

# Tentative Conclusion

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## **Tentative Conclusion**

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From our study in FY 2009, several facts have been pointed out and tentative conclusions can be drawn up as summarized in the succeeding sections.

### **1. CHINA'S ECONOMIC TIES WITH THE REGION STRENGTHEN**

China's influence in terms of economic ties seems to have been increasing, especially in recent years in the Mekong River Basin countries (MRBCs). Korea's role has also been expanding, particularly in Vietnam. These trends will further improve when the China-ASEAN FTA (2010) and Korea-ASEAN FTA (2009) are fully in operation and utilized. Meanwhile, Japan's sight is still directed toward the Chinese and Indian markets and not toward ASEAN, particularly the MRBCs. In order to put more light into these developments, three countries (Cambodia, Lao PDR and Vietnam) are hereby being discussed for case comparison.

#### **1.1 Trade**

For Cambodia, its imports from China amounted to US\$933 million or 16.3 percent of its total imports in 2008. Among the three countries (China, Japan and Korea), Cambodia imports the most from China, then from Korea (US\$229 million) and then from Japan (US\$114) as can be gleaned from Figure 1. Japan, on the other hand, stands as the number one destination of exports from Cambodia among the three in 2008, totaling US\$32 million, followed by China (US\$13 million) and then Korea (US\$7 million). Based on these trends, Cambodia experienced trade deficits with all three

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countries, the largest of which was with China (-US\$920 million).

For Lao PDR, its imports from China amounting to US\$96.0 million or 50.8 percent of its total imports in 2007/08 topped those from Korea (US\$37.6 million) and Japan (US\$29.6 million) as seen in Figure 2. For its exports, Lao PDR had more to Korea (US\$81.5 million or 43.3 percent of its total exports) than to China (US\$42.9 million) and Japan (US\$10.8 million) in the same year. Lao PDR had trade surplus with Korea (+US\$43.9 million) but deficits with China and Japan.

In the case of Vietnam, China again was the country's top source of imports in 2008 reaching US\$15,652 million or 19.4 percent of Vietnam's total import, followed by Japan with US\$8,300 million and then Korea with US\$7,066 million (see Figure 3). For exports, Japan was the number one destination (US\$8,538 million), followed by China (US\$4,536 million) and Korea (US\$1,784 million) in 2008. Vietnam enjoyed trade surplus with Japan (+US\$238 million) but deficits with China and Korea. In particular, its deficit reached US\$11,116 million with China.

Regarding trade amounts (export + import), the data show the following results in 2008:

Cambodia: 1. With China (US\$946 million), 2. With Korea (US\$237 million), and 3. With Japan (US\$146 million).

Lao PDR: 1. With China (US\$139 million), 2. With Korea (US\$119 million), and 3. With Japan (US\$40 million).

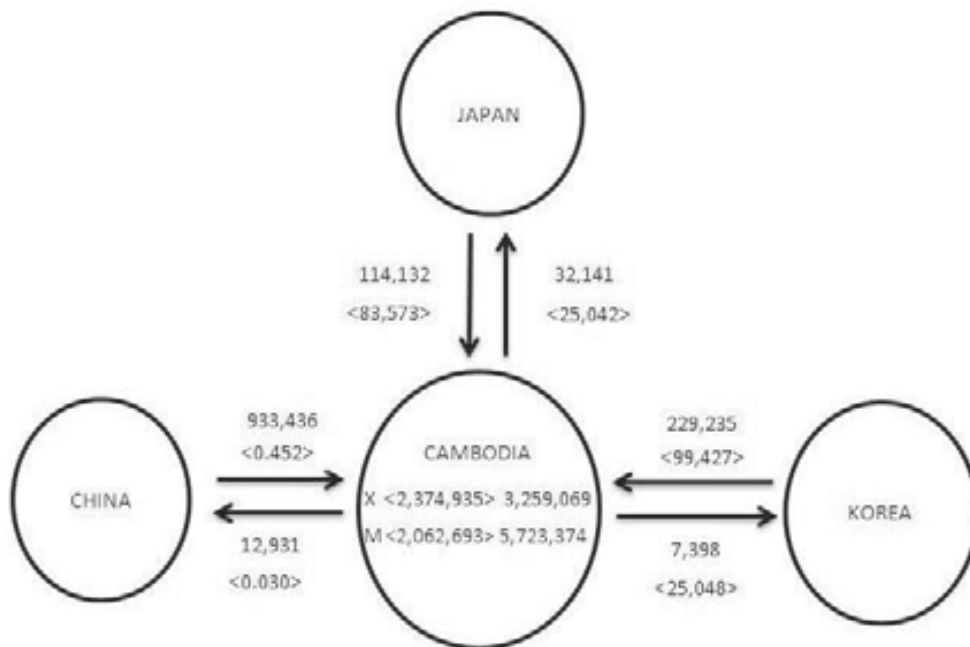
Vietnam: 1. With China (US\$20,188 million), 2. With Japan (US\$16,838 million), and 3. With Korea (US\$8,850 million).

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It is apparent from the figures that among the three countries, China has become the largest trading partner of Cambodia, Lao PDR, and Vietnam (possibly of Myanmar as well).

**Figure 1 Cambodia: Trade with China, Japan and Korea in <2004> and 2008**

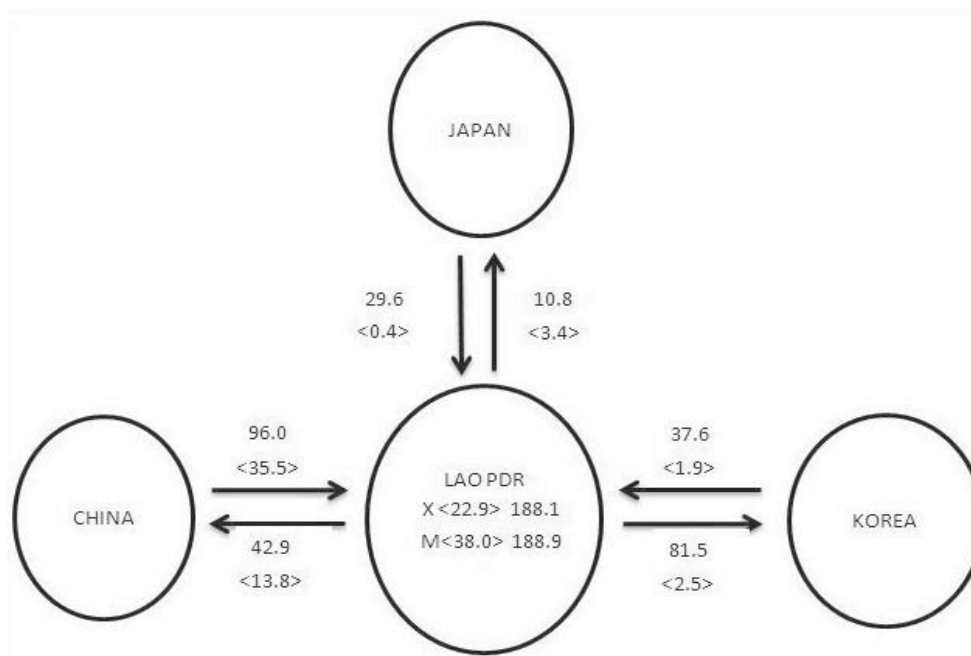
(US\$Thousand)



Source: By author from Chap Sotharith in this book.

**Figure 2 Lao PDR: Trade with China, Japan and Korea in <2000/01> and 2007/08**

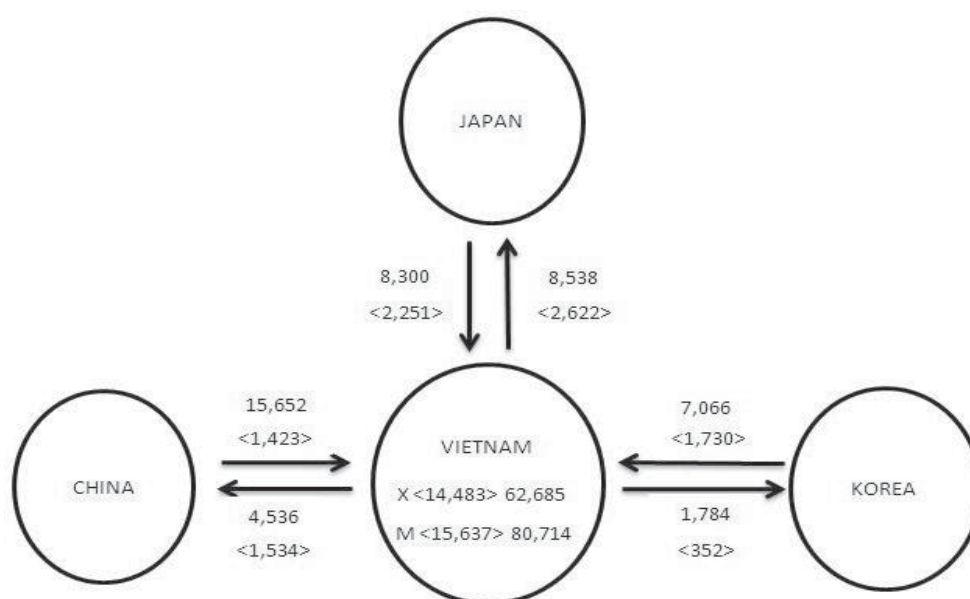
(US\$Million)



Source: By author from Syviengxay Oraboune in this book.

**Figure 3 Vietnam: Trade with China, Japan and Korea in <2000> and 2008**

(US\$Million)



Source: By author from Ha Thi Hong Van in this book.

## **1.2 FDI Inflows (Approved Bases)**

Between 1995 and 2008, Cambodia received US\$23, 864 million as cumulative total FDI (Figure 4). China placed the first among the three countries (US\$5,844 million or 24.5% of total FDI), Korea placing second with US\$2,774 million or 11.6%, and Japan as third with US\$149 million or 0.6%. Japan's investment is quite negligible in Cambodia.

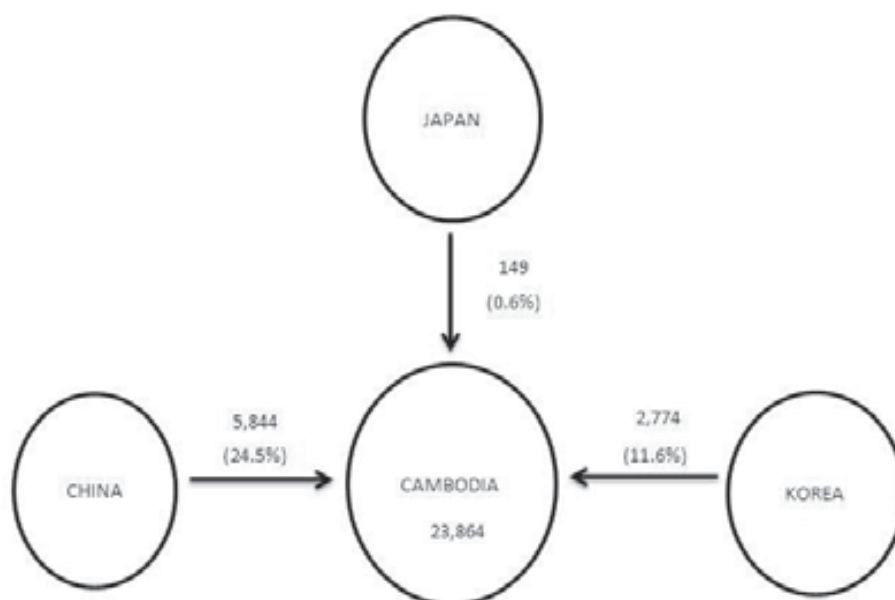
Lao PDR got US\$9,654 million FDI as cumulative total from 2001 to March 2009 (Figure 5). Among the three, China invested the most at US\$1,543 million or 16.0 percent of the total, followed by Japan with US\$424 million (4.4%) and Korea with US\$397 million (4.1%). China places third in the actual all-country ranking for FDI sources to Lao PDR, after Thailand and Vietnam.

FDI inflows to Vietnam accumulated US\$174,715 million as of October 2009 (Figure 6). Korea was the highest investor among the three with investments reaching US\$20,465 million or 11.7 percent of the total, followed by Japan with US\$17,854 million (10.2%) and China with US\$2,700 million (1.5%). China's presence in Vietnam in terms of FDI is still small. Korea places second only after Taiwan in the actual all-country ranking while Japan ranks fourth after Malaysia.

In sum, among the three, China became the largest investment country in Cambodia and Lao PDR but not in Vietnam where Korea took the number one position.

**Figure 4 Cambodia: Accumulated FDI Inflow 1995 – 2008**

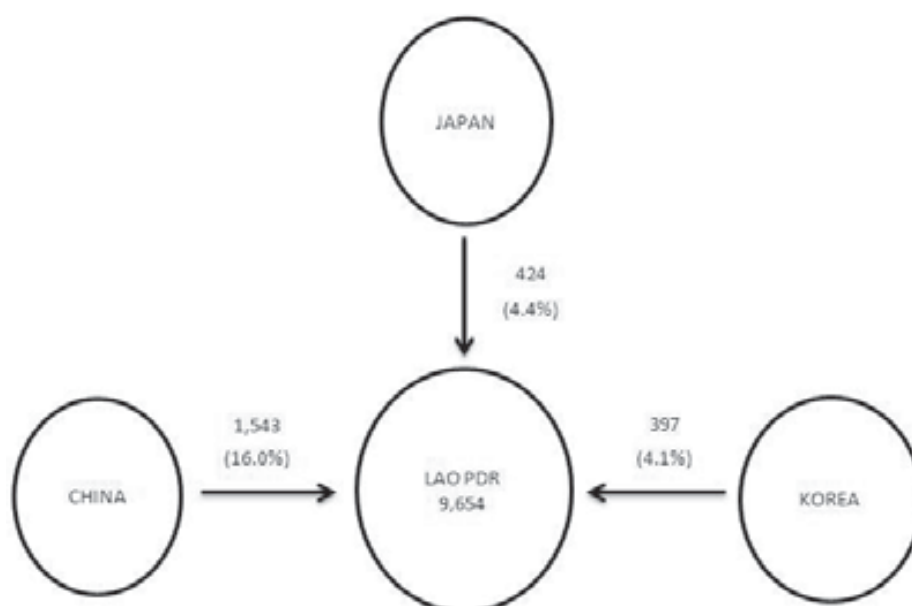
(US\$Million)



Source: By author from Chap Sotharith in this book.

**Figure 5 Lao PDR: Accumulated FDI Inflow 2001 – March 2009**

(US\$Million)

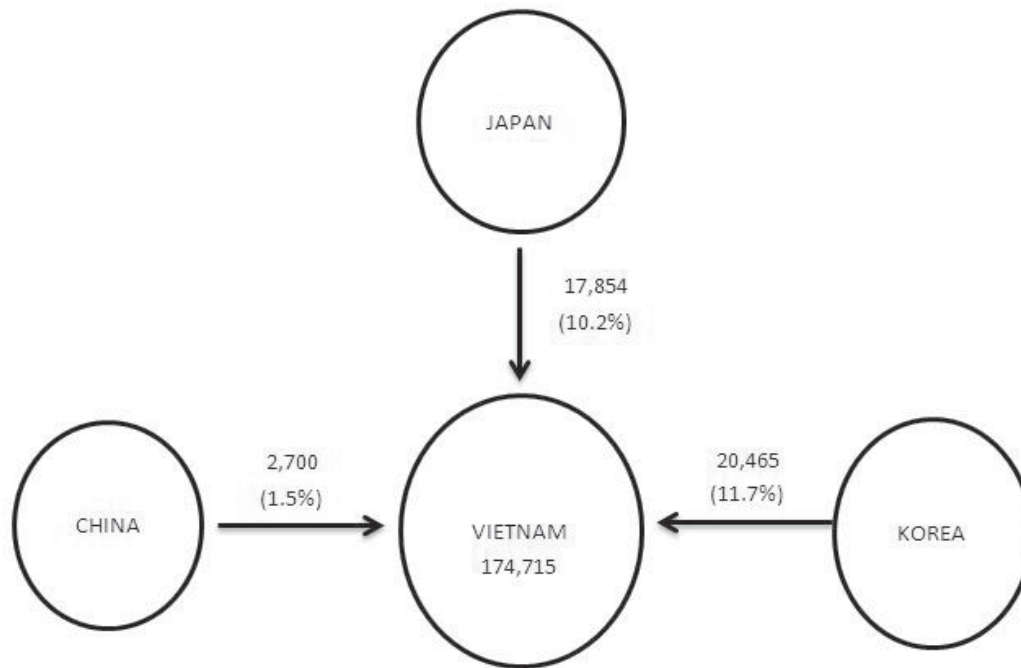


First: Thailand 3,310 (34.3%)      Second: Vietnam 2,055 (21.3%)      Third: China 1,543 (16.0%)

Source: By author from Syviengxay Oraboune in this book.

**Figure 6 Vietnam: Accumulated FDI Inflow up to October 2009**

(US\$Million)



First: Taiwan 21,289 (12.2%)      Second: Korea 20,465 (11.7%)      Third: Malaysia 18,062 (10.3%)

Source: By author from Ha Thi Hong Van in this book.

### 1.3 ODA

With respect to ODA, there is no reliable information that could be gathered from the aid-receiving countries. Hence, the data are from the donor side except for China. The figures for Myanmar are also from Korean and Japanese sources.

Korea provided concessional loans through the Economic Development Cooperation Fund (EDCF) to Vietnam in the amount of US\$698.4 million as cumulative total as of 2008. To Cambodia, it gave US\$219.3 million, to Lao PDR, US\$85.4 million, and to Myanmar, US\$84.7 million (Figure 7). Grant-type ODA was given to Vietnam in the amount of US\$89.4 million for 124 projects with 3,000 persons (trainees, experts and



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volunteers, among others), to Cambodia, US\$45.9 million for 74 projects with 1,567 persons, to Lao PDR, US\$31.9 million for 40 projects with 1,241 persons, and to Myanmar, US\$24.4 million for 49 projects with 1,155 persons.

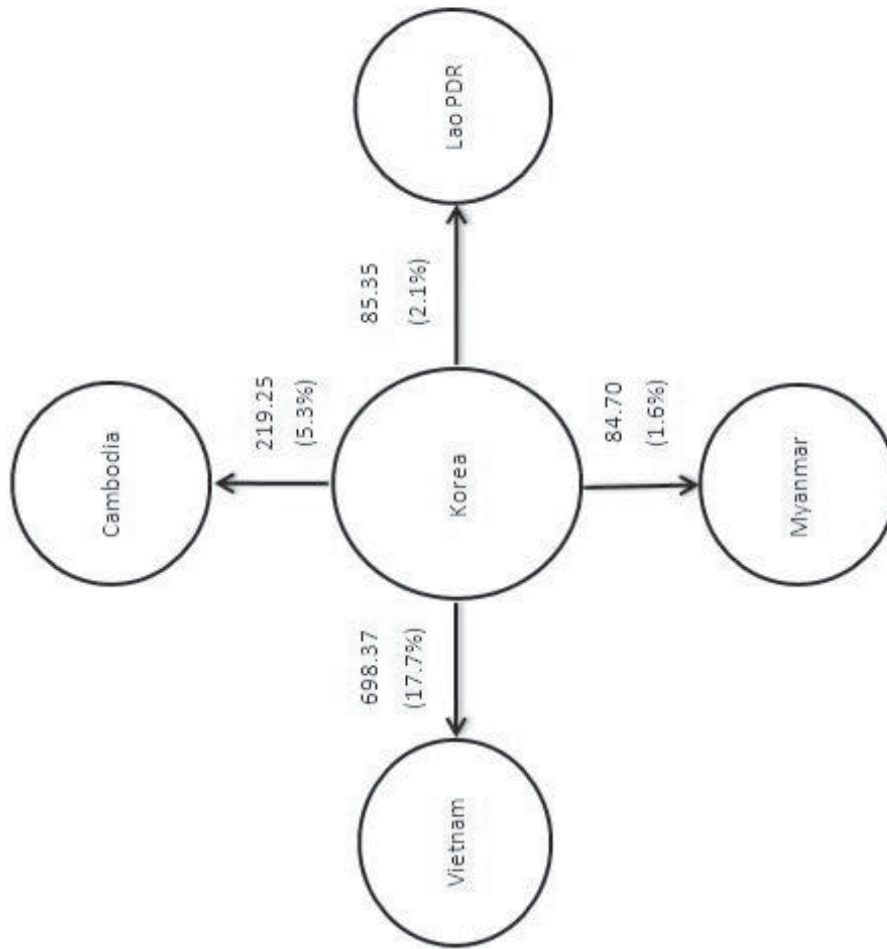
Japan has an accumulated amount of US\$13,591 million yen-loans (government concessional loans at Exchange of Note bases) to Vietnam as of FY2007, to Myanmar, US\$4,242 million, to Cambodia, US\$217 million, and to Lao PDR, US\$183 million (Figure 8). Regarding grants (E/N bases), as of FY 2007, Myanmar received the most at US\$1,893 million, followed by Vietnam at US\$1,303 million, Cambodia at US\$1,289 million, and Lao PDR at US\$1,218 million. In the category of technical assistance, Japan has given US\$817 million to Vietnam as of FY 2007, US\$496 million to Cambodia, US\$480 million to Lao PDR, and US\$379 million to Myanmar.

Simple aggregation (yen loans, grants and technical assistance) shows that Vietnam received most of the Japanese ODA as an accumulated amount as of FY 2007 in CLMV. This was broken down as follows: Vietnam, US\$15,711 million, followed by Myanmar at US\$6,514 million (although Japan's ODA to Myanmar is currently suspended), Cambodia at US\$2,002 million, and Lao PDR at US\$1,881 million.

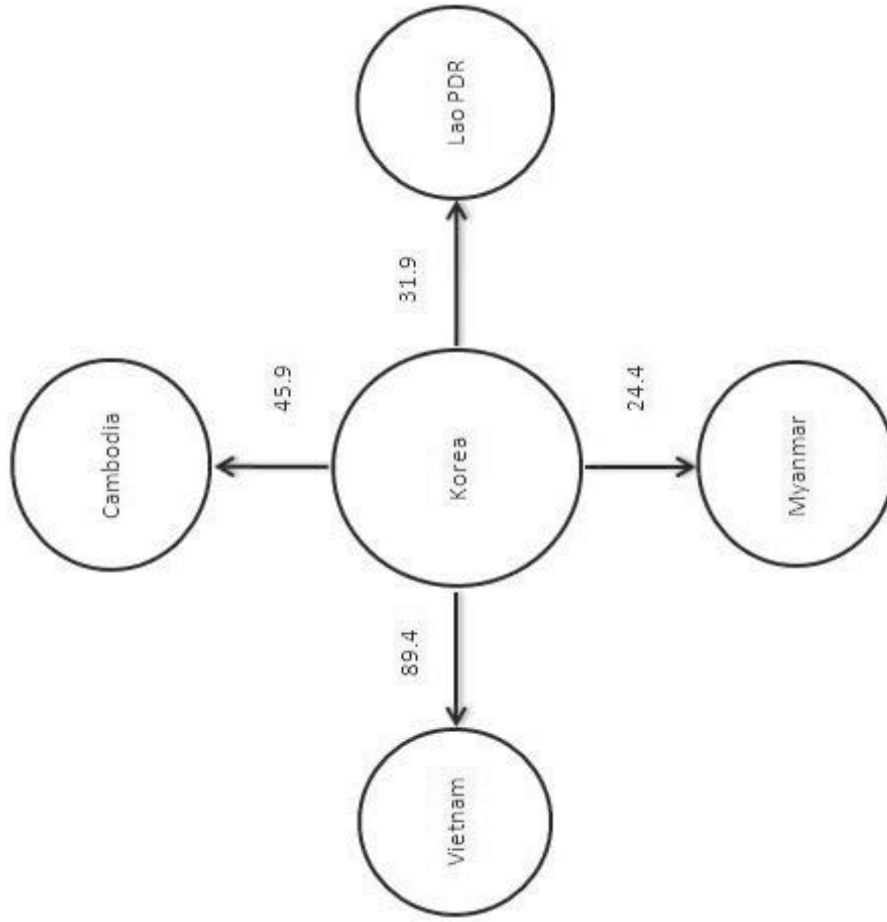
With respect to Chinese ODA, it is interesting to note that part of the Chinese aid activities was shown in this report through the approach of the state-owned foreign contract engineering companies (FCECs).

**Figure 7: Korea's ODA**

Concessional Loans by EDCF (Cumulative up to 2008, US\$ million)

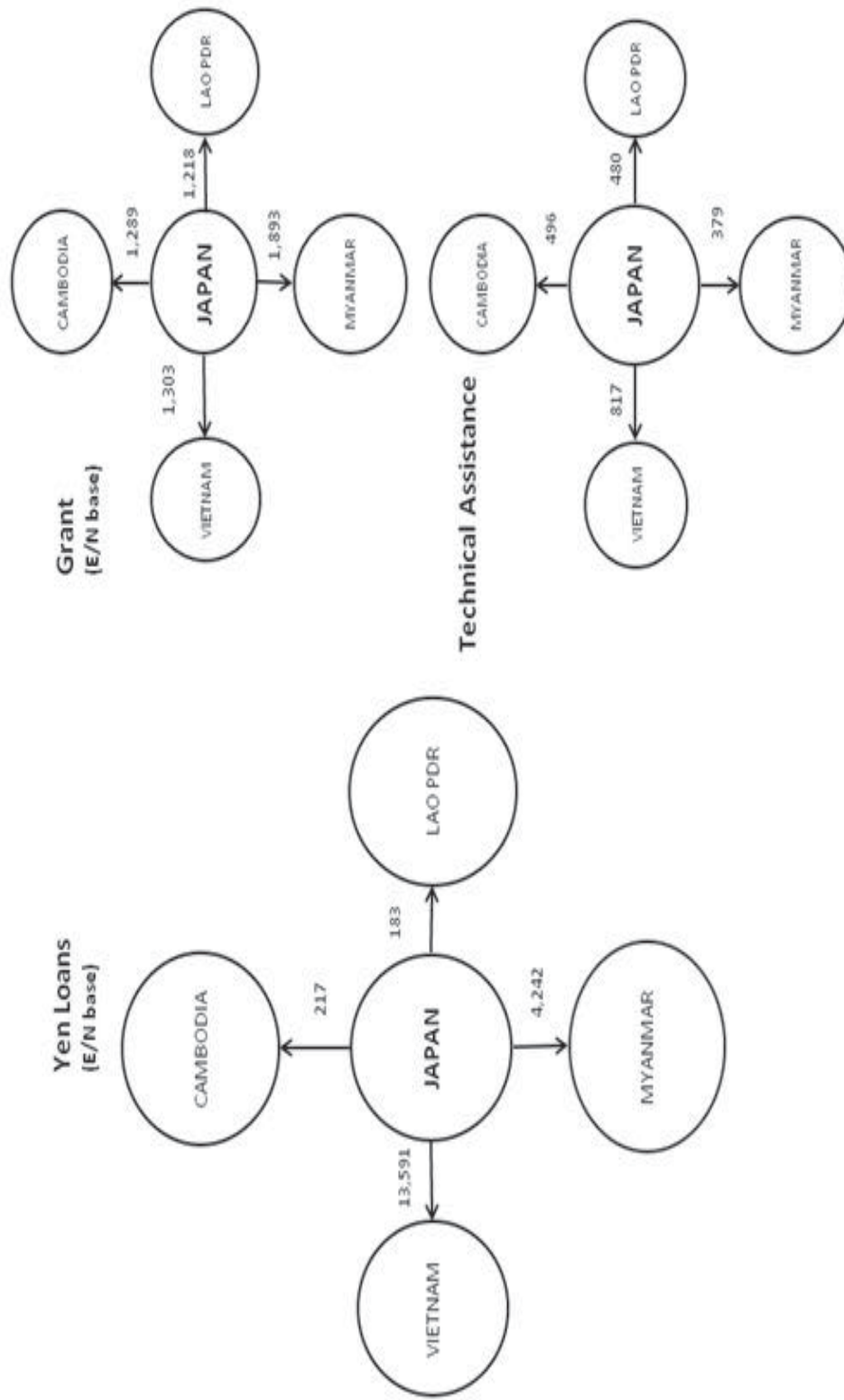


Grant-type ODA (Cumulative between 1991 and 2008, US\$ million)



Source: KOICA (Korea International Cooperation Agency)

**Figure 8 Japan's ODA: Cumulative Total up to FY 2007 (US\$ Million)**



\* using exchange rate, US\$1=95 yen.

Source: Ministry of Foreign Affairs, ODA White Paper 2008.

## **2. WORLDWIDE SHIFT OF PRODUCTION BASE: FROM ADVANCED TO DEVELOPING ASIAN COUNTRIES**

If trade goods are classified into materials, food and beverages, intermediate goods and final goods, one striking result that can be noted is the shift of the production base in the world. The country share of final goods export in advanced countries declined from 2002 to 2007 as gleaned from Table 1. Japan's share decreased from 10.0 to 7.8 percent, EU-15's, from 19.9 to 16.4 percent, and the US's, from 31.6 to 24.7 percent. On the other hand, China's share, including those of Hong Kong and Macau, increased from 6.4 to 10.3 percent, ASEAN-6's, from 14.5 to 18.2 percent, and India's, from 0.9 to 1.9 percent in the same period. It is clear that the world production base is now shifting from advanced countries to developing Asian countries.

On the demand side for final goods, it is notable that import markets are also changing. Japan's share declined from 19.1 to 15.7 percent while the US share likewise declined from 13.9 to 9.5 percent. Only the share of the EU-15 slightly increased from 15.4 to 16.4 percent. China's share, in contrast, surprisingly increased from 15.1 to 24.3 percent. Crucial movements are thus taking place in trade.

This can also be observed from the intermediate goods trade. The import share of Japan shrank from 18.8 percent in 2002 to 13.8 percent in 2007 (Table 2). The US' and EU-15' shares also diminished from 15.1 to 10.9 percent and from 10.5 to 9.8 percent, respectively. China's share boosted, on the other hand, from 8.8 to 13.9 percent while ASEAN-6's also increased from 23.5 to 25.6 percent and India's, from 1.1 to 2.1 percent.

On the supply side of intermediate goods, the export shares of Japan, EU-15 and the US all decreased -- from 12.7 to 10.7 percent, from 11.4 to 9.8 percent, and from 12.4 to 8.1 percent, respectively. In contrast, the shares of China, ASEAN-6 and India increased from 14.6 to 19.4 percent, from 28.3 to 30.2 percent, and from 1.4 to 2.6 percent, respectively.

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Intermediate goods are necessary in order to produce final goods. The above results therefore indicate that the production base is really shifting from the advanced countries to Asian countries, except Japan.

China's role, including Hong Kong, is expanding even in CLMV and Thailand. The share of parts and components in Thailand's export trade shows an increase from 22.6 percent in 2003 to 26.1 percent in 2007 while Japan's share decreased from 14.2 to 11.5 percent in the same period (Table 3). China's share in the Thai import of parts and components also grew from 11.1 to 13.1 percent while Japan's share shrank from 34.3 to 31.7 percent. Similarly, China's role in Myanmar, Vietnam, Lao PDR and Cambodia is expanding, especially in terms of import shares.

**Table 1: Country Share of Final Goods Trade**

	Export		Import	
	2002	2007	2002	2007
ASEAN*	14.5%	18.2%	19.8%	19.6%
Japan	10.0%	7.8%	19.1%	15.7%
China**	6.4%	10.3%	15.1%	24.3%
Korea	1.9%	1.8%	6.1%	4.8%
India	0.9%	1.9%	0.7%	1.5%
Australia & New Zealand	2.8%	4.1%	1.0%	0.7%
ASEAN +6	36.4%	44.2%	61.7%	66.6%
EU 15	19.9%	16.4%	15.4%	16.4%
U.S.A.	31.6%	24.7%	13.9%	9.5%
Others	12.1%	14.7%	9.0%	7.5%
World	100.0%	100.0%	100.0%	100.0%

\* ASEAN includes Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam

\*\* China includes Hong Kong and Macau

Source: UN COMTRADE

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**Table 2: Country Share of Intermediate Goods Trade**

	Export		Import	
	2002	2007	2002	2007
ASEAN*	28.3%	30.2%	23.5%	25.6%
Japan	12.7%	10.7%	18.8%	13.8%
China**	14.6%	19.4%	8.8%	13.9%
Korea	4.8%	4.2%	5.7%	6.2%
India	1.4%	2.6%	1.1%	2.1%
Australia & New Zealand	2.3%	3.3%	1.5%	1.6%
ASEAN +6	64.0%	70.5%	59.4%	63.3%
EU 15	11.4%	9.8%	10.5%	9.8%
U.S.A.	12.4%	8.1%	15.1%	10.9%
Others	12.1%	11.5%	14.9%	16.0%
World	100.0%	100.0%	100.0%	100.0%

\* ASEAN includes Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam

\*\* China includes Hong Kong and Macau

Source: UN COMTRADE

**Table 3: Share of Parts & Components Trade by China, Japan and Korea in 2003 and 2007**

	Cambodia		Lao PDR		Myanmar		Vietnam		Thailand	
	Import	Export	Import	Export	Import	Export	Import	Export	Import	Export
Year 2003										
China	4.7	0.1	9.3	0.0	38.8	0.0	11.3	2.7	5.6	14.6
Hong Kong	2.2	0.8	0.1	0.7	0.3	-	4.2	2.0	5.5	8.0
Japan	4.9	6.0	5.9	0.5	8.3	37.3	20.4	50.4	34.3	14.2
Korea	5.5	4.6	2.4	-	2.7	6.6	7.9	2.9	3.5	2.8
Total	17.3	11.5	17.7	1.2	50.1	43.9	43.8	58.0	48.9	39.6

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Year 2007										
China	10.8	0.1	20.2	0.1	34.5	29.7	16.5	4.6	7.7	18.8
Hong Kong	1.5	0.8	0.4	0.6	0.2	33.6	7.4	4.6	5.4	7.3
Japan	2.2	0.5	2.5	0.1	3.0	6.4	20.2	47.0	31.7	11.5
Korea	3.8	0.2	3.4	-	1.1	0.0	5.7	0.6	3.4	3.2
Total	18.3	1.6	26.5	0.8	38.8	69.7	49.8	56.8	48.2	40.8

Notes: Parts & components are composed of parts and accessories of "capital goods" and "transport-equipment" (BEC code 42 and 53 respectively), following the definition by Gaulier et al. (2007).

Source: By author from Yasushi Ueki in this book.

### 3. TECHNOLOGICAL TRANSFER: FRAGMENTED FRAGMENTATION

#### THEORY

It is interesting to note that as technology advances, it becomes difficult to transfer part of the production processes to developing countries. As seen in the case of the very advanced technologies for the manufacture of sewing machines, computer-included modules can easily be assembled by unskilled workers. However, these black-box modules cannot be produced in developing countries because advanced technologies are designed and packed into several modules by developed countries. The fragmentation theory says that a divided production process can be transferred to a country which has comparative advantage. In the case of components or modules with fully advanced technology, this cannot be transferred to a certain country. Only the final assembly can be transferred to developing countries. Thus, the theory "fragments" itself in the case of highly advanced high-tech products.

In the recent Toyota recall case of certain models, it implies that if some parts or components are transferred to certain parts makers, the principal company cannot guarantee or maintain the same quality or safety standards as in the product it produces itself. There is thus always a danger that too much fragmented production process and its transfer to other

places may result in total failure of final products that normally holds a lot of credibility.

#### **4. CONCERNS ABOUT THE EFFECTIVENESS OF JAPAN'S ODA**

China became the largest trading partner among the three countries in CLV and possibly in Myanmar, too. China also became the largest investment country in CLM countries except in Vietnam. Korea took the second position in trade values in Cambodia and Lao PDR and the first position in Vietnam in terms of FDI inflows.

These facts imply that the effectiveness of Japan's ODA may be weakening despite the fact that Japan has provided a tremendous amount of ODA to the region. Economic assistance aims to increase trade and investment for donors later or simply put, to have 'co-existence and co-prosperity' between recipient and donor countries. If the trend of Korea's increases continues, then Japan's ODA may end up benefitting China and Korea instead of Japan's trade and investment. Competition is necessary even in the area of ODA. And a rethinking of and formulation of new ODA strategies is urgently needed, especially for Japan.