

# Yunnan in GMS: Objectives, Strategies and Economic Relations

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**Abstract:** Among six member countries of Greater Mekong Subregion (GMS) Economic Cooperation, Yunnan is a special one not only because it is a province rather than a country, but also because it became a member of GMS 10 years before China signed the free trade agreement with Association of Southeast Asian Nations (ASEAN). This paper introduces the objectives and strategies of Yunnan in GMS cooperation. By analyzing the trade and its development between Yunnan and ASEAN, China and ASEAN, the paper tries to find the role of Yunnan in GMS. Some implications for Yunnan are given.

**Keywords:** ASEAN, Economic Cooperation, GMS, Strategies

## 1 Introduction

The importance of transnational linkages-physically, institutionally and socially-has been increasingly recognized.<sup>[1]</sup> In 1992, with the help of Asian Development Bank (ADB), six countries sharing the Mekong River namely Cambodia, Lao PDR, Myanmar, Thailand, Vietnam, and the Yunnan Province of the People's Republic of China, entered into a program of sub-regional economic cooperation, GMS, designed to enhance economic relations among the countries.<sup>[2]</sup> Among the six member countries, Yunnan is a very special one because it is not a country, but a remote province of a big, rising country. Moreover, it is a very important step for China in seeking to develop its relationship with Southeast Asia through more cooperative approaches. In November 2002, China and ASEAN signed the 'Framework Agreement on Comprehensive Economic Cooperation' to create a China-ASEAN Free Trade Area within 10 years. This is the first FTA China entered and also the first ASEAN signed as a group, indicating the importance of this relationship for both sides. In November 2004, the two sides signed 'the Agreement on Trade in Goods of the Framework Agreement on Comprehensive Economic Cooperation between the Association of Southeast Asian Nations and the People's Republic of China'. The agreement would create one of the world's largest markets. The combined populations and economies of ASEAN and China in 2005 were approximately 1.9 billion people and \$3.0 trillion (nominal U.S. dollars) respectively, Combined country exports and imports equaled to \$1.4 trillion and \$1.2 trillion respectively<sup>[3]</sup>. GMS provide a crucial and closer cooperation linking China to other 5 countries under ASEAN FTA. As the frontier linking China to ASEAN, Yunnan plays an important role in GMS cooperation.

## 2 Yunnan's Objectives in GMS Cooperation

Yunnan has been responding positively since 1992 and more recently, under the background of Chinese open policy, west China development strategy and the planning of China-ASEAN Free Trade Area, set its objectives in GMS cooperation. They are: Building a gateway connecting Southeast China and Southeast Asia; enhancing the communication and economic cooperation between China and Southeast Asia, south Asia; achieve sustainable regional development; improve the living standard of people and social development by improving employment, raising income, reducing poverty; develop GMS cooperation through cooperative projects and forming a mutually benefit economic relationship;

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building a international trade and investment friendly environment; facilitating the establishment of China-ASEAN Free Trade Area; contribute to the establishment of stable friendly relationship between China and Southeast countries through guarantee the peace and development of GMS.

Among its objectives, building a comprehensive transportation corridor to providing safe, economy, efficient and convenient transportation service for the linkage between China and Southeast Asian and South Asian is the start point and priority. Accordingly, international transportation corridors include highway, airway, railway and water way.

Among those corridors, Kunming - Bangkok Highway projects will be finished in 2008. New Kunming airport project launched in 2007 aims to reach the capacity of 20.7 millions and 60 millions passengers in 2010 and 2035 respectively. The Chinese civil aviation authority hope Kunming airport can provide direct flight to Europe, Australian, Southeast Asia, South Asia and most domestic cities.

### 3 Yunnan-GMS Trade and Economic Relation

When the GMS program started in 1992, its objective is facilitating economic cooperation and integration among the six countries of the Mekong Sub region. Since then, GMS has evolved gradually and now covers nine priority sectors, and become a broad-based comprehensive scheme.<sup>[4]</sup> But strengthening economic linkages is still an important goal, and trade relation is an important indicator of regional integration.

Data provided in Table1 and Table2 indicate the rapid rise in trade flows that have occurred between China and other 5 GMS nations over the past few years. China's combined export to GMS nations rose by 236% from 2000-2005 and 30.1% from 2004-2005, higher than the percentage increases in China's overall exports during these periods. The trend in Chinese imports from GMS nations was the same as that of exports. China combined import from GMS rose by 206.8% from 2000-2005, higher than the percentage rise of import during the same period.

Yunnan's trade with GMS rose from 2000-2005, with export rose by 97.5% and import rose by 243.6%. The Yunnan's share of export to GMS in 2005 is 31.64%, much higher than its share of total export. The share of import from GMS is 1.86, also higher than the total import, say 0.32%. Indicating GMS is a more important partner to Yunnan than to China.

Another trend which can be noticed is that Myanmar, Vietnam and Laos are more important trade partners to Yunnan than other two. A possible explanation is that these three have borders with Yunnan and this closer geographical relationship leads to a closer economic relationship.

**Table 1. China's vs Yunnan's Exports to GMS: Selected Years ( \$millions and % )**

Country		Thailand	Vietnam	Myanmar	Cambodia	Laos	GMS Total	Total Exports	Export to GMS as a % of Total
2000	China	2244	1537	496	164	34	4475	249240	1.80
	Yunnan	23.56	92.64	293.01	0.66	13.36	423.23	1175.16	36.01
	Percentage of Yunnan	1.05	6.03	59.07	0.40	39.29	9.46	0.47	-
2004	China	5800	4260	939	452	101	11552	593674	1.95
	Yunnan	110.32	286.82	386.61	1.38	26.63	811.76	1508.95	53.80
	Percentage of Yunnan	1.90	6.73	41.17	0.31	26.37	7.03	0.25	-
2005	China	7819	5639	935	536	105	15034	762326	1.97
	Yunnan	129.75	263.66	410.63	3.08	28.77	835.89	2641.58	31.64
	Percentage of Yunnan	1.66	4.68	43.92	0.57	27.40	5.56	0.35	-
2004-2005	China	34.8	32.4	-0.4	18.6	4.0	30.1	28.4	-

% Change	Yunnan	17.6	-8.1	6.2	123.2	8.0	3.0	75.1	-
2000-2005 % Change	China	248.4	266.9	88.5	226.8	208.8	236.0	205.9	-
	Yunnan	450.7	184.6	40.1	366.7	115.3	97.5	124.8	-

Sources: *Online statistics of Ministry of Commerce of China*<sup>[5]</sup>; *Department of Commerce of Yunnan Province*<sup>[6]</sup>, compiled by author.

**Table 2. China's vs Yunnan's Imports from GMS: Selected Years**

Country		Thailand	Vietnam	Myanmar	Cambodia	Laos	GMS Total	Total Imports	Imports from GMS as a % of Total
2000	China	4380.0	929.0	125.0	59.0	6.0	5499.0	225095.0	2.4
	Yunnan	8.0	7.7	69.9	0.0	5.9	91.5	637.7	14.4
	Percentage of Yunnan	0.2	0.8	55.9	0.0	98.3	1.7	0.3	-
2004	China	11538.0	2478.0	207.0	30.0	13.0	14266.0	560811.0	2.5
	Yunnan	19.1	51.8	164.7	0.0	7.1	242.7	2239.0	10.8
	Percentage of Yunnan	0.2	2.1	79.6	0.0	54.9	1.7	0.4	-
2005	China	13994.0	2549.0	274.0	27.0	26.0	16870.0	660222.0	2.6
	Yunnan	21.5	59.2	221.0	0.0	12.7	314.4	2096.6	15.0
	Percentage of Yunnan	0.2	2.3	80.7	0.0	48.7	1.9	0.3	-
2004-2005 % Change	China	21.3	2.9	32.4	-10.0	100.0	18.3	17.7	-
	Yunnan	12.9	14.4	34.2	-	77.7	29.6	-6.4	-
2000-2005 % Change	China	219.5	174.4	119.2	-54.2	333.3	206.8	193.3	-
	Yunnan	168.1	673.2	216.0	-	114.7	243.6	228.8	-

Sources: *Online statistics of Ministry of Commerce of China*<sup>[5]</sup>; *Department of Commerce of Yunnan Province*<sup>[6]</sup>, compiled by author.

**Table 3 Yunnan Trade with ASEAN  
(\$million, % )**

Year	Export to ASEAN	Percentage of Total	Import from ASEAN	Percentage of Total
1990	172.13	30.60	78.73	41.70
1995	579.51	43.50	132.63	16.80
2001	564.80	45.00	143.74	19.30
2002	623.63	43.60	198.81	25.00
2003	771.31	46.00	241.40	24.40
2004	961.82	43.00	314.78	20.90
2005	1090.53	41.30	466.34	22.20

Sources: *Online statistics of Ministry of Commerce of China*<sup>[5]</sup>; *Department of Commerce of Yunnan Province*<sup>[6]</sup>, compiled by author.

**Table 3** show Yunnan trade with ASEAN from 1990-2005. The share of Yunnan export to ASEAN increased from 30.6% to 43.5% from 1990 to 1995, and from that on has been kept above 40% in the following 10 years. Conversely, the import share fell from 41.7% to 16.8% from 1990 to 1995 and then increased to 22.2% in 2005, much lower than the share of export.

**Table 4.** provides a comparison of China (as a whole ) and Yunnan trade with ASEAN and GMS as a share of their total in 2005 and 2006. These data indicate that the share of Yunnan trade in total China is low, say 0.33% in 2005 and 0.36% in 2006. Another trend which can be noticed is that, ASEAN and

GMS are important trade partners for China, but they are more important to Yunnan, with ASEAN share of 35% and GMS share of 22% of total, indicating that owing to geographical proximity, ASEAN is the province's largest trading partner. What is more interesting is that, 63.58% Yunnan trade with ASEAN happened between Yunnan and other five GMS nations.

**Table 4. China's vs Yunnan's Trade With ASEAN and GMS in 2006**  
(\$millions, % )

Time	Item	China	Yunnan	Yunnan %
2005	Total	1422120.0	4738.2	0.3
	ASEAN	130370.0	1556.9	1.2
	GMS	31910.3	1150.3	3.6
2006.1-10	Total	1424950.0	5073.0	0.4
	ASEAN	78253.1	1773.3	2.3
	GMS	32325.5	1127.5	3.5
	Trade With ASEAN as a % of Total	5.5	35.0	
	Trade With GMS as a % of Total	2.3	22.2	
	Trade With GMS as a % of Total ASEAN	41.3	63.6	

Sources: *Online statistics of Ministry of Commerce of China*<sup>[5]</sup>; *Department of Commerce of Yunnan Province*<sup>[6]</sup>, compiled by author.

#### 4 Implications for Yunnan

Yunnan can play a bigger role in both China and GMS. As one of remote and less developed province, a bottleneck to the development of trade has been transport. Cost of building roads and railways is high due to its mountainous landscape. Nevertheless, under the international gateway strategy, the government is constructing the transportation network linking to not only other part of China but also neighboring countries. More over, according to statistics, Although Yunnan-GMS trade posted noticeable growth in 2005, the absolute amount of US\$1127.46 million only constituted 3.49% of China's total trade with the bloc. In addition, this area is one of the fastest developing one in the world. For example, Cambodia registered remarkable growth estimated at 8.4% in 2005.

Stable development of neighboring countries is very important to Yunnan. As once import tariffs and customs clearance barriers are reduced and capital flows liberalized, this may open access to the markets of neighboring countries. According to the data showed in Table 4, trade with ASEAN shared 35% of total in 2006; further, trade with GMS shared 63.58% of the total trade with ASEAN. In geographically large countries this may mean that trade costs between a region and other parts of the country are higher than between the region and the market in the neighboring country, leading to a reorientation of trade towards the latter. This should be beneficial, but it does make the exporting region vulnerable to macroeconomic cycles in its neighbor.

Dissimilar cooperation should be taken when cooperating with GMS countries. Significant growth is posted in both import and export trade with most GMS countries, but with Thailand, the situation is different. In 2006, the trade growth rates of Myanmar, Vietnam, Laos and Cambodia were 5.9%, 51.1%, 66.6%, and 57.8% respectively. Thailand, the best developed country in GMS was the only GMS country for which negative growth in trade with Yunnan was recorded for 2006.

Preparation for the China-ASEAN free trade zone, implementing the Great Western Development, construction of the international transportation corridors all provided Yunnan opportunity to be a promising area. Preparation for the opportunity through capability building, border area development and cooperation with other provinces is necessary.

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