



CHINA SEEKS TO IMPROVE MEKONG SUB-REGIONAL COOPERATION: CAUSES AND POLICIES

Policy Report
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EXECUTIVE SUMMARY

The Mekong sub-region has important significance in China's peripheral diplomacy and regional cooperation strategy. The Greater Mekong Subregion Economic Cooperation Program (GMS-ECP) is one of the earliest and most effective regional cooperation programmes that China has participated in. However, after more than 20 years, the development of sub-regional cooperation is still hindered by bottlenecks in economic, political, social, and other fields that need to be jointly addressed by the relevant countries.

Since China put forward the Silk Road Economic Belt and 21st Century Maritime Silk Road Initiative in 2013, various signs indicate that China has been seeking to upgrade sub-regional cooperation. On 12 November 2015, China launched the Lancang-Mekong Cooperation (LMC). The author will analyse the causes for the upgrading and related policies, and offer three main reasons for the upgrading of the Mekong River cooperation. First, sub-regional economic cooperation has reached a higher level. In the context of a marked decrease of the marginal effect of lower tariffs, there is a need for an economic cooperation upgrade. Second, there is an urgent need for sub-regional economic cooperation to expand to include security, political and social fields. Third, China hopes to play a fuller and more dominant role within the sub-regional cooperation framework.

On China's policy of upgrading the GMS economic cooperation, the author maintains the following:

- On *strategy*, China regards the upgrade of GMS-ECP as the early stage harvest of the "Belt and Road" Initiative.
- On *tactics*, China focuses on cooperation with Laos, Thailand and Cambodia.
- On *mechanism*, China actively promotes the development of LMC, a new sub-regional cooperation mechanism.
- On *cooperation*, China speeds up the infrastructural construction of the cross-border railway and seeks to promote the further development of law enforcement and security cooperation.

Additionally, China is devoted to the standardisation and transparency of foreign investment, development of sub-regional financial cooperation, and active facilitation of cultural exchanges and cooperation, among others. The author concludes that as China promotes the Mekong sub-regional cooperation, its efforts will be affected by some uncertain factors, but will also provide new development opportunities for the Lower Mekong River countries.

INTRODUCTION

Since the early 1990s, the sub-regional cooperation that centred on Lancang-Mekong sprang up. Many cooperation mechanisms formed gradually, such as the Greater Mekong Sub-region (GMS) Cooperation, the Mekong River Commission (MRC), ASEAN-Mekong Basin Development Cooperation (AMBDC), Golden Quadrangle or the Quadripartite Economic Cooperation (QEC), the Lower Mekong Initiative (LMI), the Summit Meeting between Japan and the Mekong River Basin Countries, the China-Laos-Myanmar-Thailand Joint Patrol Law Enforcement and Security Cooperation on the Mekong River Basin. Thus, a diversified and multilevel cooperation pattern was set up.

Among them, the GMS and MRC attracted more attention. The GMS was initiated by the Asian Development Bank (ADB) and launched in 1992 to enhance cooperation among six countries, namely China,¹ Myanmar, Laos, Thailand, Cambodia and Vietnam. All the countries carried out extensive cooperation in fields such as transportation, energy, agriculture and tourism; and made great progress in promoting the regional economic integration. The MRC was

established on the basis of the Committee for Coordination on the Lower Mekong Basin (the former MRC) founded in 1957. In April 1995, Thailand, Vietnam, Laos, Cambodia signed the Agreement on the Cooperation for the Sustainable Development of the Mekong River Basin in Chiang Rai, Thailand and announced the establishment of the new MRC. In 1996, China and Myanmar became the MRC's dialogue partners, but China has not formally joined the MRC.

China has been seeking to upgrade the GMS cooperation since the "Belt and Road Initiative" was put forward in 2013. On 20 December 2014, Chinese premier Li Keqiang put forward at the opening ceremony of the fifth summit of the GMS: "China is willing to work with all parties to build the upgraded version of China and sub-regional countries economic cooperation".² To this end, China has adopted a series of policies and measures. The most notable was the launch of the LMC with a joint effort of five Lower Mekong River countries on 12 November 2015. The author will mainly analyse the causes and policies related to China's actively promoting the upgrade of the Mekong sub-regional cooperation.

¹ Since 1992, Yunnan province is the main body of China's participation in the Greater Mekong Sub-regional Cooperation. In December 2004, Guangxi Zhuang Autonomous Region was formally incorporated into the Great Mekong Sub-regional Cooperation.

² "The Speech of Li Keqiang at the Opening Ceremony of the 5th Summit of the Greater Mekong Sub-region Economic Cooperation Program," *Central Government Portal Website*, December 20, 2014, http://www.gov.cn/guowuyuan/2014-12/20/content_2794565.htm.

REASONS FOR CHINA'S UPGRADING OF GMS COOPERATION

After more than two decades, the development of sub-regional cooperation is still hindered by bottlenecks in economic, political, social, and other fields that need to be jointly addressed by the relevant countries. As the power disparity between China and the Mekong River countries increases, the effect of China's policy of "promoting political relations by developing economic cooperation" begins to decline.

China hopes to upgrade the cooperation to build more benign sub-regional relationships.

First, amid a marked decrease of the marginal effect of lower tariffs, the sub-region needs to improve economic ties.

So far, the Mekong sub-regional economic cooperation has reached a deeper level. China and Vietnam, Laos, Myanmar, Cambodia (four new members of ASEAN) agreed to apply zero tariffs from 1 January 2015. In this case, the tariffs of normal goods within the sub-region cannot drop further and the marginal effect of promoting trade by decreasing tariffs is on the decline. At the same time, it will be difficult to produce results by continually implementing preferential measures such as facilitating customs clearance, which is difficult to meet the increasing demand of China and the Lower Mekong countries integrating into the global value chains. This situation shows that China needs to build cooperation with the Mekong River countries in the economic field. Obviously, fortifying investment cooperation and industrial connection may be an important

step. It is difficult to ignore that in recent years, China's investment in the sub-region has been steadily growing and China has become an importance source of investment for the five Lower Mekong countries.

But at the same time, under the context of political and economic transition and social unrest within some sub-regional countries, resource nationalism and environmental nationalism in these countries have emerged. Additionally, some defects of Chinese investment—namely low transparency of investment, strict standards of environmental protection and labour, excessive investment focus on resources—cause bilateral trade growth in these countries to be unsustainable and bilateral relations to be affected. As a result, it is necessary for China and the five countries of the Lower Mekong to apply new measures to promote sustainable development and improve sub-regional economic cooperation.

Second, non-traditional security issues within the sub-region have gained prominence, putting pressure on China to extend economic cooperation to political, security and social fields.

Due to various reasons, the existing Mekong sub-regional cooperation is mainly concentrated in the economic field; the political, security and social aspects of cooperation have made little progress. As a result, after more than 20 years, overall lack of mutual political trust and low levels of security cooperation

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still exist in these six countries. In the social domain, it has been difficult for these countries to effectively cope with recurring problems such as international drug trafficking, smuggling, gambling, and human trafficking. The low level of cooperation in cross-border water allocation and scientific utilisation, cross-regional public health and environmental protection is the key obstacle to Mekong sub-regional cooperation.

Due to the transnational feature and spillover effect of non-traditional security problems, bilateral and multilateral relations can easily deteriorate and hinder sub-regional cooperation and integration. In 2010, Yunnan, located in the upper reaches of the Mekong River, experienced a severe drought; in September 2011, Myanmar shelved China's largest investment project in Myanmar, the Myitsone Dam Project; and in October 2011, Chinese vessels were hijacked in the Mekong River. These events have made cross-border allocation of water resources, hydropower development and shipping safety on the Mekong River hot-button issues among the sub-region's countries.

Unfortunately, neither GMS nor MRC has been effective so far. In terms of the Mekong River cross-border water resources, the Lower Mekong countries (as members of the MRC) have, for years, waited in vain for China's accession to MRC. The author argues that the reason for China's behavior is that China worries that the losses could outweigh the

gains of joining the MRC. That is to say, the existing MRC policies and plans are more advantageous for downstream countries. And as a newcomer, China may suffer more constraints and pressures.³ As a result, over the years, China has been censured by some downstream countries, especially Vietnam. Meanwhile, China's proposal to promote the Mekong waterway joint law enforcement cooperation has also been rejected. These cases demonstrate the need for the Mekong sub-regional cooperation to call for new and more effective cooperation mechanisms and platforms.

Third, China wants to play a more comprehensive role in sub-regional cooperation and effectively project its initiative and rule-making power.

Acting as an important participant in the sub-region for the past 20 years, China has obvious flaws in its role in terms of projecting dominance, rule-making power and discourse capability. In the past, when China's economic strength was relatively weak, China emphasised economic construction and diplomacy to foster the most favorable external environment for development.

However, it is reasonable to assume that economic development may not instantly solve all political and security issues, while economic cooperation may not solve security problems. In the face of China's rapid development,

³ Lu Guangsheng, "China's Entry into the Mekong River Commission, Advantages and Disadvantages?" *The World Knowledge*, no. 8, 2012.

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it is inevitable for peripheral small and medium-sized countries to feel anxious and suspicious from time to time. When China became the world's second largest economy, some peripheral issues and conflicts that accumulated for many years finally surfaced. Besides, competition or "interference" factors from the United States and Japan, for example, condemning Chinese investment in Myanmar through NGOs, increase the difficulty of achieving deeper cooperation between China and the sub-regional countries. The

condition of a highly asymmetric relationship between economic costs and political gains has emerged between China and sub-regional countries. The strategic effect of China's policy of "promoting political relations by developing economic cooperation" in the region is beginning to decline. In this context, China needs to shift its cooperation approach to balancing the sub-regional economic and political security demands and play its "constructive" role more comprehensively and effectively.

CHINA'S POLICIES TO UPGRADE MEKONG SUB-REGIONAL COOPERATION

First, strategically, China regards the upgrade of the Greater Mekong Sub-regional cooperation as the early stage harvest of the Belt and Road initiative.

Chinese president Xi Jinping's initiative of Belt and Road (jointly building the Silk Road Economic Belt and the 21st Century Maritime Silk Road) during his visit to Central Asia and Southeast Asia in September and October of 2013, has attracted international attention. In September 2013, he proposed building the "China-ASEAN Destiny Community" as he addressed Indonesia's congress. In the same month, Premier Li Keqiang raised an all-round "2+7 Cooperation Framework" as the new administration's policy declaration to improve the China-ASEAN relationship.⁴

China and Mekong River countries are connected by a land route, making transportation routes more accessible. Compared with other ASEAN-related cooperation mechanisms, China can play a more important role in the Mekong sub-region. In March, 2015, the Vision and Actions on Jointly Building Silk Road and Economic Belt and 21st Century Maritime Silk Road was published by the National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People's Republic of China. In this document, it is stated that in Southwestern China:

China should give full play to the unique advantage of Guangxi Zhuang Autonomous Region as a neighbour of ASEAN countries, speed up the opening-up and development of the Beibu Gulf Economic Zone and the Pearl River-Xijiang Economic Zone, build an international corridor opening to the ASEAN region, create new strategic anchors for the opening-up and development of the southwest and mid-south China, and form an important gateway connecting the Silk Road Economic Belt and the 21st Century Maritime Silk Road. China should make good use of the geographic advantage of Yunnan Province, advance the construction of an international transport corridor connecting China and neighbouring countries, develop a new highlight of economic cooperation in the Greater Mekong Sub-region, and make the region a pivot of China's opening-up to South and Southeast Asia.⁵

From the above-mentioned points, it is evident that the promotion of the Mekong Sub-regional Cooperation carries strategic importance for China.

The Mekong sub-region has a solid foundation for economic cooperation and strong market demand, and also carries fewer risks of territorial disputes and terrorism threats. It probably is the most suitable experimental area for the Belt and Road Initiative to make a breakthrough in. China will provide more

⁴ "The Speech of Li Keqiang at the 16th ASEAN Plus China Summit Meeting (full text)," *Xinhua Net*, October 10, 2013, http://news.xinhuanet.com/world/2013-10/10/c_125503937.htm.

⁵ National Development and Reform Commission, Ministry of Foreign Affairs, and Ministry of Commerce of the People's Republic of China: *Vision and Actions on Jointly Building Silk Road and Economic Belt and 21st-Century Maritime Silk Road* (China: People's Publishing House, 2015), p 10.

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financial and technical support to push for the economic and social development of Mekong sub-regional countries. The new Asian Infrastructure Investment Bank (AIIB) that China helped to establish will bring an upsurge of infrastructural construction for the region. The Chinese government contributed US\$40 billion to the new Silk Road Fund in support of infrastructural construction and industrial cooperation among GMS countries. China will continue to play an important role as a regional sponsor.

Second, tactically, China will probably carry out the “Making Central Breakthrough” scheme, and focus on managing cooperation with Laos, Thailand and Cambodia.

Considering the status of the development of relations between China and Mekong River countries, Vietnam has held back from economic and trade cooperation with China because of the South China Sea issue. Moreover, Sino-Myanmar cooperation may experience uncertainty in the short-term due to political and economic transformations as well as the recently concluded elections in Myanmar. In the near future, it would be difficult for China to obtain greater achievements by deepening cooperation with eastern Vietnam and western Myanmar. “Making Central Breakthrough, Promoting Two Wings”

should be a wise tactic to help China manage the relationship with GMS countries.

There is a better political and strategic rationale for China to cooperate with Laos, Thailand and Cambodia (countries in the middle of the Mekong River region). Evidently, the cooperation between China and Laos is deepening. On 31 August 2015, China and Laos officially signed the *Mohan-Boten Economic Cooperation Zone Construction Overall Scheme*.⁶ China and Laos will develop the Mohan-Boten Economic Cooperation Zone located at the border area of Yunnan province of China and the Luang Namtha province of Laos. The aim is to take advantage of the complementary economic structures of the two countries and speed up the development of the border area by facilitating trade, investment, personnel exchange and industrial cooperation. China launched the “Lao Sat-1” communication broadcasting satellite successfully on 21 November 2015.⁷ After entering orbit, the satellite will enhance communication links for television, education, disaster relief, among others. The China Development Bank (CDB) has also increased investment in Laos and developed more than US\$10 billion worth of projects related to power stations, transportation, economic development zones and others that are vital for social-economic development. Henceforth, China will probably further open up its market to Laos by relaxing tariffs, quotas and

⁶ “China and Laos Signed the ‘Mohan-Boten Economic Cooperation Zone Construction Overall Scheme’,” *People’s Daily*, September 1, 2015, section 3.

⁷ “China Successfully Launched ‘Lao Sat-1’ Communication Broadcasting Satellite,” *Xinhua Net*, November 21, 2015, http://news.xinhuanet.com/world/2015-11/21/c_128452332.htm.

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technical restrictions for cereal products like rice and corn. Cooperation on agricultural development, poverty alleviation, human resource development, as well as professional and technical training will be increased to push for the negotiation and signing of the treaty of bilateral friendship and cooperation.

Third, in terms of mechanism construction, China regards the Lancang-Mekong Cooperation as the focal point of promoting new cooperation mechanism in the GMS.

At the 17th China-ASEAN Summit on 13 November 2014, Premier Li pointed out that “in order to promote the development of ASEAN sub-region, China is willing to respond positively to Thailand’s initiative, and explore the feasibility of setting up the LMC dialogue mechanism under the ASEAN-China framework”.⁸ After a year of preparation, the first LMC Foreign Ministers’ Meeting was held at Jinghong, Xishuangbanna prefecture, Yunnan province, China on 12 November 2015. At this meeting, the establishment of the LMC was announced, and the joint communiqué was issued. The communiqué states that China, Laos, Myanmar, Thailand, Vietnam and Cambodia will build up the LMC to become a sub-regional cooperation platform for joint consultation to meet the interests of all. The five priority areas for promoting the cooperation are as follows: inter-connectivity, production

capacity, cross-border economic cooperation, water resources cooperation, as well as agricultural cooperation and poverty reduction.

Once the multi-tiered LMC structure is established, the member countries will hold the first LMC summit meeting in 2016. The LMC and other sub-regional mechanisms such as GMS, MRC, and AMBDC will be mutually complementary, with networking and coordinating efforts to jointly promote regional integration. The projects and funding resources of the LMC will be negotiated between the relevant countries’ governments. Meanwhile, financial support from other financial mechanisms and international institutions will not be excluded.⁹

Compared with other existing cooperation platforms, the LMC enjoys multiple innovations. In terms of power, the LMC is jointly dominated and coordinated by six countries. With regard to cooperation, the LMC, which is open and inclusive, will carry out practical cooperation on three key areas: (i) political security; (ii) economical sustainable development; and (iii) social culture, comprehensively connecting the three pillars of the ASEAN Community. It will be an important opportunity for sub-regional countries to collaborate and reap mutual benefits. It is also a new driving force for existing sub-regional cooperation mechanisms to promote collaboration and joint action.

⁸ “The Speech of Li Keqiang at 17th China-ASEAN (10+1) Summit Meeting (full text),” *Xinhua Net*, November 14, 2014, http://news.xinhuanet.com/fortune/2014-11/14/c_1113240171.htm.

⁹ “The Joint Communiqué of the First Lancang-Mekong River Cooperation Foreign Ministerial Meeting (full text),” *Xinhua Net*, November 12, 2015, http://news.xinhuanet.com/world/2015-11/12/c_1117126335.htm#0-tsina-1-43291-397232819f9a47a7b7e80a40613cfe1.

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China and Mekong River countries have laid a good foundation and now have great potential to cooperate in promoting five priorities under the LMC. In terms of inter-connectivity, the construction of the Kunming-Bangkok highway is already complete and is now open to traffic. China and the five Mekong River countries have begun cooperation on road, railway and optical fiber communication. The integrated sub-regional inter-connectivity plan can be formed on the basis of “four lines”: (i) border line; (ii) Mekong River Basin line; (iii) highway line; and (iv) railway line. The plan is to promote the upgrading of the Pan-Asian railway, China-Thailand railway, China-Laos railway, China-Myanmar land-water transportation channel, and improving the level of the power grid and cable connection. Meanwhile, a sub-regional transportation facilitation agreement can be explored in order to strengthen connectivity regulations. On production capacity cooperation, most Mekong River countries are at the early stage of industrialisation, and have strong demands for new infrastructure. China has accumulated a wealth of experience in infrastructural construction, and has advanced industrial equipment and mature production capability with high performance/price ratios in steel, cement, electric power, transportation, and shipbuilding.

China can carry out customised production capacity cooperation with sub-regional countries by considering each country's development plan and accelerating the industrialisation process at a lower cost. On cross-border economic cooperation, China and Mekong River countries can fully develop their common border's unique resources to strengthen economic and technical cooperation, build up the cross-border economic cooperation zone and industry zone under the framework of the ASEAN-China Free Trade Area (ACFTA).

On water resources cooperation, the six countries should work together to protect this precious resource and promote sustainable development and livelihood. China can help to strengthen the exchange of experience and technology with Mekong River countries; and establish more agricultural cooperation centers as well as demonstrative farmlands (with high quality, high yield and excellent crop variety demonstration stations). Additionally, projects derived from the East Asia Cooperation Initiative on Poverty Reduction must be reasonably practical. Demonstrative sites in Cambodia, Laos, and Myanmar should also be established. Meanwhile, joint prevention and control of cross-border infectious diseases should be strengthened. Lastly, health conditions in poverty-stricken areas should be

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improved and more professional personnel should be trained to serve in the Mekong River.

Fourth, in terms of projects, the current focus is to continually accelerate infrastructure cooperation with the cross-border railway as the priority.

Unobstructed international connectivity is the prerequisite for upgrading the Mekong sub-regional cooperation. Currently, East-West Corridor Project connecting Thailand, Laos, Vietnam and Myanmar within the sub-region has been completed and operations have begun. Its stimulating effect on the economy has already been seen, but the North-South Corridor still needs to be further developed with more investment from all parties.

China is strengthening connectivity by engaging with sub-regional countries on their development strategies, and increasing cooperation on infrastructural construction. China and Laos signed an intergovernmental railway cooperation agreement on 13 November 2015, formally marking China-Laos railway's entry into the implementation phase. The railway line will enter Laos through Mohan/Boten border cities, and travel southward to Vientiane, the capital city of Laos. The total length of the railway is 418 km, which is expected to fully open in 2020.¹⁰

China and Vietnam reached a series of agreements during President Xi's visit to Vietnam on 5 November 2015. Following the agreements, the two countries are embarking on a feasibility study for a railway project that connects Vietnam to the border city, Lao Cai, and extends to Vietnam's third largest city, Haiphong. China will provide US\$250 million in loan to the Vietnamese urban rail project, and provide US\$300 million in loan to the Mong Cai-Van Don highway project.¹¹

In addition, China and Thailand signed a memorandum of understanding (MOU) on railway cooperation on 19 December 2014, and the plan was to start construction in 2015. According to the latest report, the two countries plan to hold the foundation stone laying ceremony on the same day, a year later. The date of formal construction has been postponed to May 2016.¹²

Mekong River countries are in the crucial stage of improving their national capabilities. Therefore, these infrastructural construction projects will become a new milestone for them to stimulate their economies and grow employment. China-Laos-Thailand railway's completion will promote connectivity of the Pan-Asia railway's middle passage, and provide a fast channel for passenger transportation and logistics transport throughout the GMS. This will play a several

¹⁰ "China-Laos Railway Project Launched, and Will Directly Arrive in Vientiane and Connect Malaysia through Thailand in the Future," *China News*, November 13, 2015, <http://www.chinanews.com/cj/2015/11-13/7622843.shtml>.

¹¹ "China and Vietnam Research the Project of Hanoi-Lao Cai Railway, the Total Investment is US\$2.8 Billion," *The Paper*, November 6, http://www.thepaper.cn/newsDetail_forward_1393584.

¹² "China-Thailand Railway Cooperation Project Launched, and Will Probably Start to Construct in May of Next Year," *Sina News*, <http://news.sina.com.cn/o/2015-11-22/doc-ifykwaxv2620762.shtml>.

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important roles: (i) promoting China-ASEAN's Belt and Road construction; (ii) improving transportation conditions across China, Laos, Thailand and other ASEAN countries; (iii) building safe and unobstructed railway transport network between China and ASEAN; and (iv) deepening economic and trade, industry and energy resource cooperation for countries along the Belt and Road.

Fifth, continually promote the Mekong River Basin law enforcement and security cooperation.

Several problems such as drug crime, smuggling, arms trafficking, robbery, and illegal immigration have become serious in the Mekong River sub-region, and pose a threat to the security of exchange personnel. Both the China-Laos-Myanmar-Thailand Mekong River Basin joint law enforcement and security cooperation mechanism were established in December 2011. The Mekong Joint Patrol Enforcement Operation had completed 40 rounds by 21 November 2015. However, to some extent, the cooperation mechanism cannot fully play its role due to complex international law issues and sovereign state authorisation problems. In the face of a complex security situation in the Mekong River Basin, it is necessary for river basin countries on the basis of respect for sovereignty and

non-interference, to upgrade the current level of security cooperation comprehensively.

On 21 October 2015, the Ministerial Meeting on Law Enforcement & Security Cooperation along the Mekong River was held in Beijing and the *Joint Statement on Strengthening Cooperation on Law Enforcement & Security Cooperation along the Mekong River* was approved.¹³

The joint statement clearly states that the Ministerial Meeting on Law Enforcement & Security Cooperation along the Mekong River and senior level meeting mechanisms will be established; the Lancang-Mekong River Comprehensive Law Enforcement and Security Cooperation Center will be built; fighting against criminals involved in drug crime, terrorism, cybercrime, will be brought into the scope of law enforcement and security cooperation; and the key areas of cooperation will include fighting against organised smuggling, illegal migration, and apprehending and repatriating fugitives. A series of collaborative actions will be carried out between 2016 and 2017. The Ministerial Meeting will be held once every two years, and the senior leaders meeting will be held once a year. Cambodia and Vietnam will be the observer countries to participate in the initiative under the framework of the China-Laos-Myanmar-Thailand Mekong River Basin Law Enforcement Security Cooperation mechanism.

¹³ "Ministerial Meeting on Law Enforcement & Security Cooperation along the Mekong River," *People's Daily*, October 25, 2015, section 4.

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Sixth, continually keep pace with the times to improve the standardization and transparency of Chinese investment in the sub-region.

As China strengthens its support for infrastructural construction in the sub-regional countries, the influx of Chinese capital and enterprises into major infrastructural projects in neighbouring countries will put pressure on China to improve related laws and regulations. In particular, the manner of cooperation in direct investment in neighbouring countries' mineral, water and electricity resources development should receive more attention. Strict environmental and quality standards must be enforced. Social benefits of cooperation should be expanded while pursuing economic benefits. Local employment and sustainable environmental development should receive more consideration. For instance, on 18 February 2013, the Ministry of Commerce and Ministry of Environmental Protection of China jointly issued the Guidelines of Foreign Investment Cooperation for Environmental Protection. This was China's first special set of guidelines on the behavior of enterprises pertaining to environmental protection and investment. As China reflects on its past investment behavior, it would, more carefully than ever, take necessary actions to enhance bilateral relations with the Lower Mekong River countries.

Seventh, continue to explore prospects and implement financial cooperation in the sub-region.

Financial cooperation between China and sub-regional countries is new. Based on the existing Chiang Mai Initiative multilateral cooperation, China decided to provide facilitation for the sub-regional monetary authorities and other institutions to invest in China's bond market. A future development road map for regional financial cooperation will be explored and formulated actively. Asia will have its own systems for monetary stability, credit, and investment and financing cooperation.¹⁴ China will strengthen financial support to sub-regional trade and investment cooperation. China will contribute US\$1 billion to support sub-regional inter-connectivity projects in the spirit of upholding the principles of market orientation and sustainability. The China Development Bank (CDB) has set up the US\$10 billion China-ASEAN infrastructure special loan to support enterprises, factory building and industrial development in the local area.¹⁵ It is expected that China will provide free aid, preferential loans and regional cooperation funding to support sub-regional cooperation projects, and actively strive for the engagement of international financial mechanisms and development funds such as AIIB and Silk Road Fund. These measures will make up for the insufficient financial support provided by the ADB, the main initiator and funder of the GMS.

¹⁴ "The Speech of Li Keqiang at the 16th ASEAN Plus China Summit Meeting (full text)," *Xinhua Net*, October 10, 2013, http://news.xinhuanet.com/world/2013-10/10/c_125503937.htm.

¹⁵ "The Speech of Li Keqiang at the Opening Ceremony of the 5th Summit of the Greater Mekong Sub-region Economic Cooperation Program," *Central Government Portal Website*, December 20, 2014, http://www.gov.cn/guowuyuan/2014-12/20/content_2794565.htm.

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Eighth, continually promote cultural exchange and cooperation.

Promoting people-to-people bonds is one of the major priorities of the Belt and Road Initiative.. As a matter of fact, China has felt some dissatisfaction arising from the Mekong River sub-region in the past years, and realised that it would severely affect its image. Therefore, China plans to implement a wide range of collaborative projects such as cultural exchange, personnel exchange, infectious disease information communication, prevention technology and professional training.

Curiously, China has increased its engagement with non-governmental organisations of sub-regional countries. China has organised activities to cater to public interest in education, healthcare, biodiversity and ecological protection, and improved the living conditions in poverty-stricken areas in the sub-region.¹⁶ In December 2014, during the 5th GMS SUMMIT, Premier Li announced that China will offer RMB3 billion in free aid to reduce poverty in the Lower Mekong River countries. In addition, China will offer training to 3,000 healthcare and agricultural personnel in the next three years.¹⁷

¹⁶ "The Speech of Li Keqiang at the 16th ASEAN Plus China Summit Meeting (full text)," *Xinhua Net*, October 10, 2013, http://news.xinhuanet.com/world/2013-10/10/c_125503937.htm.

¹⁷ "Li Keqiang: China will Provide RMB 3 Billion Free Aid to Less-Developed ASEAN Countries," *People.cn*, <http://world.people.com.cn/n/2014/1221/c1002-26246494.html>.

CONCLUDING REMARKS

It has not been long since China sought to promote an upgrade of the GMS economic cooperation. Therefore, the time is not yet ripe to evaluate the effectiveness of China's policies. The effectiveness of China's policies will be affected by (though not limited to) the following factors: (i) the level of the Mekong River countries' trust and support for China's upgraded policy; (ii) the effectiveness of the coordination of mechanisms among LMC, GMS and MRC; (iii) the ability to overcome potential threats of terrorism and smuggling of Uyghurs to Mekong River countries; (iv) China's willingness to provide sufficient financial and market support to upgrade sub-regional cooperation; and (v) manner of cooperation with countries and international organisations outside the sub-region.

As we look ahead, there are probably two trends. First, in the foreseeable future, China would not proactively take the risk to replace GMS with LMC. The cooperation mechanisms would still co-exist in the sub-region with some overlapping functions, even though each mechanism has its unique role. In that event, every country's judgement will be tested and the cost-benefit analysis should be considered. Second, in the context of China's Belt and Road Initiative, the Mekong sub-region will play a special role. China will probably channel more resources into this region, which means that the smarter countries of Lower Mekong River that ride on these opportunities will benefit greatly from the cooperation.

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