.

For the tourism sector, GMS countries now have a strong institutional basis for on-going dialogue and cooperative initiatives. The Mekong Tourism Forum and Agency for Coordinating Mekong Tourism Activities will continue to be encouraged. Skills development will be encouraged, to capitalize in the expected upswing in tourism following recovery from the Asian economic crisis. The Mekong/Lancang River Tourism Planning Study and the North South Tourism Corridor Study will provide a solid basis for joint tourism planning and development in the GMS. The about to commence Mekong River Tourism Infrastructure Development Project will further strengthen the ability of GMS countries to act in concert in promoting and accommodating growth in tourism.

Increasing importance is being given to environmental concerns. Transborder environmental issues will be the new focus for subregional cooperation, with an indicative list of themes already identified and slated for discussion and action. These include lessons to be learned

from hydropower projects in the GMS, experience in river basin management, and concerns respecting cross-border trade in timber and wildlife. There are also a number of environmental projects either in the pipeline or proposed. The United Nations Environment Programme is taking steps to secure funding for the second phase for the Subregional Environmental Monitoring and Information System. For the now completed Environmental Training and Institutional Strengthening Project, follow-up will entail country-based training programmes. As mentioned earlier, three other projects either underway or about to commence are: Poverty Reduction and Environmental Management in Remote GMS Watersheds; Strategic Environmental Framework for the GMS; and Protection and Management of Critical Wetlands in the Lower Mekong Basin.

For human resource development, subregional cooperation will be encouraged concerning education, training, labor market management, and health services. The Asian economic crisis has greatly impacted on this sector, and increasing attention must be given to it. A workshop or conference is planned on the social consequences of the economic crisis, and the implications for HRD initiatives under the GMS Program. Meanwhile, three projects are in various stages of implementation or consideration: Strengthening Capacity for Addressing the Health and Education Needs of Ethnic Minorities in the GMS; selected HIV/AIDS projects; and possibly the design of a GMS vaccine initiative.

For subregional trade facilitation, ADB and ESCAP will complete the preparation of an issues paper for consideration by the Trade Facilitation Working Group. Consultations with GMS countries will be conducted in the process of preparing the issues paper. Trade facilitation activities in support of economic corridors will also be considered.

For subregional investment facilitation, consultations with GMS countries will be conducted to review proposed activities in investment promotion and facilitation, and the regulatory framework for investment. The implications of the more difficult investment climate will also be considered. Investment-related activities will be integrated with the plans for economic corridors in the GMS.

6. ASEAN-China FTA: Historical Background

At the Eighth ASEAN-China Summit in Phnom Penh on 4 November 2002, ASEAN and Chinese leaders signed the “Framework Agreement on Comprehensive Economic Co-Operation between ASEAN and China” which provides the groundwork for the eventual establishment of an ASEAN-China Free Trade Area (FTA) by 2010 for the older ASEAN members and 2015 for the newer members, namely Cambodia, Lao PDR, Myanmar and Viet Nam. The Agreement, which came into force on 1 July 2003, also features special and differential treatment and flexibility to newer ASEAN members and a provision for “Early Harvest” for certain goods and services.

An ASEAN-China Trade Negotiating Committee (ASEAN-China TNC) was established in May 2002 for negotiating a comprehensive Framework Agreement on ASEAN-China Economic Cooperation and had met several times. Negotiations for the trade in goods component of the ASEAN-China Free Trade Area would be concluded by 30 June 2004 while the Rules of Origin for trade in goods should be completed by December 2003. For services and investment, negotiations would commence in 2003 and would be concluded as expeditiously as possible.

Cooperative activities between ASEAN and China have been expanding in the five priority areas, namely agriculture, information and communications technology, human resource development, two-way investment, and Mekong River Basin development.

China has allocated US\$5 million for the implementation of human resource development projects. Currently, the bulk of the HRD projects are in the science and technology sector followed by ICT and agriculture. HRD projects in other areas, such as academic, transport, social development, culture, investment, industry and tourism are being developed.

In the area of agriculture, ASEAN and China signed a Memorandum of Understanding between the Ministry of Agriculture of the People’s Republic of China and the ASEAN Secretariat (on behalf of ASEAN Member Countries) on Agricultural Cooperation on 2 November 2002 in Phnom Penh. The MOU is a technical cooperation agreement to implement training programmes for ASEAN participants in China. The areas of cooperation

include forestry, livestock production, fisheries, biotechnology, post-harvest technology and the field harmonization of quarantine measures and standard conformity of agriculture products. Activities under the MOU have been progressing well. ASEAN and China have implemented nine projects successfully.

ASEAN-China cooperation continued in the frameworks of the Greater Mekong Sub-Region (GMS), ASEAN Mekong Basin Development Cooperation (AMBDC) and the Mekong River Commission. China has expressed interest in sponsoring an Initiative for ASEAN Integration (IAI) project, “Inland Waterway Improvement Project in CLMV Countries,” and other IAI projects utilising the ASEAN-China Cooperation Fund.

The Terms of Reference (TOR) for ASEAN-China Transport Cooperation was adopted during the First ASEAN and China Transport Ministers Meeting on 20 September 2002. Under the TOR, the agreed areas for cooperation include land transport infrastructure and facilitation; facilitation of maritime and river transport; and expansion of air transport services.

Development cooperation between ASEAN and China has been progressing at a considerably fast pace especially with the establishment of the ASEAN-China Working Group on Development Cooperation (ACWGDC) in May 2002. Between May 2002 and March 2003, ASEAN and China have implemented 14 projects in the areas of science and technology, ICT, agriculture, transport, social development, HRD, and mass media. Eleven more projects covering ICT, HRD, science and technology, investment, transport, academic exchange, SME, environment, and cultural sectors were expected to be implemented within 2003.

The Second Meeting of the ACWGDC, held on 26-27 March 2003 in Beijing, discussed ten new project proposals from China in the areas of entrepreneurs exchange, personnel exchange, AIDS laboratory network, law enforcement cooperation, quality inspection and quarantine, maritime, agriculture, biotechnology, and pension insurance. The Meeting also reviewed seven project proposals from ASEAN in the fields of investment, inland waterway improvement, botanical gardens, empowerment of SMEs, culture, and seafarers.

7. GMS in the Framework of ASEAN-China FTA

ASEAN-China FTA

The accession of China to the WTO as the seventh biggest world exporter has been expected to have significant impacts on the international trading system. The most important impact has been felt in the Chinese economy as it has to abide on liberalisation and de-regulation of its largely closed domestic economy. On the other hand, China's exports are accorded protection under the WTO's most favoured nations clause (MFN). The market access commitments made by China leading to its accession has increased the import of foreign goods, foreign firms and investment into China, and thus increasing the level of competition. Accession of China to the WTO brings double-edged benefits and costs to China. Liberalising the Chinese economy increases the efficiency of its economy but at the same time it also puts pressure on domestic firms, requiring major restructuring of China's product, services and labour markets leading to increased unemployment and large-scale industrial dislocation. Over the long run, it is expected that China would benefit from the process of liberalisation and de-regulation following its entry to the WTO.⁵

Against the background of these major changes, challenges and opportunities, China proposed a free trade area (FTA) with ASEAN in November 2001. Initially, there was a negative perception or at best a lukewarm reaction given by some ASEAN countries on the ASEAN-China FTA. After one year of intensive study and preliminary discussions between ASEAN and Chinese Senior Officials, ASEAN officially agreed to the establishment of ASEAN-China FTA within 10 years (by 2010). The ASEAN-China FTA is a major undertaking and has wide and deep economic and political implications for both sides.

The format of the ASEAN + 1 arrangement must be broad and comprehensive that can accommodate the interests of its constituent members as well as the interest of the partner economy. Conceptually, ASEAN-China FTA negotiations would not be easy and straightforward because ASEAN and Chinese economies are not complimentary over a broad range industrial production. They are both competing and exporting to the same external markets. To overcome this initial structural incompatibility, China has offered to ASEAN a

⁵ Hank Lim, "ASEAN-China Negotiation and ASEAN-Japan Comprehensive Economic Partnership", Keynote Speech in 2nd Japan-ASEAN Dialogue, Tokyo, 16-17 January 2003.

set of "early harvests" benefits in the sense that while China offers preferential tariff to ASEAN exports there is no reciprocal treatment of China's exports to ASEAN, particularly to the CMLV (Cambodia, Myanmar, Laos and Vietnam) countries.

GMS and AMBDC

ASEAN does not compete with GMS, nor is it contrary to the GMS's goals and strategies. In fact, ASEAN and GMS are highly complementary and work towards the same goals, only with slightly different arrangements. ASEAN has an explicit focus on raising the standard of living and closing the gap between the original members and the newer (and poorer) members. As early as 1996, ASEAN devised its "Basic Framework of ASEAN-Mekong Basin Development Cooperation (AMBDC)," which provided the foundation for the ASEAN Mekong Basin Development Scheme. The seven members of ASEAN at that time formed a "core group" for the Mekong Basin scheme that included Cambodia, Lao PDR, and China.⁶

The framework laid out the objectives and principles for cooperation, and also identified priority sectors: infrastructure, trade and investments activities, agriculture, forestry and minerals, industry, tourism, human resource development, and science and technology. It also recognized the role of the other Mekong-related multilateral institutions in the development process and sought to complement their activities.

Of particular interest to the local and foreign business communities are the various economic cooperation programme that the newest member of ASEAN will benefit from and even Yunnan is likely to benefit at least indirectly.

GMS and ASEAN AFTA

The most ambitious economic programme is AFTA, which aims to reduce tariffs in most product categories. ASEAN agreed on the AFTA framework in 1992, but it has been amended several times as a result of the new members and other circumstances.

⁶ ESCAP (2002), p. 11

Under the Common Effective Preferential Tariff (CEPT) for AFTA, many manufactured products will have tariffs at 0-5 percent by 2003 (the original schedule was 2008). A 1999 agreement allows the member states to phase in tariff reductions on sensitive and highly sensitive products. Brunei Darussalam, Indonesia, Malaysia, the Philippines, Singapore, and Thailand must phase in the 0-5 percent tariff on sensitive products by January 1, 2001 or at least by January 2003, with full implementation complete by January 1, 2010. For highly sensitive products, such as rice and other agricultural goods, the end tariff rates are flexible but will likely be around 20 percent. These will be phased in beginning in January 2001 or by 2005, with full implementation by January 2010.

The newer members of ASEAN were granted extensions on sensitive products as shown in Table 2.

Table 2: New ASEAN members' timetable for sensitive products tariff reduction

Country	Sensitive Products	
	Start phase-in	Completion
Cambodia	2008-2010	2017
Lao PDR	2006-2008	2010
Myanmar	2006-2008	2010
Vietnam	2004-2006	2013

Source: ESCAP (2002) p.11

AFTA also includes a schedule for eliminating quantitative restrictions between 2010 and 2017, depending on the agreement made by each state.

8. Roles of China in GMS

China has played a very important role in pioneering cooperation in the GMS, committed by 2005 GMS Summit in Kunming. Following is a quote from Mr. Wen's Speech.

“As far as the GMS is concerned, our countries sit next to each other and share similar cultures, sound political ties and close people-to-people contacts. All of us are at a critical stage of development. These have necessitated and enabled our mutually beneficial

cooperation. Since the inception of the GMS Program, we have conducted cooperation in such areas as transportation, energy, telecommunications, trade, investment, tourism, environment, human resources and agriculture, effectively carried out more than 100 specific cooperation programs and completed a number of flagship projects. As a result, it has promoted the economic and social development in the GMS countries, benefited tens of thousands of people, particularly the poor, and contributed to peace in this region and beyond.”⁷

With 80 percent of its imported oil flowing from the Persian Gulf through the Malacca Strait chokepoint between Indonesia and Malaysia, China has sought to increase its military and diplomatic presence in the South China Sea and beyond. Following a "string of pearls" policy, it has sought access to bases in Pakistan, Bangladesh, Burma and Cambodia. In addition, China signed a strategic cooperation accord with Indonesia in May 2005.⁸

China can play a multifaceted role in the Greater Mekong Subregion Economic Co-operation Programme (GMS) by sharing experiences in economic reform and development over the past two decades with other GMS nation. Firstly, as a developing country, it is unquestioned that China will have a substantial gain from GMS cooperation- typical of North-to-South cooperation. Secondly, that China attends GMS cooperation results from its willingness to make contribution to the development and prosperity of the region, instead of its hidden desire of bringing East Asia under its control and making itself a regional hegemony power. China’s growing market provides a great business opportunity to all the parties joining the GMS cooperation. And thirdly, it appears that China has a great role in keeping the overall situation stable and uniting all parties together. For example, in the financial crisis, China stood firmly not letting Chinese Yen depreciate in order to prevent the second wave of the crisis coming to the East Asia including countries in the GMS.

China-Myanmar Relation

While China and Myanmar is neighbor, the relation between the two countries is strategic. During the meeting of the two countries’ leader, Mr. Wen told his counterpart, General Soe

⁷ Wen Jiabao’s speech in Second GMS Summit, Kunming, China, 5 July 2005 at http://english.gov.cn/2005-07/06/content_20634.htm

⁸ Unocal Bid Shows China Needs Oil For Growth, New High-Level Panel Buttresses Energy Plan *By Edward Cody* Washington Post Foreign Service, Thursday, June 30, 2005; at <http://www.washingtonpost.com/wp-dyn/content/article/2005/06/29/AR2005062902981.html>

Win that China pays serious attention to Sino-Myanmar cooperation based on common interest. Chinese Government always urges large Chinese companies and services to make investments and set up joint ventures in Myanmar. Myanmar on her part should strive to improve her investment environment and should help facilitate the functions of the branches of Chinese companies in Myanmar. China will take serious consideration to the Myanmar's proposal on economic cooperation. China will continue to cooperate with Myanmar in wiping out the border narcotic drug problem. China will provide assistance for International Convention Centre project, Taikkyi Fertilizer project, and Paunglaung Hydro Power project phase 2. She will also provide deep-well rigs and related equipment to Myanmar and will continue to render cooperation for implementing hydro power projects in Myanmar. China supports the proposal to upgrade border trade into formal trade. Both countries will have to implement the matter stage by stage.⁹

China-Vietnam Relation

China-Vietnam relation is in a very good shape as a good neighbor. In the 1992-2004 period, China pledged 312 million USD of official development assistance for Viet Nam, including 50 million USD as non-refundable aid for the upgrade of a number of Chinese-funded industrial projects in Viet Nam. Other major projects jointly carried out by Viet Nam and China include the Sin Quyen copper project, the Cao Ngan thermal power project and the Dac Nong bauxite project. In addition, the Chinese Government has decided to provide 150 million Chinese yuan as non-refundable aid to help build a Viet Nam-China Friendship Palace.¹⁰

On December 28, 2005, the 179.2-km expressway, which traverses from China's Guangxi province to Viet Nam's Friendship Pass, will help halve the traveling time between Guangxi province's Nanning and the common border between Viet Nam and China to less than two hours. It now takes only five hours to travel from Nanning to Viet Nam's Ha Noi capital.

The eight-lane highway, which was built at a cost of 456 million USD, is currently the most convenient overland passage linking China with the Association of South-east Asian Nations

⁹ MYANMAR INFORMATION COMMITTEE, YANGON, Information Sheet, NO. D- 3372(I), July 06,2005 at <http://www.myanmar-information.net/infosheet/2005/050706.htm>

¹⁰ Ministry of Foreign Affairs, Vietnam: at <http://www.mofa.gov.vn/en/nr040807104143/nr040807105001/ns050719110614>

(ASEAN). It is expected to help expand trade between China and ASEAN countries and promote the formation of the China-ASEAN Free Trade Area.

China- Lao PDR Relation

Today China's relation with Lao is in a good from. Investment in Laos is increasing at a rapid rate and Chinese immigration to Laos is growing. On November 28, 2004, Premier Wen Jiabao of the State Council, who is on a formal visit to Laos, held talks with his Lao counterpart Prime Minister Bounnhang Vorachith. The two sides exchanged views in depth on enhancing the good-neighborly and friendly relations of cooperation between China and Laos in a cordial and friendly atmosphere.¹¹

Wen Jiabao made positive comments on the bilateral relations. He said that China-Laos relations have been developing comprehensively in recent years with the two sides trusting each other, treating each other as equals, supporting each other and engaging in earnest cooperation, stating that China is satisfied with the development of relations between the two countries. He noted that both China and Laos are conducting reforms and opening to the outside world to develop their respective economy and improve their people's livelihood, so it is in line with the fundamental interests of both peoples to strengthen the good-neighborly and friendly relations of cooperation between China and Laos. Wen thanked the Lao government for its firm support for China on such issues as the Taiwan question.

Wen stressed that the Chinese government attaches importance to China-Laos relations, cherishes the friendship between the two countries and would like to be Laos' good neighbor, good friend, good partner and good comrade forever. Unlike its other neighbors, China has not historically dominated the Laotians. In the final analysis, China represents the most powerful remaining communist state to which Laos might turn for support against Thai or Vietnamese hegemony.

China-Thailand Relation

China and Thailand has a strong link as neighbor and trade partner, especially with Yunnan Province. In September 2005, China and Thailand has pledged to enhance bilateral strategic ties of cooperation on the occasion of the 30th anniversary of the establishment of diplomatic relations. The agreement was reached between Thai Prime Minister Thaksin Shinawatra and visiting Chinese Vice Premier Wu Yi, who led a big Chinese delegation of entrepreneurs to

¹¹ Ministry of Foreign Affairs, People's Republic of China at <http://www.fmprc.gov.cn/eng/zxxx/t172483.htm>

the northern Thai city. Thai PM, Thaksin said developing strategic relations of cooperation with China is a consistent policy of the Thai government. The Thai government and people appreciated very much the assistance China has provided over the past years and hoped bilateral exchanges at all levels could be enhanced and cooperation in all fields be deepened. The prime minister said he supports China's policy of peaceful development, adding China's development has helped boost regional and global economic growth. Thailand is willing to join hands with China in pushing forward regional and international cooperation and make contribution to safeguarding world peace and joint development. Wu said despite the changeable international situation, China- Thailand relation has developed healthily and steadily. With concerned efforts of the two sides, she believed their cooperation could be further explored and expanded. Wu stressed that economic and trade cooperation with Thailand comprises a major part of building up the over-all strategic relations of cooperation between the two countries. It is also a driving force in promoting development of their bilateral ties.

9. Challenges for GMS in the Framework of ASEAN-China FTA

Following are challenges faced by the GMS Program.

Poverty

The rich human and natural resource endowments of the Mekong region have made it a new frontier of Asian economic growth. Indeed, the Mekong region has the potential to be one of the world's fastest growing areas. Yet, still much of it remains poor. The gross domestic product per capita is about \$1 a day in most of the region. Despite significant economic growth, poverty is still widespread.

The challenges include:

- 1) the disparities between urban and rural communities;
- 2) a growing gap between rich and poor;
- 3) inadequate attention to the special needs of ethnic minorities;
- 4) gender inequities, lack of access to basic health and education; and
- 5) inadequate protection of the environment on which traditional livelihoods depend.

Clearly, the full potential of the Mekong countries can be realized only if the problem of poverty is adequately addressed.

Environment

The rich and diverse natural resource base of the GMS is suffering from increasing stress as a result of rapid demographic and economic change, unsustainable exploitation, impact of development programs and projects, and relative weakness of the protective and regulatory institutions.

There are still concerns from the downstream countries of the Mekong River namely Cambodia and Vietnam over the impacts of the development projects among the upstream countries. The four countries in upstream river namely China, Myanmar, Thailand and Laos have implemented the agreement on improvement of navigation with the lack of consultation with the downstream countries. The lack of coordination, consultation, and sharing information among these countries bring about uncertainty over the environmental impact among countries in the subregion.

As China and Myanmar are not the members of the Mekong River Commission (MRC), the cooperation between these countries to the latter is still in doubt. Though there is promise from the PRC to cooperate with the downstream countries, so far, the sharing information is still limited. Environmental concerns still remain over the impacts of the GMS Program.

Resources

The projects of the GMS require tremendous inputs of financial and human resources. The governments of some countries find difficulties in finding the sources for financing the projects. The involvement from the Private Sector in funding the projects is still limited. Though there are workshops and seminars to mobilize finding from the privates sector, the participation from the private sector is still in doubt. Transparency over contracting and bidding the projects to the private sector will be a problem.

The human resources among some countries such as Myanmar, Cambodia, Vietnam and Lao are still limited to handle such a huge development program.

Trans-border Transportation

Expectedly during the GMS Summit in Phnom Penh this year, the PRC and Myanmar will access to the GMS cross-border agreement, which are signed by Cambodia, Lao PDR,

Thailand, and Vietnam¹². The facilitation of goods and passengers movement across the border will require complicated formality and procedures. While countries in the subregion have different standard of highways, and driving rules, there will be a long way to standardize the customs rules, the traffic rules and other formalities. The awareness rising and capacity building are required to the cross border transportation. So far, China, Laos and Vietnam already implement the trans-border transportation. Cambodia can easily implement as Cambodia has the same standard and driving rules with these countries.

Competition

Among GMS, competition to find markets for similar products, especially agricultural products will create complexity in economic cooperation. The different levels of production capacity among GMS create different cost factors and make the poorer economies difficult to win in competition. Though China provides MFN and “Early Harvest” for CMLV countries, the real benefits are still in questions as there are constraints in high transportation costs and complicated bureaucratic procedures including “Rule of Origin,” required for products from CMLV to enter Chinese’s Yunnan province.

As a poor country like Cambodia, high production costs and poor quality products resulting from weak technology foundation are the main obstacle in participation in the FTA. Though there is a huge opportunity in accessing the GMS markets, it will take a long time to gain benefit from the cooperation in the framework of China-ASEAN Free Trade Area.

Chinese competition affects Southeast Asia in varied ways because the nations have wildly different economies, ranging from the European-level prosperity of Singapore to the African-level poverty of Laos. In Cambodia, the issue is garment and apparel industry. In Malaysia, it is semiconductors. In Thailand, home electronics. All are facing fast-growing competition from China.

“Globalization has helped us, but it is now hurting us,” said Loo Took Gee, an economic adviser to Malaysian Prime Minister Abdullah Ahmad Badawi. “From China, there are a lot

¹² Summary of Proceedings of Mid-Term Senior Officials’ Meeting (SOM), Kunming, Yunnan Province, PRC, 8 June 2002.

of products coming in at 30 percent to 40 percent below cost here. How in the world can one compete against that? I don't have an answer.”¹³

10. Impacts of GMS and ASEAN-China FTA to Cambodia

A collaboration of the GMS and ASEAN-China FTA programs will continue to be an important element in the process of regional integration. The integration process itself will be significant for the well being of the people in the region including Cambodia as this would provide in the future a viable foundation for a long term economic growth and sustainable development. The synergies between GMS and ASEAN-China FTA programs will certainly offer potential for growth and profit for the poor country like Cambodia. Moreover, this kind of cooperation will provide the countries in the region with the opportunities to develop the region into a center comprehensive and sustainable development. More specifically, the GMS, through a endless efforts by all whose concern is to have an integrated and prosperous and stable Southeast Asia, could be turned into an economic area with the potential to be one of the world's fastest and attractive economic and investment areas. The already strong spirit of cooperation between GMS countries will serve as a kind of insurance that will keep the development and governance in GMS including Cambodia on track.

With a good potential in tourist attraction, Cambodia can gain more benefit from the framework by attracting tourists which already visit other GMS countries. By better link in transportation, especially air and land transportations, Cambodia also expects that there will be more Chinese visitors to Cambodia, as China is the big tourist markets.

11. Conclusion

Though there are constraints in the process of GMS cooperation, the GMS scheme not only provides huge opportunity for the future economic development in the region but it also reduces political and security tensions that plagued peninsular South-East Asia throughout the 1970s and 1980s.

¹³ San Francisco Chronicle, Sunday, August 7, 2005 at <http://www.sfgate.com/cgi-bin/article.cgi?file=/chronicle/archive/2005/08/07/BUGT0E3EJN1.DTL&type=business>

The GMS Program can play a very active role in ASEAN-China FTA. It is very different from ASEAN or other regional agreement, for it is informal and guided only by a general set of principles and institutional arrangements. Unlike ASEAN, the Program is not intended as a precursor to a trade bloc. Rather, it is a pragmatic, results-oriented program whereby the six countries, or subsets of the countries, agree to plan and implement projects to their mutual benefit. Priority projects and initiatives are endorsed and donor assistance mobilized. Forums or working groups have been established for each of the eight sectors included in the Program, to facilitate project implementation and the identification of new areas of cooperation. National coordinating committees and coordinators support the process. In these ways, subregional projects lead to improved employment opportunities and living standards, and poverty reduction. Subregional economic cooperation also has a peace dividend, for it contributes to stability and better relationships. These are important factors in creating a positive climate for investment and business enterprise, and thereby for promoting faster growth.

The road of economic integration in the subregion will be a long full of obstacles and challenges but with the strong commitment from the political leaders, it will happen. While process of regional economic integration including FTA, bilateral agreements on FTA, ASEAN+1, ASEAN+3 and the concept of East Asian Community are well underway, the GMS framework can boost the speed of ASEAN-China FTA. With a successful implementation of the FTA on a basis of mutual benefit, ASEAN and China will regard each other as partners not competitors.

Cambodia is committed to be part of the GMS and China-Free Trade Area because the framework will promote Cambodia economic development, especially trade, investment, transportation and tourism.

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