Introduction

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Introduction

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Last year, a study on the economic relations of China and Japan with the Mekong River Basin countries (MRBCs) was done titled *A China-Japan Comparison of Economic Relationships with the Mekong River Basin Countries* (M. Kagami, ed., BRC Research Report No. 1, BRC, IDE-JETRO, 2009). This year, one more important player in the region, i.e., South Korea (Korea hereafter), has been added in a similar study which emphasizes more specific or concrete examples of trade, foreign direct investment (FDI), and official development assistance (ODA). The inclusion of Korea and the more in-depth studies of these three countries show an interesting picture of the region.

China's influence in terms of trade, FDI and ODA has been increasing and Korea has also been expanding its influence in the MRBCs. For example, trade amounts (export plus import) of China in 2008 with Cambodia, Lao PDR, and Vietnam showed that China has the largest trade among the three countries (China, Japan and Korea) with the MRBCs, possibly even with Myanmar as well. Korea took the second position as trade partner of Cambodia and Lao PDR. Meanwhile, recent FDI data also indicate that China is the top investing country among the three in Cambodia and Lao PDR (and probably in Myanmar, too). Korea, on the other hand, is the first country among the three to have FDI inflows in Vietnam. Japan's position in the MRBCs seems to be diminishing although it provided and still offers massive amount of ODA.

This report includes ten articles arranged in an alphabetical country order, i.e., Cambodia, China, Korea, Lao PDR, Thailand, Vietnam, and then Japan as an exception and which comes in last.

Chap Southarith writes on trade, FDI and ODA of China, Japan and Korea with Cambodia in Chapter 1. Cambodia exported US$12.9 million (0.4% of total exports) to China and imported US$933.4 million (16.3% of total imports) from China in 2008. With Korea, Cambodia exported US$7.3 million and imported US$229 million. Also in 2008, Cambodia exported US$32 million to and imported US$114 million from Japan. China's presence in Cambodia's trade is prominent while that of Korea is also increasing. Cambodia's large trade deficits with these three countries, however, have given the country a problem. Meanwhile, Cambodia is famous for the exports of garment and clothes. After the Multi-Fiber Agreement (MFA) ended in 2004, Cambodia became free to access the United States (US) and European Union (EU) markets while China remained restricted by quota under the World Trade Organization's safeguard measures imposed by the US and EU. Chap notes that this is one of the main reasons why Cambodia survives in this industry despite the end of its MFA quota. Meanwhile, regarding FDI, China invested US$5.85 billion in 137 projects in Cambodia from 1994 to April 2009. The main projects were in energy, infrastructure, agriculture and food processing, and textiles and other manufacturing. Korea invested US$2.77 billion in 106 projects between 1995 and June 2009. The main projects included real estate, banking, construction, tourism and manufacturing. Japan's FDI to Cambodia, on the other hand, amounted only to US$154 million in 22 projects from 1995 to June 2009. Compared with China and Korea, Japanese direct investment to Cambodia has been extremely low. With respect to ODA, China provided grants of US$204 million from 2000 to 2009 and concessional loans of around US$500 million from 2000 to 2008. Between 2001 and 2009, Korea provided grants of US$39.5 million and concessional loans of US$220 million. Japan provided grants of US$350 million and concessional loans of US$241 million between 2004 and August 2009. In the ODA area, therefore, Japan is undoubtedly the biggest provider to Cambodia. Chap suggests that first-rate infrastructure, including electricity, is urgently needed in Cambodia, which is why Cambodia fails to invite FDI from various countries, especially, from Japan. He also points out that an auditing system for FDI and ODA needs to be in place because there is a large gap seen between the pledged and disbursed amounts.

Xingmin Yin analyzes trade between China and Mekong countries in Chapter 2. He points out that China's exports have recently changed from low value-added to high value-added industrial products or more sophisticated products, especially in machinery and electronic appliances. Between China and Thailand, China's export of machinery reached a value of US$3,003 million while its import of the same product category amounted to US$8,839 million in 2008. In the case of electric and electronic products, Chinese exports reached US$2,726 million while Chinese imports were valued at US$5,980 million in the same year between the two countries. It is interesting to note that Thailand has an enormous trade surplus, implying that China uses Thailand as an intermediate products supplier. Between China and Vietnam, the same type of relations exists. China exported US$2,110 million of machinery to Vietnam in 2008 while imported US$315 million in the same category. In the case of electric and electronic products, China exported US$1,565 million while imported US$351 million. China seems to buy parts and components from Vietnam and sells final products back to Vietnam using said parts and components. China's sophisticated goods exports to ASEAN, especially to the Mekong countries, will further expand with the China-ASEAN Free Trade Agreement (CAFTA) taking effect on January 1, 2010. China's sophisticated products will also have positive effects on the industrial development of late-comer Mekong countries such as Lao PDR, Cambodia and Myanmar.

In Chapter 3, Zhu Zhenming looks closely at Chinese ODA through foreign contract engineering. Chinese foreign contract engineering companies (FCECs) are usually state-owned enterprises in China which undertake public projects in developing countries with the help of the Chinese Government. The Government approves FCECs as operating agencies in foreign countries and generally provides preferential treatments to them such as buyer's or seller's credits so that they can win in bids for public projects in developing countries. Thus, FCECs are one of the Chinese government's (central and provincial) instruments to carry out ODA. During the initial period (1979-82), the Chinese Government approved 29 FCECs with contracts reaching US$1.2 billion. The main markets were West Asia and North Africa and took mainly house and road construction projects. By 2007, three thousand FCECs had the right of operation and the signed contracts all over the world reached the value of US$534 billion by the end of October 2009, mainly due to the Government's "going global" policy. Zhu then cites several examples of projects in CLMV countries. The total amount of contracts reached US$5.83 billion in Myanmar as of March 2009, covering primarily construction of hydropower stations. Vietnam becomes the second largest FCECs' market in Southeast Asia. As of September 2006, the contract agreements reached US$3.94 billion which include highway projects, hydroelectric power projects, and factory construction projects. Zhu also introduces four Yunnan province FCECs because the province has its border of 4,060 km facing Myanmar, Lao PDR and Vietnam. Yunnan province benefits from many projects in CLMV due to its location proximity and social and cultural similarities. However, Zhu also points out several weak points of the Yunnan FCECs such as: (i) the operation scale of Yunnan FCECs is small compared to other Chinese FCECs;

(ii) technology is not very high, thereby giving low competitiveness; (iii) there is a lack of qualified staff; and (iv) there are coordination difficulties among provincial departments to which FCECs belong. Zhu concludes that CLMV countries provide bright and potential markets for Chinese FCECs albeit the difficulties and problems.

Jaewan Cheong explains the relationship between Korea and Vietnam in Chapter 4 wherein Vietnam became Korea's 11th largest export destination, 4th biggest FDI absorber and one of the greatest ODA recipient countries. It is amazing that in Ho Chi Minh City alone, about 80,000 Koreans live as residents compared with only 4,000 Japanese in the same city. The value of trade (export + import) was US$493 million when both countries reopened diplomatic relations in 1992. The amount grew more than 20 times in 2008, reaching US$9.8 billion. Cheong estimates that the volume will increase further due to the Korea-ASEAN FTA which took effect in June 2007. In terms of Korea's cumulative FDI outflows in 1992-September 2009, China (US$40.0 billion at approved bases) is the top country destination, followed by the US (US$34.1 billion), Hong Kong (US$11.2 billion) and Vietnam (US$10.4 billion). Vietnam exceeded Indonesia, Korea's traditional investment country, in terms of FDI receipts (US$6.6 billion) from Korea. For Vietnam, Korea is the second largest FDI country source (US$20.5 billion at approved bases in terms of accumulated amount by October 2009) after Taiwan (US$21.3 billion). Vietnam is also Korea's largest ODA recipient country with respect to grants and technical assistance (US$89.4 million and 3,000 persons) in ASEAN as compared with Indonesia (US$76.8 million and 2,462 persons). Moreover, Vietnam is the largest recipient in ASEAN in terms of concessional loans by EDCF (Economic Development Cooperation Fund) at US$698 million cumulative bases by 2008, compared with US$314 million for Indonesia. Thus, Korea uses Vietnam as a gateway to the ASEAN countries, especially to the Mekong River Basin countries.

Syviengxay Oraboune in Chapter 5 compares China's, Korea's and Japan's presence in Lao PDR regarding trade, FDI and ODA. It is interesting to note that Lao PDR has a trade deficit with China and Japan but a surplus with Korea. Korea buys more than it sells to Lao PDR. In terms of FDI, Lao PDR has a strong historical tie with neighboring countries such as Thailand and Vietnam. However, FDIs from China and Korea have considerably been increasing, especially in the recent five years. Korea first established an automobile assembly factory in Lao PDR and then set up two banks there. Japan is a top ODA donor to Lao PDR but China and Korea have been catching up, particularly in recent years. Chinese aid to Lao PDR began in 2000 and has since steadily flowed in. China's focus has been in the communication and transport sector while Korea's emphasis has been on education since 2004.

Sompop Manarungsan describes Thailand's economic ties with Mekong countries, including Yunnan Province of China in Chapter 6. He states that Thailand imported natural gas from Myanmar in the amount of 104 billion baths in 2008, the largest import item from the region. Computers and parts are both import and export products in the region, being the second largest import product and the first largest export item in the region. This implies that Thailand plays one of the key roles in East Asia in providing high-tech products such as computers and parts. It also proves that China is now exporting sophisticated manufactured products through the use of these intermediate goods, as explained in Yin's paper. Sompop then articulates in detail the present situation of Thailand's trade, direct investment and ODA to each Mekong country (Cambodia, Lao PDR, Myanmar and Vietnam). He concludes that Thailand's economic ties with these countries have gradually been corroding due to the appearance of China, Korea and Japan, particularly China in terms of trade and investment.

Ha Thi Hong Van analyzes Vietnamese trade and FDI relations with China, Japan and Korea in Chapter 7. Vietnamese import from China exceeded that from Japan in 2003. In 2008, Vietnamese imports from China amounted to US$15.7 billion or 19.4 percent of Vietnam's total imports. In the same year, China became Vietnam's third largest export market after the US and Japan. Vietnamese trade with Korea has also been expanding, especially, imports. Imports from Korea reached US$7.1 billion (8.7% of total import) in 2008 reflecting rapid inflows of FDI from the country. Quite interestingly, Vietnam has had a trade surplus with Japan, the only country among the three, since 2005. With respect to FDI inflows, Korea is the second largest source after Taiwan, with an accumulated value of US$20.5 billion as of October 2009. Korea's FDI inflow has been notably recognized in recent years. Japan (10.2%) is the fourth source after Taiwan (12.2%), Korea and Malaysia (10.3%) while China (1.5%) is not very impressive in this category. Van points out some negative issues in the Vietnamese trade and investment structure as follows: (i) huge trade deficits, particularly with China; (ii) unbalanced export items, mainly concentrated in primary products and not high value-added ones; (iii) lack of infrastructure and hence high logistic and transaction costs; (iv) not many high-quality workers; (v) underdevelopment of supporting industries or weak domestic supply chains; and (vi) not yet sound legal systems.

Toshihiro Kudo in Chapter 8 analyzes the border trade in Myanmar. Myanmar has 11 border posts and its trade (exports + imports) share to total trade increased from 11.2 percent in 2003 to 13.6 percent in 2007. China dominates the border trade, with approximately 73 percent of the total border trade in 2007. Thailand followed with 23 percent in the same year. Border trade with India, Bangladesh and Lao PDR is still minor. Kudo shows, for example, a detailed sketch of the biggest border post, Muse, the border town of Myanmar with Ruili in Yunnan Province in China based on his study trip. He points out that the future of the border trade depends on the border turmoil, especially between the Myanmar military and ethnic ceasefire groups in the border area.

Minoru Makishima focuses his study on Japan's ODA to the Mekong River Basin countries in Chapter 9. He cites the many multilateral ODA programs of Japan in the region. Above all, he mentions the recent Mekong-Japan Summit Meeting in November 2009 in Tokyo as an epoch-making event, especially by the newly-elected Democratic Cabinet under Prime Minister Hatoyama. Japan pledged around US$5.5 billion in ODA for the next three years and will receive 30,000 trainees from the region in the same period. Makishima briefly introduces the "Mekong-Japan Action Plan 63" which was declared in the Summit Meeting. He then explains the infrastructure programs, mainly along the East West Economic Corridor (EWEC which connects Da Nang – Lao Bao – Savannakhet – Mae Sot – Mawlamine). He emphasizes the importance of the "Mekong-India Economic Corridor" Development (MIEC which connects Vun Tau – Ho Chi Minh City – Phnom Penh – Bangkok – Dawei) proposed by the Economic Research Institute for ASEAN and East Asia (ERIA). This is linked by sea route to Chennai, India, bridging Southeast Asia with South Asia. He finally mentions his concern about these infrastructure developments because: (i) excess development may cause environmental destruction; (ii) if a program is not well coordinated, it will not be Japanese but Chinese or Korean investments that may enjoy the benefits; and (iii) some new financial systems are needed to carry out these big projects.

Finally, Yasushi Ueki in Chapter 10 looks into the inter-dependence of manufacturing industries via the parts and components trade among the studied countries. Intra-regional trade has been accelerated by the construction of highways or industrial corridors, resulting from the integration initiatives. Ueki argues that technological upgrading is going on as trade and investments increase and as a result, it brings in positive impacts on CLMV countries in terms of technological transfer. He introduces an interesting example of Japanese firms which transferred their factories from China to Vietnam along the line of "China plus One" policies. Usually, it is said that advanced countries always transfer old technologies to developing countries. It can be seen in the example of one maker of printers wherein the manufacturers shifted a black and white printer model to Vietnam from China while it concentrated in the production of color printer models in China. However, in the case of a Japanese sewing machine company, it shifted the newest model to Vietnam from China while maintaining the production of conventional models in China. The reason cited for this is that the newest model uses many micro computers which are mounted in component modules. To assemble a sewing machine would entail only the putting together of these modules and so, unskilled workers can do it without much know-how. Hence, the transfer to Vietnam. Sadly, however, this case does not contribute to a technological upgrading in Vietnam. Ueki emphasizes that, in general, FDIs have spillover effects of technology in host countries and points out that China, Taiwan and forerunner countries of ASEAN (instead of advanced countries such as Japan and the US) have gradually become important in transferring relatively new technologies to the CLMV countries through their FDIs.