

CHAPTER 4

THE INTERDEPENDENT RELATIONS BETWEEN CHINA AND ASEAN IN GMS ECONOMIC COOPERATION

In the 21st century, new challenges and new opportunities coexist. What is important to China is to create a long-term stable and peaceful international environment, especially to create friendly and stable relations with neighboring countries so as to smoothly carry out reform, opening up and modernization construction. China's economic development cannot be achieved without depending on the prosperity of ASEAN. In the meanwhile, ASEAN will also benefit from China's development. China's economic development is not only challenges but also opportunities for ASEAN.

4.1. The Relations between China's Development and ASEAN

The sharp contradictions between resources possession and consumption will become serious obstacles for the sustainable development of China's economy. China's future economic development should make full use of both domestic and foreign "two resources and two market". It should face the world to strive for obtaining more international resources on a large scale in the world.

4.1.1. China's participation in GMS economic cooperation is favorable to make use of foreign resources to make up for the domestic resources insufficiency.

China is the biggest developing country in the world. It is through several decades' arduous efforts that China can strive for the achievement of modernization in the middle of 21st century. At the same time, China's per capita resources possession amount is little. It is only one sixty-fourth of the United States. Including arable land, fresh water, forest, and mineral resources etc. natural resources, and crude oil, steel iron, coal etc. processing resources, China's per capita possession rate is among the lowest in the world. The arable land is one fourth of the world average level; that is to say, China is supporting 22% of the world's population by using 7% of the world's arable land. The fresh water is one fourth of the world average level, the forest is one sixth, grassland is one third, mineral resources is one half. What's more, some important

mineral resources, such as oil, iron, sylvite, and copper have little reserves. The resources analysis indicates that in the future 15 to 20 years, the proved reserves of some large amount important mineral resources that the national economic construction will need is nearly exhausted. The 21st century is an important period for China's economy to take off and to achieve modernization. Large amount of resources are needed. First of all, China is faced with the severe situation of "overall shortage" of important resources, such as oil and grains. It has been predicted that in order to achieve the goal of industrialization, China will consume 400 million tons of oil, 700 million tons of ironstones every year. In 2010 China will need to import nearly 200 million tons of oil. If without the supplement of foreign energy, the sustainable development of China's national economy will be difficult to maintain in the 21st century. China is also a big country where there is a big population, less lands. The arable land resources and grain is comparatively in shortage. The grain security level is very fragile. The statistics of Nations Statistics Bureau of China shows that by the year 2025, the total number of China's population will reach 1.65 billion. By 2020 the annual grain import amount of China will be around 50 million tons to 200 million tons. China will become the largest grain import country in the world.

The Mekong River riparian five countries have huge potential to produce and export grains. Thailand and Vietnam rank top and the second place among the rice export countries in the world. Myanmar, Laos, Cambodia, have vast territory with a sparse population. They have great grain producing potential, too. In the future, the five countries' grain export potential will be over 20 million tons. They will become important source for China to import grains (National Statistics Bureau of China).

The geologic research shows that the minerization condition of the subregion is good. It has the feature and advantage of wide coverage and complete mineral categories, and abundant per capital resources. According to the published data of the World Bank in 1996, in terms of per capital possession natural capital, including land, forest, mineral resources, Laos is US\$5,100, Myanmar is US\$2,380, China is US\$530, and Vietnam is US\$290. The subregion is a resources-intensive area of world-class diamond, jade, sylvite, gold, copper, tungsten and chromium. Some kinds of minerals,

which China is in urgent need of, such as stylvite, carborundum, molybdenum, palladium etc. have bigger reserves in subregional countries. These countries are abundant in rice, timber, rubber and aquatic products, which are what Chinese people's life and construction need. Therefore, the subregional countries' rich resources can make up for the insufficiency of China's resources.

4.1.2. China's participation in GMS economic cooperation is favorable to make use of and open the subregional countries' market.

As a developing country, China constructed the foundation of economic growth on the basis of domestic demand. China has 1.3 billion population's huge market. Only the domestic consumption is enough to stimulate China's economy to keep high growth. It is just the principles that Chinese government is carrying out currently to expand domestic demand and prompt economic growth. China has kept higher domestic deposit rate. The consumption level is rising continuously. Those Chinese people who have become rich began to prefer high-quality and expensive commodities. Their demand levels are various. This change has important meaning to this region even to the future world trade situation.

However, China is faced with a problem, which is hard to admit but has really appeared quietly-----China met the problem of "economic structure surplus". It means the excessive development of some industries have resulted in the overstocking of products. It was caused by unreasonable industrial structure. For example, the shoes industry of China has produced shoes excessively, which is enough for the 1.3 billion Chinese consumers to wear for several years. Because of the accumulated problems such as unreasonable economic structure for many years, in recent years China's domestic market demand is insufficient. Large amount of products are dull of sale and the production capacity is left unused. Therefore the promoting role of foreign trade on economic growth is becoming bigger and bigger. It is a must to expand foreign trade in many ways and increase export. The government's solution are as follows: to quicken the industrial structure adjustment, expand investment, stimulate consumption and develop export; to combine "introduce in " with "going abroad" closely"; to encourage the products with matured technology and saturated in the domestic market to develop

in foreign countries; to invest abroad to build factories by means of offshore processing trade; to combine many forms of economic cooperation such as trade, investment, undertaking contracted projects, finance, tourism etc. in order to promote each other. In the 21st century, China's economic development is faced with many difficult problems. At the present period, the most important thing is to pass through the difficulty of "economic structural surplus". Therefore, at the time of coordinating economic structure and expanding domestic demand, China should try to expand foreign trade, increase export, by using foreign demand to promote domestic production. As a result, China needs to open and make use of subregional countries' market, which is decided by many factors such as geographic factors, subregional countries' market potential, the bilateral economic complement, and similarity of subregional countries.

First of all, the subregional countries are the nearest market of Southwest China, which the subregional countries border or are adjacent to. To open up this market can save transportation distance and time of commodities and raise competitiveness. Secondly, the subregion is the main commodity market of Southwest China in the 21st century. As a result of subregional long-term foreign aggression and internal turmoil, the economic development is low and the industry is backward. There are few high-tech and high-added value industries. The heavy industry and engineering industry has not started to develop. This has provided wide space and opportunities for Southwest China's heavy industrial products, chemical products, agricultural machinery, whole set equipment of power plant, mining machinery, sugar-processing whole set equipment, chemical fertilizer, pesticides etc. commodities to open up this market. As can be seen from the development trend, after the Asian financial crises, the subregional countries' economy has recovered. The import demand has increased and the market potential is huge. Besides, the economic development levels of subregional countries are not in accordance with each other. The economic development level of Thailand is higher, and it has entered the period of industrialization. However, Myanmar, Laos, Cambodia and Vietnam four countries still belong to the agricultural countries. The difference of economic development levels has led to the diversification of subregional consumer demand and consumption levels. There are not only the

market demand for low-tech labor-intensive products, but also the demand for high-tech, high-added value capital-intensive, labor-intensive products. Therefore the subregional countries' trade market is very broad.

4.1.3. China's participation in GMS economic cooperation is beneficial to strengthen its cooperation with ASEAN, safeguard regional peace and security.

As the biggest developing country, what is of utmost importance for China at present is to create a long-term stable international peaceful environment and good surrounding environment so that it can carry out reform, opening up and modernization construction smoothly. This is where China's basic interest lies. The subregion is situated in the junction of China and ASEAN. Therefore, to participate in GMS economic cooperation has strategic significance for China to develop friendly neighborliness and stabilize neighboring countries' security¹:

- (1) It is favorable to safeguard regional peace and stability. The ASEAN countries are not only China's neighbors but also developing countries. It is the common desire of ASEAN countries and China to strengthen cooperation and develop jointly. The bilateral cooperation has solid foundation and great potential. Through cooperation it will promote good-neighborly, mutual trust partnership between China and ASEAN, and safeguard regional peace and stability.
- (2) These countries can coordinate and support each other in international and regional affairs. In the complicated international situation, they can jointly safeguard and develop bilateral proper rights and interests, promote developing countries to participate in international economic decision and operation equally, impartially and indiscriminately. The common interest among different countries can be achieved only through cooperation.
- (3) It is favorable to promote regional economic and technological cooperation. China and ASEAN are one of the areas with the fastest economic growth rate in the world. Under the principles of advantage complement, mutual benefit and joint development, they can further strengthen economic, trade, scientific and technological cooperation in order to promote common economic prosperity. According to the statistics of Ministry of Commerce of China, China mainly

imported rice, natural rubber, electronics components and equipment, aquatic products and industrial chemicals from ASEAN (including Thailand). In the meanwhile, Thailand and other ASEAN member countries imported agricultural equipment, industrial products, the whole-set equipment of power station, Chinese herbal medicines from China. In terms of Sino-Thai foreign trade commodities, the following table is for your reference. (See Table 4.1)

Table 4.1 China's Principal Import Commodities from Thailand and Principal Export Commodities to Thailand in 2002

Import Commodities' Name	Export Commodities' Name
Equipment and components of automatic data transaction	Components of automatic data transacting equipment
Plastic in prime shape	Textile material and products
Integrate circuit and components of micro-electronics equipment	Mobile telephone or radiotelephone for car
Industrial chemicals	Video cassette recorder and player
Natural rubber	Steel
Crude oil	Engine and generator
Steel	Integrate circuit and components of micro-electronics equipment
Agricultural products (rice, fruits, vegetables)	Agricultural products (fruits, vegetables)
Aquatic products	

Source: Ministry of Commerce, China, 2002.

(4) It is beneficial to deal with bilateral discrepancy and disputes through friendly negotiations. Because of some historic reasons, at the present time there are disputes concerning the rights and benefit of territory, the territorial sea between China and some ASEAN countries. To strengthen bilateral cooperation is favorable to solve discrepancy and disputes among China and some ASEAN countries through peaceful ways such as dialogue and negotiations.

Therefore, GMS cooperation is one of the important issues, which has overall significance for China and ASEAN. In terms of the cooperative scope, the subregion covers ASEAN five countries (Thailand, Myanmar, Laos, Cambodia and Vietnam).

What's more, in the "ASEAN-Mekong River Basin Development Cooperative Mechanism" led by ASEAN, the ASEAN ten countries and China have formed 10+1 cooperative mechanism. All of them are center member countries of cooperation. The cooperative fields and scopes cover transportation, telecommunication, energy, tourism, trade, investment, agriculture, and industry etc. eight big fields and many other aspects. This kind of cooperation has greatly broken through the framework of China and Southeast Asian countries' economic cooperation. This is the overall, multi-levels and wide scope cooperation between China and ASEAN.

Through comprehensive and active participation in regional affairs, especially through the constructive role in financial crisis, China has strengthened ASEAN's confidence in China, gradually eradicated the bad influence of "China Threat". The Prime Minister of Singapore Wu has pointed out "We should regard China as an opportunity instead of threat...The rising of China provided numerous opportunities"². The contemporary China is comparatively poor and weak. It needs a peaceful international environment to be engaged in construction and to strive for development. It has neither intention nor power to threaten other countries. In fact, China is not an aggressive country. It is the essence and virtue of traditional Chinese culture to respect morality and justice, to keep faith and to be trustworthy in word and resolute in deed. It is hoped that the world will know more about China obviously and impartially. It is especially expected that ASEAN and the neighboring countries know about China more accurately and more comprehensively. Therefore China and ASEAN's cooperation is not only concerned with the economic benefit but also the political benefit; not only the present benefit but also long-term benefit.

4.1.4. China's participation in GMS cooperation is favorable to construct international big passages that link China with Southeast Asia and South Asia.

Yunnan Province of China is a special area, which inserts into the Indochinese Peninsula. It has the same mountain ranges and the same river sources as Myanmar, Laos, Thailand, Cambodia and Vietnam five countries on the peninsula. In addition, the minorities of these countries have common ancestry and their culture belong to the same school. It is the nearest land passage for Southwest China to move towards the

world. It is also the window and forward position for China's opening up to the Southeast Asia and South Asia.

(1) The superior geographic location of Yunnan and prominent regional advantage

Yunnan is situated in the Southwest frontier area of China. It covers an area of 393,000 km² with a total population of more than 40 million. There are 26 minorities living here. Owing to its good climate conditions, Yunnan can contact with the neighboring countries conveniently throughout the year. The capital city Kunming is a plateau city with more than 2,000 years long history, which enjoys the fame of "Spring City". It is the political, economic, cultural and transportation center of Yunnan Province.

Yunnan borders Myanmar, Laos and Vietnam three countries. The land boundary line is 4,060 km long, which accounts for one fifth of the land boundary of China. Basically there isn't any natural barrier on the border. Sixteen ethnic groups inhabit transborderly. Their stockaded villages link together. Their culture and customs are same and they keep friendly relations with each other. There are more than 100 natural water and land passages extending to the neighboring countries. Yunnan is adjacent to Thailand and Cambodia. It is separated from South Asia by countries. The straight-line distance to Thailand and India is 234 km and about 300 km respectively. It is only 500 km from Bangladesh. The boundary river of Yunnan with Myanmar, Laos, and Vietnam three countries is 1,043 km long. The Yunnan Plateau is on the upstream of big rivers. There are Dulong-Irrawaddy River, Nujiang-Salween River, Lancang-Mekong River, Yuanjiang-Red River four international rivers, which link with five countries on the Indochinese Peninsula. Therefore, Yunnan's participation in subregional cooperation has natural geographic advantages³.

Yunnan is situated on the upstream of the Lancang-Mekong River. It is the important member of GMS cooperation. It is the natural gateway of China to lead to Indochina, the junction of China and ASEAN and convenient land, water and air passages, as well as the forward position and window of cooperation. The subregion is a continental bridge from China to the Pacific Ocean and the Indian

Ocean. It is just because of the superior geographic location and prominent regional advantages that historically Yunnan has been China's Southwest gateway and "South Silk Road" for Chinese people to make business dealings with people in the Southeast Asia, South Asia and West Asia. During the WWII, the Yunnan-Myanmar Road, China-India Road and the Camel's Hump Air Route became the only international passage for China to link with the world, which played important roles for the final victory of Anti-Japanese War.

(2) To construct international big passages from Yunnan to move towards the world

Yunnan's mountains are high and gorges are deep. The transportation is inconvenient and the information is limited. It is still in a semi-closed state. Within Yunnan Province the Lancang River Basin area is abundant in resources. However, the economic development lagged behind. There are 128 counties in Yunnan Province, among which 73 are poverty counties. The poverty extent is higher than the provincial and national average level. The backward transportation is an important reason to restrict the economic and social development of this area as well as opening up to the outside world. Yunnan's railway is at the end of national railway network. In term of overall layout, it is characterized by "few railways, bad conditions, and unreasonable locations". The west and south of Yunnan Province have no railways at all. Until nowadays, there aren't railways extending to the border. Yunnan is a hinterland province on the plateau. It is far away from the coastal area and there isn't seaport leading to the world. The import and export goods must be transported in a roundabout way via Huanan Port of Guangzhou, which made the commodity cost rise and the competitiveness decline. Yunnan has more than 20 national-level ports and provincial-level ports, as well as more than 90 passages to go abroad. However, the regional advantage can only become motive power to promote regional economic development only through combining with transportation, market and resources factors.

Because of good regional advantages, Yunnan has become the main body of China's participation in GMS economic cooperation and the forward position of China's opening up to Southeast Asia and South Asia. From 1992 Yunnan started to

actively participate in the activities of many kinds of cooperation mechanisms. The subregional cooperation has strengthened Yunnan's role as forward position and window, raise Yunnan's domestic and international well-known extent, provided good chances for Yunnan to contact, know about the international communities and gain experiences and lessons from it. The objectives of Yunnan's participation in subregional cooperation are to construct Yunnan as an international big passage from China to Southeast Asia and South Asia, as well as the precedent demonstration area of China-ASEAN Free Trade Area. To participate in subregional cooperation will make Yunnan change from the dead corner, transportation end of opening up to the world to the transportation hub that links Southeast Asia and international big passage.

The international big passage is the comprehensive conductive system, which links up Southeast Asia, South Asia via Yunnan Province of China, with the telecommunication as forerunner, road as foundation, railway as network, aviation as auxiliary, water transportation as complement, combines all kinds of transportation modes and information network as a whole. The construction objective is to link three Asia (East Asia, Southeast Asia and South Asia), and two oceans (the Indian Ocean and the Pacific Ocean) together, promote cooperation and prosperity.

The economic corridor is a new concept, which was first proposed at the 8th GMS Cooperation Ministerial Meeting in 1998. That is the cooperative mechanism in a special geographic area to make the infrastructure construction as foundation, combine production, trade, and investment etc. economic activities organically. The meeting decided to make the construction of "three longitudinal and two horizontal" five economic corridors as the priority projects of GMS cooperation. The transportation passage is the skeleton of economic corridors. The North-South land passages-----"three longitudinal" are from Yunnan to Southeast Asia as follows⁴:

- A. Yunnan-Myanmar Economic Corridor refers to Yunnan-Myanmar Road (Kunming-Mandalay-Rangoon). This economic passage can open land

passage going to the sea from Yunnan to the Indian Ocean, link China, Southeast China and South Asia three huge markets.

- B. Yunnan-Laos-Thailand Economic Corridor refers to Kunming-Bangkok Road (Kunming-Houei Sai-Bangkok). This economic passage can open land passage going to the sea from Yunnan to the Gulf of Thailand. It can link China and ASEAN two huge markets.
- C. Yunnan-Vietnam Economic Corridor refers to Yunnan-Vietnam Railway (Kunming-Hanoi-Haiphong). This passage can open land passage going to the sea from Yunnan to the Northern Gulf and promote Sino-Vietnamese economic cooperation and contacts.

The “two horizontal” of the East-West land passages are Rangoon-Bangkok-Phnom Penh-Ho Chi Minh city and Martaban-Phitsanulok-Sawannaket- Hue two transnational roads.

The meaning to construct economic corridors lies in the fact that it will further broaden economic cooperation field, make resources and all kinds of productivity factors be optimized and rearranged through transnational flow in order to achieve the best allocation of market and gain higher profits. The international economic and trade layout that each brings its advantage into full play, advantage complement, sharing common benefits, regional division of labor and joint development will come into being. The economic corridors will become the continental bridge, which serves China and Southeast Asia.

If three railways (from Yunnan to Southeast Asia and South Asia), three high-grade roads and three water international passages were combined and arranged according to geographic locations, the subregional east, middle and west three big economic belts will be formed, that is transportation passage can develop into economic corridors and modern economic belt.

- A. East Economic Belt: Yunnan-Vietnam-Cambodia-Thailand Railway of the eastern line of Singapore-Kunming Railway, Kunming-Haiphong Road and Yuanjiang-Red River navigation line.
- B. Middle Economic Belt: Yunnan-Laos-Thailand Railway of the middle line of

Singapore-Kunming Railway, Kunming-Bangkok Road and Lancang-Mekong navigation line.

- C. West Economic Belt: Yunnan-Myanmar-Thailand Railway of the west line of Singapore-Kunming Railway, Kunming-Rangoon Road and the Irrawaddy navigation line.

China has made the Yunnan section of “three high-grade roads, three railways and two water routes” of subregional cooperation priority projects as the key transportation projects to construct. Furthermore, the Lancang-Mekong international navigation and the completion of Kunming-Bangkok Road were regarded as the most important cooperative projects.

(3) In the 21st century the opening up Yunnan Province

According to the research of the Lancang-Mekong River Research Association of Yunnan Province, Yunnan’ active participation in GMS cooperation is an important component part to implement China’s good-neighborliness diplomatic policies to the neighboring countries and comprehensively open up to the outside world. The construction of international big passages can open a land trade route to link Southwest China with the Indochinese Peninsula. To directly link the two most vigorous markets together will certainly promote the development of large-scale transnational economy. Those can benefit most are the riparian countries, but not only limited to them. All of the participant countries can experience political, economic, social and security benefits brought about by the completion of these passages.

The international big passage construction is favorable to adjust Yunnan’s economic structure, to develop characteristic economy and advantageous industries that have prospect. First, it can effectively develop passage economy, nurture new economic growth point. Secondly, it is favorable to develop Lancang River’s hydropower resources, develop Yunnan’s hydroelectric advantageous industries, and construct China’s hydropower bases. Thirdly, it is favorable for Yunnan to link with Southeast tourism market, and accelerate the development of Yunnan’s tourism pillar industry. Fourthly, it is favorable to promote the urbanization process along the line. The resources, technology, funds and commodities of Yunnan and subregional

countries complement with each other. The geographic proximity and transport convenience will create favorable conditions for bilateral economic cooperation.

As the central city of Yunnan Province and the starting point of “three longitudinal” economic passages of subregional cooperation, Kunming will become important gateway and transportation hub of international big passage. Under the trend of regional economic integration, it will play an important role in multilateral cooperation. It will be constructed as diversified, multi-level, multi-functional, modernized electronic financial service center to face the subregion and ASEAN. It will be constructed as information service center, which gathers economic, trade, investment, industries, and service trade etc. detailed information of China and subregional and ASEAN different countries together. It should fully play the role of provincial central city, strengthen urban function construction, raise its internationalization level, and form regional international business, trade and tourism center.

The government of Yunnan Province has proposed in the “Tenth Five (2000-2005) Years’ Plan” that Yunnan’s development should exert three big advantages, achieve three big objectives, construct five big projects, five big bases and five big industries. Yunnan should fully exert regional advantage of being adjacent to Southeast Asia and South Asia, the advantage of having abundant natural resources, and good climate advantage in order to achieve three big objectives and to construct Yunnan as “green economic strong province”, “ethnic cultural big province” and international big passage for China to link with Southeast Asia and South Asia.

Through the water, land transportation construction of Lancang-Mekong golden waterway, Kunming-Bangkok Road, Singapore-Kunming Railway etc., Yunnan will construct a three-dimensional international big passages network, link with the Pacific Ocean and the Indian Ocean two big oceans, link China, Southeast Asia and South Asia three big markets together. Yunnan is endowed with unique resources and climate advantages. For a long time, it relied on resources advantage to develop characteristic economy. It made use of biological, mineral, hydropower, tobacco etc. advantageous resources to develop resource-processing industry, formed five big resources

development bases, transformed the resources advantage into industrial advantage, and made the comprehensive economic actual strength of the whole province obviously strengthened. The data of Statistics Bureau of Yunnan Province indicate that in 2001 the GDP of Yunnan Province reached US\$26 billion, which ranked 18th among 30 provinces of mainland China. By depending on the advantage of being adjacent to Southeast Asia, Yunnan optimized trade and investment environment according to WTO regulations. In 2001 Yunnan's trade volume with ASEAN countries reached US\$710 million, which accounted for 36% of the foreign trade volume of the whole province. ASEAN has become Yunnan's biggest economic and trade cooperation partners. With the establishment of China-ASEAN Free Trade Area, Yunnan's regional advantage will become more prominent. It will follow China's West Region Development policy, rely on the impetus of China-ASEAN Free Trade Area, act as the forward position, passage and hub for China's opening up to the Southeast Asia.

4.2. ASEAN's Benefits from China's Development

When history has entered the 21st century, China has entered into WTO in a more confident and open posture. The 1.3 billion population's huge market will bring strong economic motive force to East Asia. The economic globalization has linked China with ASEAN closely. ASEAN will benefit from China's economic growth. If China has not reformed and opened up to the outside world, it would not open its market to ASEAN and actively attract investment from ASEAN.

4.2.1. The Achievement of China's Reform and Opening up to the World

In the 1970's of the 20th century, China began to go along the way of reform and opening up to the world. Between 23 years from 1978 to 2001, China's GDP has increased 6.93 times; the average growth rate was as high as 9.4%. China's total foreign trade has increased more than 20 times, which has obvious promoting role on China's economy. Twenty-three continuous years' fast development has made China's economy walk on an unprecedented prosperous track. Especially during 13 years from 1989 to 2002, the national economy has developed continuously, fast and healthily. The socialist market economy system has been initially established. The comprehensive national strength has been gradually strengthened. People have benefited from it a lot.

Their living standard has been obviously raised. According to the data of National Statistics Bureau, by the end of 2000, China's GDP was over US\$1,000 billion. The per capita GDP was over US\$800. The problem of having adequate clothing and food has basically been solved (the per capita GDP is US\$400). Many regions have reached the level of *xiaokang*⁵. The per capita GDP of Shenzheng and Shanghai was over US\$4,000 and has reached the rich level. At present China has moved up to become the 6th economic power in the world next to U.S.A., Japan, Germany, U.K., and France. As the biggest country in East Asia, China's influence in Asia has gradually increased.

The important reasons for having made such great achievement is that for all the time China insists on "making the economic construction as the center, to solve the problems in progress through self-development, insists on reform and opening up, correctly deal with the relations among reform, development and stability"⁶. The strong accommodating nature of Chinese culture has made China inherit traditional cultural essence, improve and melt into other advanced model at the same time. The development model of China's economy was explored through practice, which is in accordance with national condition. At present the reform and opening up is gradually making progress. The economy is increasing steadily. The Chinese people have gradually understood a series of reform policies carried out by the government; for example, the measure to lay off state-owned enterprises' workers, the reemployment ways, annex those enterprises which went bankrupt, encourage private companies to apply new development model of combining companies with households of local communities. For those laid off people who have not reemployed and those low-income people, they have some complaints. This is the problem that China's economic structure adjustment must be faced with. According the Report of the 16th Session of Chinese Communist Party's Conference, the central government has proposed that "only through development that these problems can be solved".

After entering the 21st century, China is determined to grasp the critical moment to make great progress in development in order to achieve the goal of "comprehensively establish a fairly prosperous and secure nation". This goal is exciting and appeals to all. It means that in the future 20 years China's economy will increase at an annual high

speed of 7%. Until 2020 China's GDP will reach US\$4,000 billion. Per capita GDP will be over US\$3,000 and reach the level of middle-income countries. In 2020 nearly 1.5 billion China's population can share the fruit of China's reform⁷. From the present low-level *xiaokang* in some areas to high-level balanced *xiaokang*, China will become a commonly rich, prosperous and secure society. By then China will become a democratic, and civilized socialist country. China will set up complete socialist market economy system and basically achieve industrialization. China will strive for the realization of modernization in the middle of the 21st century. It will become the 3rd economic power only next to U.S.A. and Japan.

The report of the 16th Session of Chinese Communist Party's Conference pointed out that in the first 20 years of the 21st century China's main task is to make socialist market economy system more complete, and promote the adjustment of economic structure. It is a difficult historical task to achieve industrialization in the process of China's modernization. It is an important task to construct modern agriculture, and increase the income of the rural community. To carry out the West Region Development Strategy is related to the whole situation of China's development, related to the union of nationalities and the stability of frontier areas. It should be emphasized to construct infrastructure and ecological environment well, to strive to make great breakthrough progress within 10 years.

4.2.2. The Difficulty of China's Development, Problems and Government Strategies

In the future 10 years, whether China can keep fast growth depends on whether effective measure will be taken to solve difficulties and problems in progress. At present, China's developing trend is very good, which has some development potentials. If successful experience can be summarized and some deep-level contradictions can be solved, China can transform the temporary taking the leading place to long-term advantage. The main reason that limited the potential of China are as follows:

(1) Population Pressure

By the end of the 20th century, China's population was over 1.3 billion, which ranked top in the world. Although the population growth rate is decreasing, the

population base is too big. The excessively quick growth of population has brought heavy pressure to the political stability and economic development of China and influenced the raising of comprehensive national strength and people's living standard. As population has become a key problem in the economic and social development of the country, China has formulated a population policy of "controlling the size and raising the quality of the population" and a family-planning policy of "late marriage and childbirth". The couples are encouraged to have only one child except for special cases, for example, if the first child is disabled. Nowadays the employment is the biggest problem. It is the foundation of people's livelihood. China is faced with the problem to solve the employment of a number of young people. At the same time, it has to solve the reemployment problems and living problems of 45 million unemployed workers of state-owned enterprises. The radical structural adjustment has resulted in these problems. In addition, the population of migrant rural workers is as many as 50 million. Based on these reasons, a series of social problems arose. The excessively fast growth of the population will also result in more poverty, hunger and disease. By the end of 2000, the number the Chinese population that has reached basic *xiaokang* level made up 75%. However, there is still nearly 30 million rural poverty population whose clothing and food problems have not been completely solved. In cities and towns there are nearly 20 million people who are living under the national lowest social guarantee level⁸. The government's measure is to expand reemployment by every possible means, which is the long-term heavy and hard task of the future. The difficult point and emphasis to construct prosperous and secure society is the urbanization problem. By the year 2020, the population proportion of cities and towns will be over 50%.

(2) The Domestic Development Problems

China's economy and society have experienced many decades' development. The contradiction of development is prominent. Until nowadays, the regional gap between the East and the West has been very huge. The developed provinces of the eastern coastal areas are pushing the reform and opening up to the world deeper.

However, in the western frontier areas where the natural conditions are bad and the minorities congregate, the reform is just in the initial period. The great contrast of economic development between the East and the West region has influenced the balanced, harmonious development and stability of the country. At the present time, China is carrying out the Western Region Development Strategy, and has listed the West as the key point and the hope of China's future economic development. China's western region includes ten provinces, municipalities and autonomous regions, namely, Shaanxi, Gansu, Qinghai, Ningxia, Xining, Sichuan, Chongqing, Yunnan, Guizhou, and Tibet. The region covers 5.38 million square kilometers and has a population of 287 million. The territory of the western region is vast, its population is sparse and the abundant natural resources need to be exploited. Practical policies are especially needed to be worked out and promulgated in a timely manner so that reform, opening up construction can be carried out speedily. The key point is that the western regions should be more opened up to the world. Nowadays, a lot of favorable policies have been made out to encourage foreign investment. As soon as the West develops fast, it will not only solve the living problems of the people in the West, but will also alleviate a series of difficult problems such as the East-West contradiction, ethnic conflicts etc.. I think in order to implement the Western Region Development, it is important to accelerate the improvement of both soft and hard investment environment of the regions, including ecological environment, population quality, awareness of market economy, educational level, high quality human resources, experience for utilizing foreign capita, transportation, telecommunication facilities in order to attract the foreign investment into this region.

- (3) Although China's economy is increasing fast, it is mainly scale-typed and rough development-typed model, which means only pursuing quantity and neglecting profit. The resources were only roughly processed, which has resulted in the waste of resources and energy. Therefore, the resources exploitation rate is low and the waste is serious. The materialization of intensive-typed, efficiency-typed and sustainable development is very hard. The burden is heavy and the road is long.

China's development is also faced with the problem of insufficiency of large-scaled infrastructure and the environment degradation, which is a kind of limitation to the further economic development. The report of the 16th Session of Chinese Communist Party's Conference has proposed, "Informationization is the inevitable choice for China to accelerate the materialization of industrialization and modernization". China should try to open a new way of industrialization, that the science and technology content is high, economic benefit is good, resources consumption is low, the environmental pollution is little, and the human resources advantage has been brought to full play.

- (4) The problems in the administration aspect are formalism, bureaucratic attitude, practising fraud, extravagancy and waste actions still exist in some places. The new typed administration system and the working attitude to stress efficiency has not been widely established. Nowadays the Chinese government is strengthening democratic supervision, strengthening the administration on civil servants and trying to change the government role from administration to serve the people. However, this cannot be achieved in a short period.
- (5) Therefore, the main restrictive factors of China's development lie in the domestic problems. Whether the domestic problems are well solved or not has decisive significance for China's development. Fortunately, nowadays China has clearly realized the above problems and shortcomings and began to suit the remedy to the case and improve work. China has not only found the crux of development, but also has determination and action to solve these problems. In the future development process, it is a must to solve all kinds of contradictions and deal with negative restrictive factors well.

4.2.3. The opening up China has unlimited business opportunities.

China is situated in the Asian Pacific region, which has the greatest development potential in the 21st century. Relying on Asia and facing the Pacific Ocean, it has extraordinary broad prospect.

- (1) According to Professor Zhang Yunlin, Director of the Asian Pacific Institute with the Chinese Academy of Social Sciences, China is the biggest developing country.

It is the biggest potential market and the biggest new market. China's entry into WTO has political and economic double significance to East Asia cooperation. In the political aspect, it means China will not only incorporate itself completely into the international community, but also will play an active role in the world affairs. Therefore, it will create better political atmosphere for this region and bring inspiration to those Southeast Asian countries, which actively contact with China. In terms of economy, it means that China's market will be further opened, full of vitality and vigor. China's economy will further incorporate into the world economy.

- (2) China's entry into WTO will have obvious stimulating effect on China's economy. It will stimulate China's import demand. It has been estimated that from 2001 to 2005 five years, China will import US\$1,400 billion's commodities accumulatedly. The Southeast Asian neighboring countries will benefit from it. The Southeast Asian cooperation will obtain new motive force, which will make the prospect of regional trade and economic growth brighter. The increasing extent of China's opening up means that its neighboring countries will find more business opportunities in China.
- (3) The main advantage of China's economy lies in its huge market, cheap and high-quality labor force. Its industry upgrade does not need to pay the cost of giving up labor-intensive industry. In the aspect of attracting foreign investment, China's financial order is more stable. In 2001 the foreign capital, which has really be made use of reached US\$568.4 billion and ranked top in the world according to the National Statistics Bureau of China. In the high scientific and technological fields, China is becoming more and more competitive. At present China is in the economic high growth period. It has large demand for industrial materials, intermediate products and energy. The Chinese people's purchasing power keeps going up. The market potential is huge.
- (4) China's West Region Development Strategy provides more favorable conditions for foreign businessmen, including Thai entrepreneurs to open up Chinese market. For example, as is decided by the State Council, the foreign investment projects in west

under the encouraged category can enjoy a reduced 15% income tax rate after a 3-year period of existing favorable taxation policies expired. The opportunity of China's economic development not only belongs to the Chinese enterprises, but also belongs to those countries and enterprises, which are willing to develop economic and trade relations with China and invest in China. More than 20 years' practice has proved that those enterprises that took the lead in developing economic and trade relations with China and invested in China have developed very well.

4.3. The Prospect of China-ASEAN Free Trade Area

By 1991, China has established or resumed diplomatic relations with all the ASEAN member countries. In 1997 China has established "good neighborly mutual trust partnership" with ASEAN. The friendly neighborly political relations have set a solid foundation for the development of bilateral economic and trade relations.

In November 2001, in the 5th ASEAN and China Summit (10+1) Conference, which was held in Brunei, Chinese Prime Minister Zhu Rongji proposed that both sides establish China-ASEAN Free Trade Area in ten years in 2010. Politically speaking, it is beneficial to draw bilateral traditional friendly relations closer. Economically it is favorable to enhance the competitiveness of this region. Geographically speaking, it is helpful to promote Asia's peace and stability. ASEAN will find more opportunities from China's development.

First of all, in the political aspect, the advantageous conditions of bilateral cooperation are: both sides paid attention to safeguard regional and international peace, stability and development. At present, the bilateral relations have entered the best period in history. Both are engaged in developing economy. Both regard it as the central task to keep national stability and prosperous economy. During the financial crisis, China's assistance within its power has made contribution to stabilize regional financial order.

Next, both sides have historic, geopolitical and human resources favorable conditions. They are adjacent to each other, share similar culture and their economy is complementary to each other. The "Southern Silk Road" in history started from Sichuan Province of China, via Yunnan Province, extended to Indochinese Peninsula

and South Asia. Nowadays China and ASEAN borders each other, the advantage of geographic proximity provides direct conditions for the development of border trade, creates good opportunities for the development of international trade. ASEAN naturally become the emphasis of China's foreign investment.

Thirdly, on December 11th, 2001 China formally entered into WTO, and the trade barrier has been removed, which has provided new opportunities for bilateral economic cooperation. The bilateral cooperation will enter a new stage. The construction of international passages from China to South and Southeast Asia will provide the most direct and most convenient conditions for bilateral economic cooperation, goods transportation and people flow.

Fourthly, China and ASEAN countries have some complement in natural resources, labor resources, industrial structure, export products structure, scientific and technological cooperation, capital demand, and domestic market etc. key factors. The economic complement set foundation for bilateral economic cooperation. Through cooperation to achieve advantage complement, both sides can obtain economic benefit from it. Fifthly, China and ASEAN countries are main characters and partners of Asian industrialization wave from the 1990's of the 20th century. The characteristics of bilateral cooperation are cooperation combined with competition. The competition is mainly that of export products and attracting foreign investment. Within one year after China's entry into WTO, China has become the country, which has attracted most foreign direct investment in the world. China's national economic system has complete categories. The market is huge and the demand is diversified. The bilateral cooperation has great potential. From now on China's advantageous products export such as machinery electronics, telecommunications, biological resources, and electric power etc. to ASEAN should be increased. The agricultural mechanization extent of Vietnam, Laos and Myanmar etc. countries is very low. They have large demand for tractors, grain drying machine, water pump, harvester, thresher etc. agricultural machinery products, which is the important channel of China's agricultural machinery to export. China will still be the export market of ASEAN's rice, natural rubber, oil, timber and processing products, palm oil etc. important resources.

Sixly, Asia's economic power Singapore, Malaysia and Thailand can increase their investment in China, and transfer labor-intensive and capital-intensive industries to China. China can also increase its' investment in ASEAN, especially the investment in Myanmar and Indochinese countries in order to exploit local resources to produce export products. China has abundant labor force resources. The quality of China's skilled workers and engineers, technicians is good and their salary is low. China's infrastructure construction group has strong real strength and rich experience. They can undertake ASEAN countries' contracted projects and labor service cooperation. The entire scientific and technological real strength of China is strong. China's research and development capacity can make up for the insufficiency of ASEAN countries' scientific and technological development. Therefore, the cooperation between China and ASEAN countries are in the first place.

In recent years, the trade volume between China and ASEAN has been growing rapidly, and ASEAN has become China's fifth largest trade partners for ten consecutive years.

According to the statistics of Ministry of Foreign Trade and Economic Cooperation of China, since 1995 trade volume between China and ASEAN has risen by an average of 15% annually. In 2001, ASEAN's trade with the United States slumped due to the impact of the "September 11" terror attack and ensuing global economic slowdown. But ASEAN and China still registered as much as 41.62 billion US dollars in trade volume in 2001, a rise of 5.3% from the previous year. ASEAN is now the fifth largest trade partner for China. At the same time, China has become ASEAN's sixth major trade partner.

In 2002 the trade volume between China and ASEAN has reached 54.8 billion US dollars, a 31% increase year-on-year according to China's customs. Its figures also show that ASEAN enjoyed a surplus of US\$7.6 billion in 2002 when exports from ASEAN to China reached US\$31.2 billion. In addition, the bilateral trade structure has been gradually optimized, with new high-tech products having become increasingly popular in trade between China and ASEAN.

In March 2003 senior officials and academics at the China-ASEAN Free Trade

Area High-level Forum said the proposed free trade deal will further boost economic integration and stimulate the Asian or even global economy.

“Setting up the China-ASEAN Free Trade Area will promote common prosperity in this region, because the Free Trade Area will allow both sides to utilize complementarities in resources and create more cooperation opportunities,” said ASEAN chief negotiator Kanissorn Navanugraha at the forum held in Guilin, China.

“The proposed free trade area will accelerate economic restructuring on both sides and create a win-win opportunity,” said Professor Liao Shaolian, deputy Director of the Southeast Asia Research Center at Xiamen University, Fujian Province.

On September 5th, 2003, Chinese Commerce Minister Lu Fuyuan made a speech at the 2nd China-ASEAN Economic Ministers (AEM) Meeting, reaffirming China’s determination to further enhance economic cooperation. He said China’s trade with ASEAN still maintained a rapid growth trend in the first half of this year and the trade volume reached US\$32.24 billion, up 45.3% compared with the same period last year. ASEAN now has become China’s largest trade partner among the developing countries. He said China is willing to develop a comprehensive cooperation relation with ASEAN and determines to make efforts with ASEAN countries to achieve common economic prosperity and social progress.

To the huge Chinese market, which has 1.3 billion population, and to the ASEAN market, which has 500 million population, the bilateral cooperation has huge potential:

- (1) After the establishment of China-ASEAN Free Trade Area, the tariff reduction or zero tariff and the reduction of non-trade barrier will greatly stimulate the increase of trade volume, promote the improvement of trade structure, and the trade development within and outside the region.
- (2) After the establishment of the trade area, favorable investment policies will be implemented to realize investment liberalization. Therefore, it can dynamically stimulate the investment growth, stimulate the investment effect within the region and attract investment effect outside the region. Professor Zhang Yunling, Director of the Asia Pacific Institute with the Chinese Academy of Social Sciences estimates that after the establishment of China-ASEAN Free Trade Area, China and ASEAN

will create an economic region, which has 1.7 billion consumers, nearly US\$2,000 billion GDP, the total trade volume of which will reach US\$1,200 billion. China's export to ASEAN is estimated to increase US\$10.6 billion; the increasing rate will be 55%. ASEAN's export to China will increase US\$13 billion; the increasing rate will be 48%. Mutual investment will increase, too. The ASEAN-China Free Trade Area, when completed in 2010, will become the world's largest market.

On November 4th, 2002, the Chinese and ASEAN leaders signed "Framework Agreement on Comprehensive Economic Agreement between China and ASEAN" in Phnom Penh, which marked the formal start of the establishment of China-ASEAN Free Trade Area. This is a key step to promote China and ASEAN to jointly face the challenge of globalization and achieve mutual success.

In terms of China's cooperation with Thailand, from October 1st, 2003, the vegetables and fruits import and export tariff will be reduced to zero. It is expected that Thailand will export more agricultural products to China and its trade surplus will obviously increase, which is very favorable for Thai agriculture. Thai customs officials are optimistic about the prospect. However, some Thai academics are concerned about the impact of "free trade" on Thai agriculture and Thai manufacture. Because the topic of the thesis is on Sino-Thai cooperation, there isn't much space here to analyze the impact deeply. As for Thai manufacture, there are not only competitions but also complementarities between the Chinese and Thai industrial enterprises. In the aspect of competition, according to western economics theory, the competition can be changed to division of labor through the investigation and research of both sides. The complementary business industries should be encouraged and promoted in order to expand bilateral trade and investment. For example, some Thai industrial enterprises, which have advantages and potential, can make investment or expand their investment in China. Except for agricultural products and agricultural processing industries, there are automobile industry, motor vehicle spare parts and components, electronics industry, jewelry and ornaments processing industries etc.. In short, it is only through the efforts of both countries' government, academics, and entrepreneurs that the problems such as competition, trade friction can be coordinated or solved smoothly.

Notes

¹ *Ibid.*, pp.64-74.

² The Mekong River 10 (2001), pp.25-29.

³ Xiaohui Yang, "Construction of Yunnan's West-oriented International Passage", *Asian Studies* 3 (2002), pp.75-81.

⁴ Yigan Li et al., The Cooperative Development between Southwest China and Lancang-Mekong Subregion (KUnming: Yunnan Nationalities Press, 2001), p.15.

⁵ *Xiaokang* is the concept of national living standard based on per capita GDP. The situation is classified into poverty, having adequate clothing and food (per capita is US\$400), and *xiaokang* (per capita is US\$800) and rich level (per capita GDP is US\$4,000)

⁶ According to the Report of the 16th Session of Chinese Communist Party's Conference.

⁷ *Ibid.*

⁸ The average annual living expense is US\$300.