

General Overview and Summary

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A study group has been organized to make a China-Japan comparison of economic relationships with the Mekong River Basin (MRB) countries which include Cambodia, Lao PDR, Myanmar, Thailand, and Vietnam. There are three reasons for the study. First, there is limited literature on the MRB area and the lack of it makes researches extremely difficult. Second, trade, foreign direct investment (FDI) inflows, and official development assistance (ODA) are considered the three pillars for development, however, key stakeholders are unknown. Third, the potential of China-Japan cooperation is essential for the development of MRB countries.

1. OVERVIEW

Five MRB countries cover 1.9 million square kilometers with a population of 215.89 million. In 2006, Thailand reached per capita GDP of US\$3,258, Vietnam with US\$725, and Cambodia with US\$511 (Table 1). The ratio of industry to GDP shows 45 percent in Thailand, 42 percent in Vietnam, 32 percent in Lao PDR, and 26 percent in Cambodia. Thailand is mostly into manufacturing while Myanmar remains agricultural. The ratio of exports of goods and services to GDP in these countries exhibits interesting features. Thailand is mostly liberalized or open to the world with its 74 percent ratio and Vietnam follows at 73 percent. However, Cambodia's 69 percent is higher than what is expected. These top three countries (Thailand, Vietnam, and Cambodia) show

Table 1: BASIC DATA FOR MEKONG RIVER BASIN COUNTRIES	
	2006
CAMBODIA	
Population, total (millions)	14.20
Surface area (sq. km) (thousands)	181.0
GDP per capita (current US\$)	511.27
Agriculture, value added (% of GDP)	30
Industry, value added (% of GDP)	26
Services, etc., value added (% of GDP)	44
Exports of goods and services (% of GDP)	69
Imports of goods and services (% of GDP)	76
Internet users (per 100 people)	0.5
Mortality rate, under-5 (per 1,000)	82
LAO PDR	
Population, total (millions)	5.76
Surface area (sq. km) (thousands)	236.8
GDP per capita (current US\$)	590.28
Agriculture, value added (% of GDP)	42
Industry, value added (% of GDP)	32
Services, etc., value added (% of GDP)	26
Exports of goods and services (% of GDP)	36
Imports of goods and services (% of GDP)	42
Internet users (per 100 people)	1.2
Mortality rate, under-5 (per 1,000)	75
MYANMAR	
Population, total (millions)	48.38
Surface area (sq. km) (thousands)	676.6
GDP per capita (current US\$)	..
Agriculture, value added (% of GDP)	..
Industry, value added (% of GDP)	..
Services, etc., value added (% of GDP)	..
Exports of goods and services (% of GDP)	..
Imports of goods and services (% of GDP)	..
Internet users (per 100 people)	0.1
Mortality rate, under-5 (per 1,000)	104
THAILAND	
Population, total (millions)	63.44
Surface area (sq. km) (thousands)	513.1
GDP per capita (current US\$)	3,258.20
Agriculture, value added (% of GDP)	11
Industry, value added (% of GDP)	45
Services, etc., value added (% of GDP)	45
Exports of goods and services (% of GDP)	74
Imports of goods and services (% of GDP)	70
Internet users (per 100 people)	13.3
Mortality rate, under-5 (per 1,000)	8
VIETNAM	
Population, total (millions)	84.11
Surface area (sq. km) (thousands)	329.3
GDP per capita (current US\$)	725.24
Agriculture, value added (% of GDP)	20
Industry, value added (% of GDP)	42
Services, etc., value added (% of GDP)	38
Exports of goods and services (% of GDP)	73
Imports of goods and services (% of GDP)	77
Internet users (per 100 people)	17.5
Mortality rate, under-5 (per 1,000)	17

Source: World Bank, World Development Indicators database, September 2008

vulnerability to changes in foreign demand like the present worldwide recession.

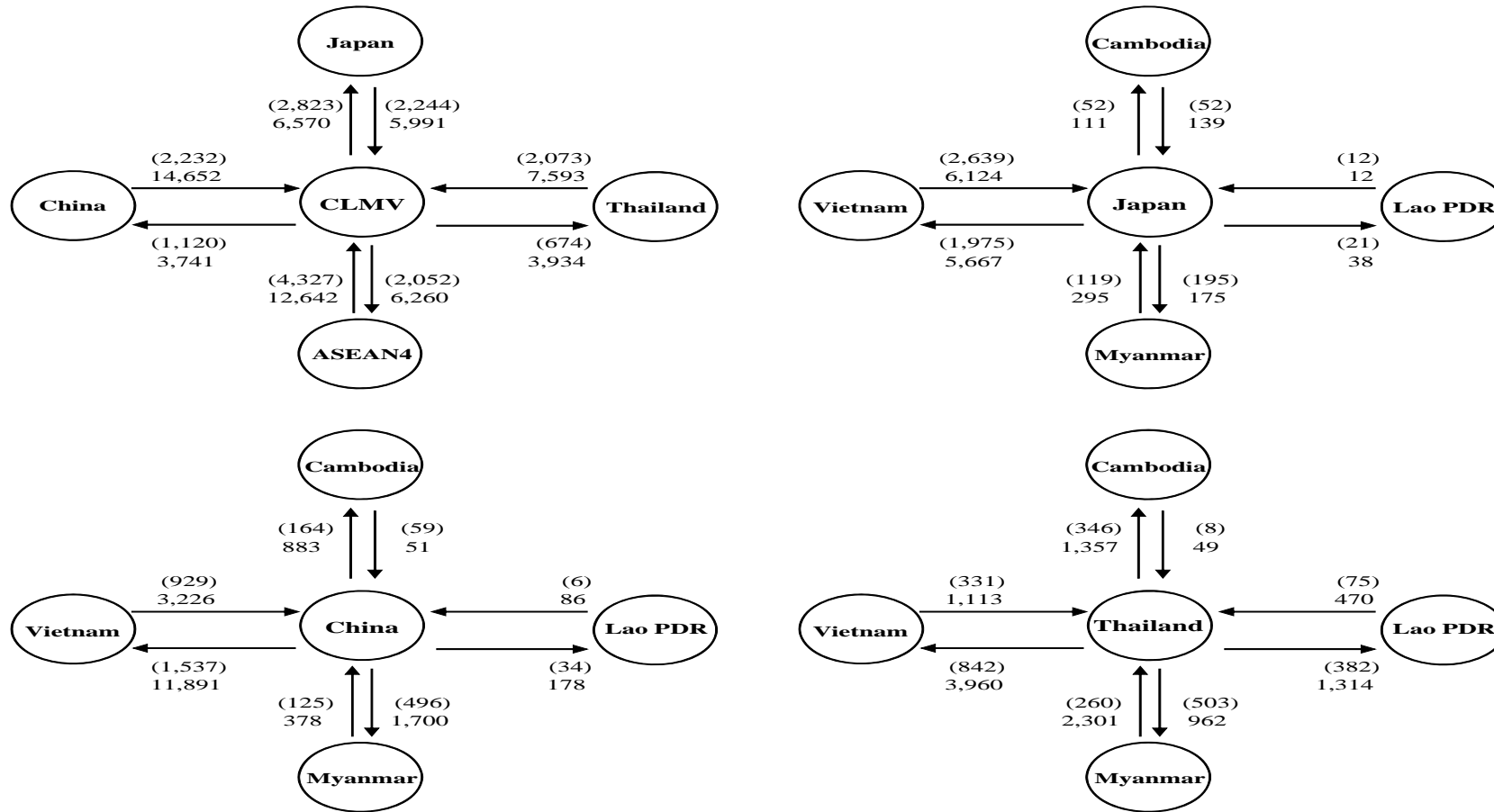
There are 17.5 internet users per 100 people in Vietnam. It is higher than Thailand's 13.3 users, while Lao PDR, Cambodia, and Myanmar show less than 2 users. Mortality rates under 5-years old per 1,000 children is lowest in Thailand (8 children) and highest in Myanmar (104 children); Vietnam (17), Lao PDR (75), and Cambodia (82). This Thai figure reflects a good quality health care systems and reliable hospital networks.

From the above data, Vietnam and Thailand seem to have a similar trade and industrial structure; Vietnam striving to catch up with Thailand. This study focuses on the relationships between China-Japan and MRB countries, mainly, CLMV (Cambodia, Lao PDR, Myanmar and Vietnam). However, a further study on the relationships between Thailand/Vietnam and other MRB countries (Cambodia, Lao PDR, and Myanmar) can be explored in the future.

2. TRADE

Chinese trade (export + import) with CLMV countries increased by 449 percent from US\$3,352 million in 2000 to US\$18,393 million in 2007. In the same period, Japan's trade with them increased by 148 percent from US\$5,067 million to US\$12,561 million. ASEAN4's trade with them was from US\$6,379 million to US\$18,902 million (196%) while Thai trade with them was from US\$2,447 million to US\$11,527 million (371%) (Figure 1). In this line, the growth rate of China and Thailand is significant. Chinese exports to CLMV swelled by 556 percent from US\$2,232 million to US\$14,652 million during the same period. Such resulted in huge deficits for the

Figure 1: TRADE VALUES WITH CLMV, (2000) & 2007 (US\$ Million)



Source: UN Comtrade.

CLMV countries. Thailand is a rapidly emerging trade partner for CLMV. Soon, it may exceed Japan's position in the future. Interestingly, ASEAN4 and Thailand have also surpluses in the trade balance with CLMV countries; while Japan has trade deficits.

China's trade with Vietnam (US\$15,117 million) is the largest in 2007 among CLMV. Myanmar follows with US\$ 2,078 million. In the same period, China has trade surpluses with each CLMV country (Vietnam +US\$8,665 million; Myanmar +US\$1,322 million; Cambodia +US\$832 million; and Lao PDR +US\$92 million). China exports light manufactured goods and machinery to CLMV while imports mainly include crude materials and mineral fuels. For example, China imports rubber, crude oil, and coal from Vietnam (61% of the import value), wood and cork from Myanmar (68%), and wood and wood products, copper and rubber from Lao PDR (74%).

Japan has the largest trade relation with Vietnam amounting US\$11,791 million, followed by Myanmar with US\$470 million, Cambodia US\$250 million and Lao PDR US\$50 million. Except Lao PDR (+US\$26 million), Japan has trade deficits with Vietnam (-US\$457 million), Myanmar (-US\$120 million) and Cambodia (-US\$28 million) in 2007. Japan mainly exports machineries and consumer durables to these countries. On the other hand, it imports raw materials, food, apparels, and parts and components of machine industries.

Thailand has its strongest trade ties with Vietnam having US\$5,073 million followed by Myanmar (US\$3,263 million), Lao PDR (US\$1,784 million) and Cambodia (US\$1,406 million) in 2007. It has also trade surpluses with CLV countries except Myanmar. Thailand imports natural gas from Myanmar (90% of the import share). As compared with China and Japan, Thailand's trade amounts have already exceeded those of the two countries in Myanmar, Lao PDR, and Cambodia.

From the CLMV side, the top four trade partners in 2007 are as follows:

- **Cambodia**

- <Export> 1 USA, 2 Germany, 3 UK, 4 Canada

- <Import> 1 Thailand, 2 Vietnam, 3 China, 4 Hong Kong

- **Lao PDR**

- <Export> 1 Thailand, 2 China, 3 Vietnam, 4 Korea

- <Import> 1 Thailand, 2 China, 3 Vietnam, 4 France

- **Myanmar**

<Export> 1 Thailand, 2 India, 3 China, 4 Japan

<Import> 1 China, 2 Thailand, 3 Singapore, 4 Korea

- **Vietnam**

<Export> 1 USA, 2 Japan, 3 Australia, 4 China

<Import> 1 China, 2 Singapore, 3 Taiwan, 4 Japan

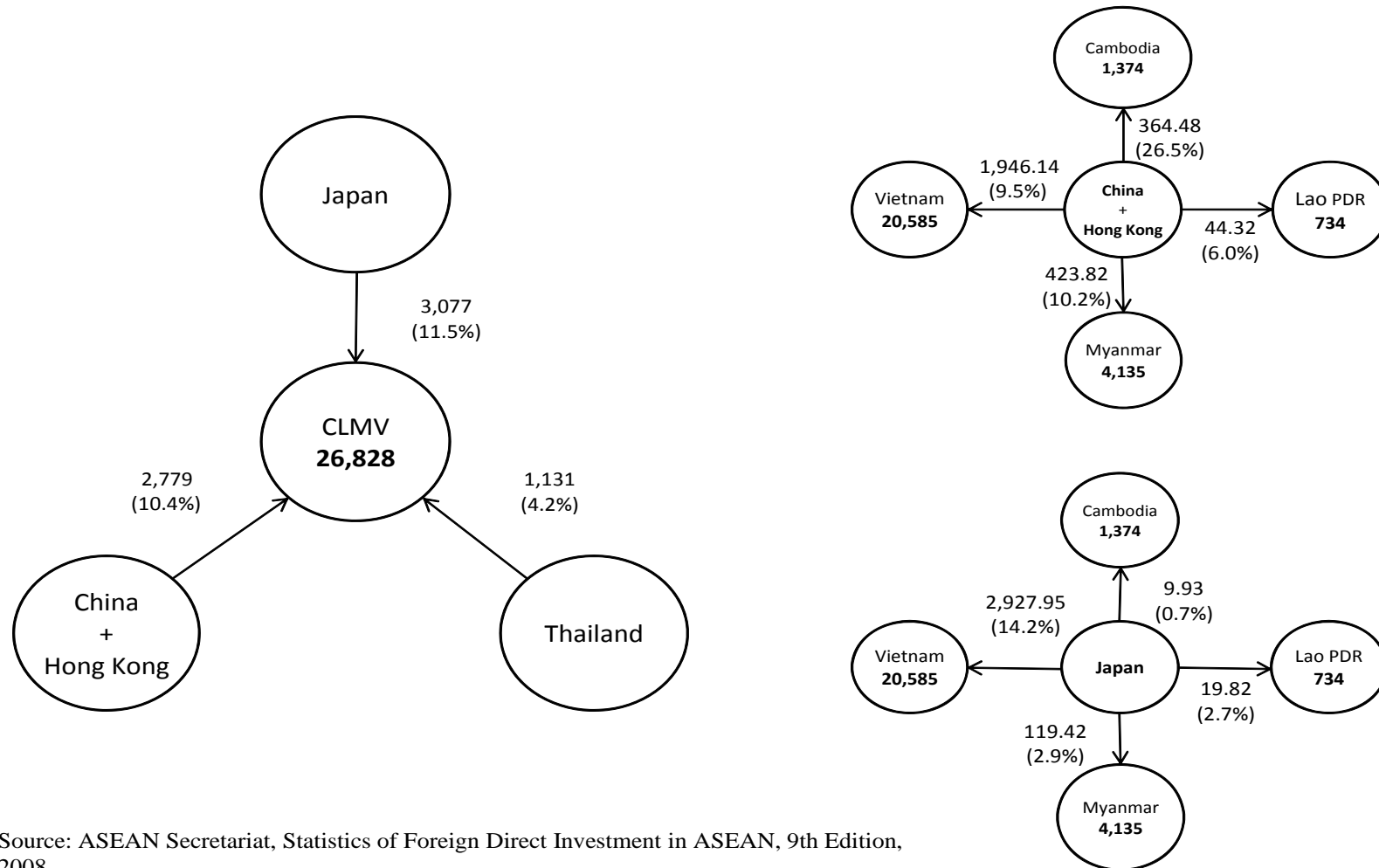
Indeed, Thailand and Vietnam as a trade partner for CLMV becomes apparent. Cambodia's USA and European inclination for exports has its roots to the preferential access to such areas.

3. FOREIGN DIRECT INVESTMENT (FDI)

According to the ASEAN Secretariat, the total cumulative FDI to CLMV countries in 1995-2006 amounted to US\$26,828 million, Japan accounted for 11.5 percent, China with Hong Kong for 10.4 percent, and Thailand for 4.2 percent (Figure 2). The top five investors are Japan (US\$3,077 million), Singapore (US\$2,838 million), China with Hong Kong (US\$2,779 million), Korea (US\$2,479 million), and Taiwan (US\$2,462 million).

In Cambodia, the total cumulative FDI in 1995-2006 is estimated to US\$1,374 million. China and Hong Kong invested US\$364.48 million (26.5%) while Japan has only US\$9.93 million (0.7%). In Lao PDR the total cumulative FDI is US\$734 million, out of which China and Hong Kong invested US\$44.32 million (6.0%) and Japan US\$19.82 million (2.7%). China and Hong Kong invested US\$423.82 million (10.2%) while Japan invested US\$119.42 million (2.9%) out of its cumulative total of US\$4,135 million in Myanmar. In the case of Vietnam, China and Hong Kong invested US\$1,946.14 million (9.5%) and Japan US\$2,927.95 million (14.2%) in the total cumulative amount of US\$20,585 million. Vietnam is considered an investor's priority country for both Japan and China (and Hong Kong). China and Hong Kong seem to continue investing in Myanmar and Cambodia. It is likely that China's FDI is aiming at exploring low-labor cost in Vietnam and Cambodia, especially, in garment and light manufacturing industries. On the other hand, Chinese FDI in Lao PDR and Myanmar is concentrated in mining industries.

Figure 2: FDI INFLOW TO CLMV, CUMULATIVE TOTAL (1995-2006) US\$ Million



Source: ASEAN Secretariat, Statistics of Foreign Direct Investment in ASEAN, 9th Edition, 2008

In Thailand, the total cumulative FDI inflows reached US\$64,428 million in 1995-2006. Japan invested US\$20,226 million or 31.4 percent while China and Hong Kong's investment amounted to US\$3,703 million or 5.7 percent. Japan seems to be a dominant player in Thailand.

In this cumulative total (1995-2006), top four investors in CLMV countries are as follows:

- **Cambodia** 1 China and Hong Kong, 2 Thailand, 3 Korea, 4 Taiwan;
- **Lao PDR** 1 Thailand, 2 France, 3 Korea, 4 Malaysia;
- **Myanmar** 1 UK, 2 France, 3 Singapore, 4 China and Hong Kong; and
- **Vietnam** 1 Japan, 2 Taiwan, 3 Korea, 4 Singapore.

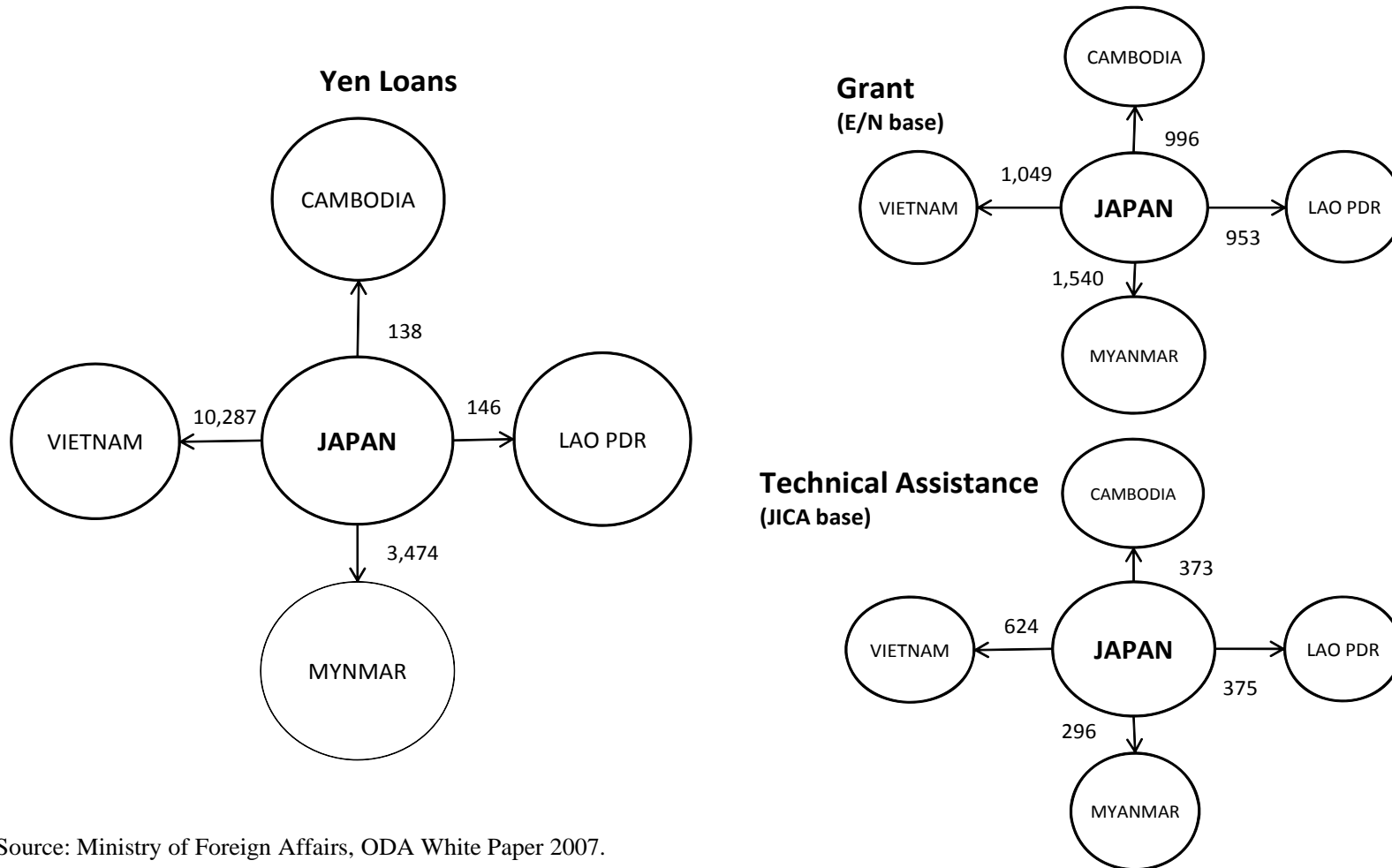
In 2008, it is interesting to note that Vietnam is projected to be the top investor in Lao PDR with US\$181 million, exceeding China (US\$112 million) and Thailand (US\$173 million).

4. OFFICIAL DEVELOPMENT ASSISTANCE (ODA)

It is difficult to compare the aid data between China and Japan. China is not a member of the Development Assistance Committee (DAC)/Organization for Economic Cooperation and Development (OECD). In the case of Japan, ODA totaled US\$7,313 million in 2006 in flow terms. Some US\$1,344 million or 18.4 percent was channeled to East Asian countries. Recently, the flow amount is decreasing because Japan intends to increase its ODA to African countries. In many countries in East Asia, Japanese ODA is one of the largest amounts in cumulative terms (East Asian Total up to 2006: US\$151 billion).

Figure 3 shows that up to 2006 Japan gave Vietnam the Yen loans totaling US\$10,287 million (calculated by 116 yen per dollar), Myanmar US\$3,474 million, Lao PDR US\$146 million, and Cambodia US\$138 million. Regarding grants in exchange-of-note bases, Myanmar received US\$1,540 million, Vietnam US\$1,049 million, Cambodia US\$996 million, and Lao PDR US\$953 million. As for technical assistance through the Japan International Cooperation Agency (JICA), Vietnam is the highest, US\$624 million, followed by Lao PDR US\$375 million, Cambodia US\$373

Figure 3: JAPAN'S ODA: CUMULATIVE TOTAL UP TO 2006 (US\$ Million)



Source: Ministry of Foreign Affairs, ODA White Paper 2007.

million, and Myanmar US\$296 million. Japan's aid to Myanmar has presently been suspended due to its military government according to the Japan's 1992 ODA Charter.

Japan offered Thailand yen loans amounting to US\$17,627 million up to 2006, grants of US\$1,372 million, and technical assistance of US\$1,752 million. Thailand (US\$20.8 billion) is the fourth receiving country in East Asia. The largest aid receiving country from Japan is Indonesia (US\$40.5 billion), followed by China (US\$30.9 billion), and the Philippines (US\$21.2 billion).

Japan's ODA went to infrastructure development, social development projects (i.e., health, education, water, and poverty reduction measures), environmental protection, and variety of capacity building programs.

Using the Greater Mekong Sub-region (GMS) program and ASEAN-Mekong Basin Development Cooperation (AMBDC) framework, China is likely to assist neighboring countries (Vietnam, Lao PDR, and Myanmar), especially, the Northern part of Vietnam and Lao PDR. China is particularly interested in infrastructure developments such as road and railways links and electricity supplies or grid interconnections in these areas. Moreover, China wants to aid rural development by the use of biogas energy as discussed in the 10th Ministerial Meeting of the ASEAN-Mekong Basin Development Cooperation (AMBDC) on the "Latest Development of China's Involvement under the AMBDC Framework" presented by the National Development and Reform Commission in 2008.

5. FRAMEWORK OF THE REPORT

This report consists of two parts: Part 1 (Chapters 1 to 4) deals with actual

situations of trade, FDI, and ODA of China and Japan with the Mekong River Basin countries, especially, Cambodia, Lao PDR, Myanmar, and Vietnam; in Part 2 (Chapters 5 to 8), country-wide analyses are carried out by each LMTV expert in relation to China and Japan. Finally, provisional conclusions are drawn from the analysis.

In Chapter 1, Xingmin Yin explains China's trade and FDI to CLMV countries. CLMV became members of ASEAN during the 1990s and China became a member of WTO (2001), and had the China-ASEAN FTA in 2004. It promoted liberalization of trade and investment in both sides and relationships between the two regions became closer and tighter in addition to their physical proximity. After thorough analyses of each CLMV economy, a deepening trade relationship is foreseen with China's light industries and low-tech industries moving in CLMV countries due to their low-cost labor. Chinese industries is gradually transforming into more high-tech and high value-added ones with higher wages in mainland China.

Zhu Zhenming in Chapter 2 narrates China's economic cooperation policies for last 60 years. They changed from being ideological and political to liberalized and economic in perspectives. Now, Chinese economic aid is regarded as an important channel to promote foreign trade and investment. China's aid to each CLMV country has been described with emphasis on how China intensely participates in GMS development with its cooperation programs. Finally, the importance of the Yunnan Province is highlighted, as it directly faces Myanmar, Lao PDR and Vietnam in the GMS cooperation.

Yasushi Ueki clarifies China-Japan relations with CLMV countries by the use of trade and FDI data in Chapter 3. Calculation on several indices such as trade intensity index and intra-industry trade index were presented. Thailand is important in this region

due to its geographical and historical advantages. Competition among China, Japan and Thailand in CLMV trade clearly exists where China-Thailand poses more challenges than that of Japan-Thailand.

In Chapter 4, Minoru Makishima and Mitsunori Yokoyama explain Japan's ODA (Yen loans, grants, and technical assistance) to CLMV countries. A discussion on Japan's ODA revealed that the start-up stages in the fields of infrastructure gradually expanded to poverty reduction measures, social development projects and environmental protections. However, the share of ODA inflows to East Asian countries has been progressively decreasing in recent years. Also mentioned in this Chapter is Japan's newest plan to construct a new highway, called "East Asia Industrial Corridor", connecting Vung Tau (Vietnam), Ho Chi Minh, Phnom Penh, Bangkok, and Daway (Myanmar). This was proposed by the Economic Research Institute for ASEAN and East Asia (ERIA), a newly established international research organization, in Jakarta in 2008.

In Chapter 5, Part 2, Syviengxay Oraboune indicated the importance of external sector for achieving macroeconomic targets of Lao PDR including poverty reduction. Trade, FDI, and ODA by China-Japan are strategically integrated within the framework of socio-economic developments of the country. Vietnam's FDI into Lao PDR is increasing and projected to be top in 2008. Expectations are drawn that China and Lao PDR will develop the Northern part of Lao PDR for mutual benefits, while Japan's ODA may help facilitate more Japanese investment to Lao PDR.

Toshihiro Kudo in Chapter 6 indicates that Chinese relationships with Myanmar have strengthened after the birth of the military government in 1988. Japan's so-called "special relations" with Myanmar have waned. China largely imports wood (i.e., logs)

and non-metallic mineral products from Myanmar. China has a plan to construct a gas pipe-line to buy natural gas from the Bay of Bengal to Kunming. When completed, China may import natural gas most from Myanmar just like Thailand. Some concerns surfaced like: (a) China's imports concentrated in non-processed materials such as logs, mineral resources, and energy do not leave added-value in Myanmar; (b) Chinese lending may end up with bad loans due to some inefficient state-owned enterprises; and (c) Chinese aid does not touch upon internal matters.

In Chapter 7, Sompop Manarungsan gives explanation on the relationships between Thailand and China. Some interesting facts include: (i) Thailand has trade deficits with China; (ii) Bio-fuel project using *tapioca* is one of the biggest projects in the Chinese investment; (iii) Major Thai investors in China are C.P. Group, Saha Union Group, Mitphol Group, Cement Thai Group, Bangkok Bank, Kasikorn Bank and Central Group, and (iv) Thailand has the biggest number of Confucius Institute sponsored by China in the world (12 Institutes).

Ha Thi Hong Van and Do Tien Sam reports China-Vietnam relations in Chapter 8. China imports rubber, coal, and crude oil mostly from Vietnam while Vietnam imports food products, consumer good, intermediate goods, and machinery. The trade deficit with China is huge and increasing. China's FDI concentrates in mining, light industries, consumer goods, restaurants, and hotels. China's ODA centers in the Northern Vietnam. Expanding relations with China have both positive and negative effects on Vietnam. Negative effects may include smuggling, women and children trafficking, infection of diseases such as HIV, violation of intellectual property rights, and environmental destruction.

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