

Chapter 7

Japan's Policy and Strategy of Economic Cooperation in CLMV

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Chapter 7

JAPAN'S POLICY AND STRATEGY OF ECONOMIC COOPERATION IN CLMV

Katsumi Uchida and Toshihiro Kudo

ABSTRACT

Japan has undertaken three major initiatives for developing Cambodia, Lao People's Democratic Republic or Lao PDR, Myanmar, and Vietnam (CLMV) since the 1990s: These initiatives were the Forum for Comprehensive Development of Indochina (FCDI) in 1995, the AEM-METI Economic and Industrial Cooperation Committee (AMEICC) established in 1998, and the New Concept of Mekong Region Development announced at the Japan-ASEAN Special Summit in December 2003. The New Concept of Mekong Region Development is a new attempt based on regionwide development. It was included in Japan's Official Development Assistance (ODA) Charter revised in 2003. While Japan is a top donor to CLMV and Thailand, its regionwide development vision and strategy for these areas are not clear. In order to implement regionwide development efficiently and effectively, it is essential to pursue studies related to regional public goods provided by regionwide development. Despite the huge ODA provisions to CLMV, Japan's trade and investment relations with these countries are still weak compared to its relations with the original six member-countries of the Association of Southeast Asian Nations (ASEAN). Another challenge for Japan is how to promote trade and investment with CLMV.

1. INTRODUCTION

During the Cold War era, Japan extended ODA loans for the Prek Tnaot Multi-Purpose Dam Construction Project in Cambodia in 1969, the Can Tho Thermal Power Plant Construction Project in South Vietnam in 1972, and the Hydroelectric Power Project at

the Namgum Dam in Laos in 1974 and 1976. After that, however, Japanese assistance to these three countries was mostly suspended because of the various armed conflicts during the Cold War.

In contrast, Thailand received a huge amount of aid from the Western countries as an ally of the western block. The provision of Japanese ODA loans to Thailand began in 1967 with the cumulative ODA to Thailand amounting to ¥1,066,142 as of the end of March 1990 (Table 1). From the early years of the assistance, the emphasis was placed on developing infrastructure, especially roads, electricity for rural areas, and irrigation facilities. The main development objective was to narrow the gap between urban and rural areas. Thailand effectively used Japanese ODA loans for the improvement of economic infrastructure. As a result, its economy continuously developed and the influx of foreign direct investment (FDI) accelerated beginning the second half of the 1980s. With the economic development of Thailand, grant-based assistance to this country ended in 1993, in principle.

Myanmar was the second largest recipient country of the Japan's ODA in the Indochina region. Myanmar ranked among the top five as one of the largest recipients of Japan's ODA in 1985 and 1986. As of the end of March 1988, the cumulative total of ODA loan commitments to Myanmar since 1969 amounted to ¥402.972 million under 66 commitments. However, Myanmar's economy declined due to the closed-door policy of Burmese-style socialism. As a result of the economic collapse, Ne Win's socialist government ended in July 1988, and a military government was formed under much political and economic confusion. Japan stopped extending ODA loans to Myanmar in 1988.

Table 1: Japan's ODA to the Indochina region during the Cold War

	Cambodia	Laos	Myanmar	Vietnam	Thailand
Yen loan	1,517	5,190	402,972	40,430	833,011
Grant aid	2,637	23,214	97,594	31,292	141,324
Technical	1,706	4,613	15,097	2,449	91,807
Total	5,860	33,017	515,663	74,171	1,066,142

Source: Ministry of Foreign Affairs (MOFA) of Japan.

In 1986, Vietnam and Laos introduced market economy policies known as Doi Moi (Renovation) and Chin Tanakan Mai (New Thinking), respectively. On the other hand, Cambodia signed the Paris Peace Agreement in 1991. With the end of the Cold War and the political stabilization of the Indochina region, the Economic Cooperation in the Greater Mekong Subregion (GMS) Program was created by the six countries sharing the Mekong River; namely, Cambodia, Laos, Myanmar, Thailand, Vietnam, and the Yunnan Province of the People's Republic of China. This was done with the help of the Asian Development Bank (ADB). The first GMS Ministerial Conference was held in November 1992. The aim of the GMS Program is to accelerate economic integration by stimulating the movement of people, goods, and capital, and to contribute to poverty reduction by developing infrastructure and promoting industrial competitiveness. ADB became the secretariat of, and the main coordinating body running, the GMS.

In this paper, the authors first examine Japan's economic cooperation policy and strategy for the development of CLMV, and then examine its trade and investment relations with CLMV.

2. JAPAN'S INITIATIVE FOR THE DEVELOPMENT OF CLMV COUNTRIES

Table 2 shows Japan's major initiatives for the development CLMV countries since the 1990s. There are three major initiatives: the Forum for Comprehensive Development of Indochina (FCDI) held in 1995; the AEM-METI Economic and Industrial Cooperation Committee (AMEICC) established in 1998; and the New Concept of the Mekong Region Development announced at the Japan-ASEAN Special Summit in 2003.

2.1 Forum for the Comprehensive Development of Indochina (FCDI) and the collaboration with ADB-GMS Program

In January 1993 during his tour of the ASEAN nations, Japanese Prime Minister Kiichi Miyazawa proposed the Forum for the Comprehensive Development of Indochina (FCDI) as a venue for a debate and exchange of views on the balanced development of Indochina.. The Ministerial Meeting of FCDI was held in Tokyo in February 1995. Chaired by Japan, 25 nations, including Vietnam, Cambodia, Laos, the six ASEAN member countries, and eight international organizations, such as the European Committee (EC), assembled at the meeting.

Table 2 Japan's major initiative to the development CLMV countries since 1993

	Japan's Initiative	International organizations and ASEAN's Initiative
1992		Economic Cooperation in the Greater Mekong Sub-Region (GMS) Program was created by ADB
1993	Forum for Comprehensive Development of Indochina was proposed by Japan	
1994	Working Group on Industrial Cooperation for CLM was formed between Japan and ASEAN and Indochina nations	
1995	Japan hosted the Ministerial Meeting of the Forum for Comprehensive Development of Indochina in Tokyo (Feb.)	Mekong River Commission was reinaugurated (April)
1996	Task Force for Strategies for Development of the Great Mekong Area was formed by private sector specialists	Vietnam joined in ASEAN (July)
1997	Japan-ASEAN South-South Cooperation Program started	Ministerial Meeting on ASEAN-Mekong Basin Development Cooperation (AMBDC) was formed by ASEAN
1998	Japan-ASEAN Program for Comprehensive Human Resources Development Japan-ASEAN Solidarity Fund (JASF) was established AEM-METI Economic and Industrial Cooperation Committee (AMEICC) was established	Mekong Project Development Facility (MPDF) was created by IFC (March) Laos and Myanmar joined in ASEAN (July)
1999	Japan sponsored UNESCAP's Symposium on the Comprehensive Development of the Greater Mekong Subregion	Cambodia joined in ASEAN (April)
2000	Japan-ASEAN General Exchange Fund (JAGEF) was established (July) AMEICC's West East Development Corridor WG was formed (Oct.)	GMS-Business Forum (GMS-BF) was established by the ADB and UNESCAP Initiative for ASEAN Integration. (IAI) launched (Nov.)
2001	Japan - ADB joint mission was dispatched to Mekong Basin countries (July)	Ha Noi Declaration on Narrowing Development Gap for closer ASEAN Integration was adopted by ASEAN (July) ASEAN integration System of Preferences (AISP) Scheme endorsed (Sep.) 10th GMS Ministerial Conference announced GMS 10-year Strategy (Nov.)
2002	JICA-ASEAN Regional Cooperation Meeting (JARCOM) was established	IAI Work Plan for Narrowing the Development Gap within ASEAN (July 2002-June 2008) was approved by ASEAN (Nov.)
2003	Revised Japan's Official Development Assistance Charter was published (Aug.) Japan committed to fund six IAI Infrastructure projects to CLMV (US\$ 0.5 mil.) through JAGEF (Oct.) Japan announced New Concept of Mekong Region Development with US\$ 1.5 billions economic cooperation over the coming 3 years (Dec.)	Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy (ACMECS) was established under Thailand's Initiative (April)
2004		Intergovernmental Agreement concerning the Asian Highway Network was signed by 26 countries At the ESCAP conference (April) CLV Development Triangle was announced (Nov.) Regional Cooperation Strategy and Program (RCSP)(2004-2008) was announced by GMS with Development Matrix (Dec.)
2005	Japan sent a study mission to the CLV Development Triangle (Mar.)	
2006	Japan-ASEAN Integration Fund (JAIF) was established (Mar.)	
2007	Japan granted US\$ 52 million to JAIF. US\$ 41 million was allocated for assistance to the development of the Mekong region (CLMV) as well as Japan's new initiative to expand its ODA to the Mekong region for the next three years (Jan.)	

(Source) MOFA of Japan etc.

The objectives were the: (1) development of the whole of Indochina from a regional perspective; (2) international cooperation through voluntary coordination of assistance based on information exchange among the participating nations and organizations; and (3) promotion of market economies in the three countries.

At the meeting, an agreement was reached on the establishment of working groups on infrastructure development and human resources development for the two priority areas and the establishment of an advisory group on trade and investment. Japan was chosen to chair the infrastructure development group with the collaboration of the ADB while France chaired the human resources group with the collaboration of the United Nations Development Plan (UNDP). Furthermore, Thailand was chosen to chair the private-sector advisory group with the collaboration of the United Nations Economic and Social Commission for Asia and the Pacific (ESCAP).

As follow-up to FCDI, a private-sector advisory group on trade and investment convened in Bangkok in March 1996, a working group on infrastructure development in Sydney in September 1996, and a working group on human resources development in Bangkok in December 1996. Since then, however, the Ministerial Meeting of FCDI has never reconvened.

It seems that Japan failed to take initiative for the Indochina region's development through FCDI. However, one of the main objectives of FCDI is coordination among donors, and Japan has been particularly active in providing assistance to projects related to the East-West Economic Corridor (EWEC) in accordance with the GMS framework of ADB¹. Japanese ODA loan projects include the construction of the Second Thai-Laos Mekong Bridge, Route 9, and Highway 1 leading to Da Nang Deep-Sea Port. In

¹ The GMS framework became important for Japan because the ASEAN adopted the framework as a master plan for the Mekong Region Development in 1996.

Table 3: Japan Special Fund for the ADB-GMS Program, 1993-2000

(in thousand US\$)

1993	Promoting Subregional Cooperation among Cambodia, the People's Republic of China, Lao People's Democratic Republic, Myanmar, Thailand and Viet Nam (Phase 2)	2,500
1995	The Subregional Environmental Monitoring and Information System Project	1,000
1995	Greater Mekong Subregion – Infrastructure Improvement: Ho Chi Minh City to Phnom Penh Highway	3,000
1996	The Cooperation in Employment Promotion and Training in the Greater Mekong Subregion Project	600
1996	Subregional Environmental Training and Institutional Strengthening in the Greater Mekong Subregion	800
1996	The Mitigation of Nonphysical Barriers to Cross-border Movement of Goods and People	180
1996	Promoting Subregional Cooperation among Cambodia, the People's Republic of China, Lao People's Democratic Republic, Myanmar, Thailand and Viet Nam (Phase 3)	3,000
1996	East-West Transport Corridor Project	3,000
1997	The Chiang Rai-Kunming Road Improvement via Lao PDR Project	600
1997	The Mekong/Lancang River Tourism Planning Study	600
1997	The Cross-Border Movement of Goods and People in the Greater Mekong Subregion	550
1997	The Poverty Reduction and Environmental Management in Remote GMS Watersheds	1,000
1998	The Strategic Environmental Framework for the Greater Mekong Subregion	600
1998	The Study of the Health and Education Needs of Ethnic Minorities in the Greater Mekong Subregion	300
1998	Tourism Skills Development in the Greater Mekong	1,250
1998	The Protection and Management of Critical Wetlands in the Lower Mekong Basin	1,000
1999	Facilitating the Cross-Border Movement of Goods and People in the Greater Mekong Subregion	950
1999	Preventing HIV/AIDS among Mobile Populations in the Greater Mekong Subregion	450
1999	Greater Mekong Subregion Promoting Subregional Cooperation among Cambodia, People's Republic of China, Lao People's Democratic, Myanmar, Thailand and Viet Nam (Phase 4)	800
1999	The Greater Mekong Subregion Preinvestment Study for the East-West Economic Corridor	350
1999	Preparing the Mekong/Lancang River Tourism Infrastructure Development Project	600
1999	The Subregional Environmental Monitoring and Information Systems (Phase 2)	100
2000	The Roll Back Malaria Initiative in the Greater Mekong Subregion	600
2000	Promoting Subregional Cooperation in the GMS (Phase 4, Year 2)	800
		24,630

Source: MOFA of Japan.

addition, ADB's Japan Special Fund (JSF) has been used for the GMS program (Table 3).

The Japanese Government dispatched to the CLMV countries a joint mission with the ADB in July 2001 to reaffirm the situation and needs of each country. Based on the outcome of this mission, Japan announced that it will cooperate in the establishment of the EWEC and the development of the Second East-West Corridor (Bangkok-Phnom Penh-Ho Chi Minh Road), which has also been identified as a principal route in the

Asian Highway network.

2.2 Establishment of the AEM-METI Economic and Industrial Cooperation Committee (AMEICC) and Japan's cooperation with the Initiative for ASEAN Integration (IAI)

The ASEAN was established by five countries in Southeast Asia in 1967. Brunei, which became independent from the United Kingdom, joined the ASEAN in 1984. Vietnam became a member in 1995; Laos and Myanmar, in 1997; and Cambodia, in 1999. It became essential for the ASEAN integration to narrow regional disparities between the newly joined CLMV countries and the developed ASEAN countries.

One of main areas of cooperation between Japan and the ASEAN has been the AEM-METI Economic and Industrial Cooperation Committee (AMEICC), which was established under Japan's initiative in 1998. AMEICC set up the working groups for eight subsectors during the third meeting held in Chiang Mai in October 2000. Then the working group on the West-East Corridor Development (WEC-WG) put forward the West-East Corridor Comprehensive Industrial Development Program, with the aim of establishing an industrial and distribution network in the West-East Corridor region from 2004 to 2006. Its activities include entrepreneur support training programs focusing on promising industries; programs to improve the processing technologies of companies in rural communities; and training to facilitate trade with CLMV countries with special focus on improving international business capabilities. WEC-WG presented the "Study for Special Economic Zone Development in CLMV Countries" at the third CLMV-Japan Economic Ministers Consultation held in Manila in August 2007.

On the other hand, the ASEAN itself moved to formulate a framework of the ASEAN Mekong Basin Development Cooperation (AMBDC) program in 1996. It

focused on traffic/transportation (including the construction of a railway linking Singapore and Kunming in China), trade, and human resources development. Furthermore, in November 2000, the Initiative for ASEAN Integration (IAI) was agreed upon at the fourth unofficial ASEAN Summit in order to reduce gaps between old and new ASEAN members and to improve regional competitiveness. Two years later, the IAI Work Plan for Narrowing the Development Gap within the ASEAN (July 2002-June 2008) was approved at the ASEAN Summit Meeting in Cambodia in November 2002. Four priority areas were selected: (1) development of infrastructure; (2) human resources development; (3) information communication technology (ICT) and (4) regional economic integration.

Japan established the Japan-ASEAN Solidarity Fund (ASEAN Foundation) in 1998 and the Japan-ASEAN General Exchange Fund (JAGEF) at the ASEAN Post Ministerial Conference in July 2000. Japan is also providing funding support through the ASEAN Foundation to three IAI HRD projects (jointly financed with Philippines) and one ICT project (jointly financed with Thailand). Japan's support for IAI projects has been continuous. It announced at the Japan-ASEAN Special Summit in December 2003 that was funding six IAI infrastructure projects (total US\$500,000) through JAGEF. Japan's Ministry of Health, Labor, and Welfare has agreed to fund a three-year labor and employment project. In addition, Japan also provided the funding for the Japan-ASEAN Collaboration Programme for Strengthening the Basis of Human Resources Development in CLMV (2004-2007). After the Republic of Korea, Japan is the second largest donor country involved in the IAI program.

2.3 Revision of the ODA Charter and the announcement of the New Concept of Mekong Region Development

Japan revised the ODA Charter in 1992 and published a new ODA Charter in August 2003. One of basic policies of the charter is partnership and collaboration with the international community. It mentions the following:

“Japan will actively promote South-South cooperation in partnership with more advanced developing countries in Asia and other regions. Japan will also strengthen collaboration with regional cooperation frameworks, and will support region-wide cooperation that encompasses several countries.”

As one of Priority Regions, it mentions the ASEAN as follows:

“In particular, the East Asian region which includes ASEAN is expanding and deepening economic interdependency and has been making efforts to enhance its regional competitiveness by maintaining economic growth and strengthening integration in recent years. ODA will be utilized to forge stronger relations with this region and to rectify disparities in the region, fully considering such factors as the strengthening of economic partnership with East Asian countries.”

Japan announced the new initiative for the Mekong Region Development at the Japan-ASEAN Special Summit in December 2003. The integrated approach of economic cooperation and trade-investment facilitation is emphasized in the “New Concept of Mekong Region Development,” which stresses three visions: (1) reinforcing regional integration; (2) attaining sustainable economic growth; and (3) harmonizing with the environment (Figure 1). To enhance economic cooperation, Japan announced that it would provide assistance of approximately US\$1.5 billion over the next three years for the development of the EWEC and the 2nd East-West Corridor of the GMS Program as well as the improvement of infrastructure (e.g., transport, electricity and

ICT) in the CLV. These would be the priority issues for regional development (Table 4).

At the CLV and Japan Summit held in November 2004 in Laos, the Vientiane Declaration on the Establishment of the Cambodia-Laos-Vietnam Development Triangle was adopted in order to promote multifaceted relations, mutual understanding, and trust among the CLV and to contribute to peace, stability, cooperation, and friendship. Japan supported 16 projects (worth approximately ¥2 billion in total) mainly in the area of basic human needs (BHN), including the above-mentioned US\$1.5 billion funding for the New Concept of Mekong Region Development (Table 5).

The New Concept of Mekong Region Development is an attempt at regionwide development mentioned in Japan's ODA Charter. It crosses national borders and targets five countries and one area located in the Mekong river basin, namely, Cambodia, Laos, Myanmar, Thailand, Vietnam, and China's Yunnan Province. Promotion of the Mekong regional development is expected to strengthen relations between the countries in the region; create a more favorable environment for reducing the disparities within the ASEAN by raising the economic levels of the new ASEAN members; and strengthen ASEAN integration (Kazuo Sunaga:2004).

Figure 1: New Concept of Mekong Region Development

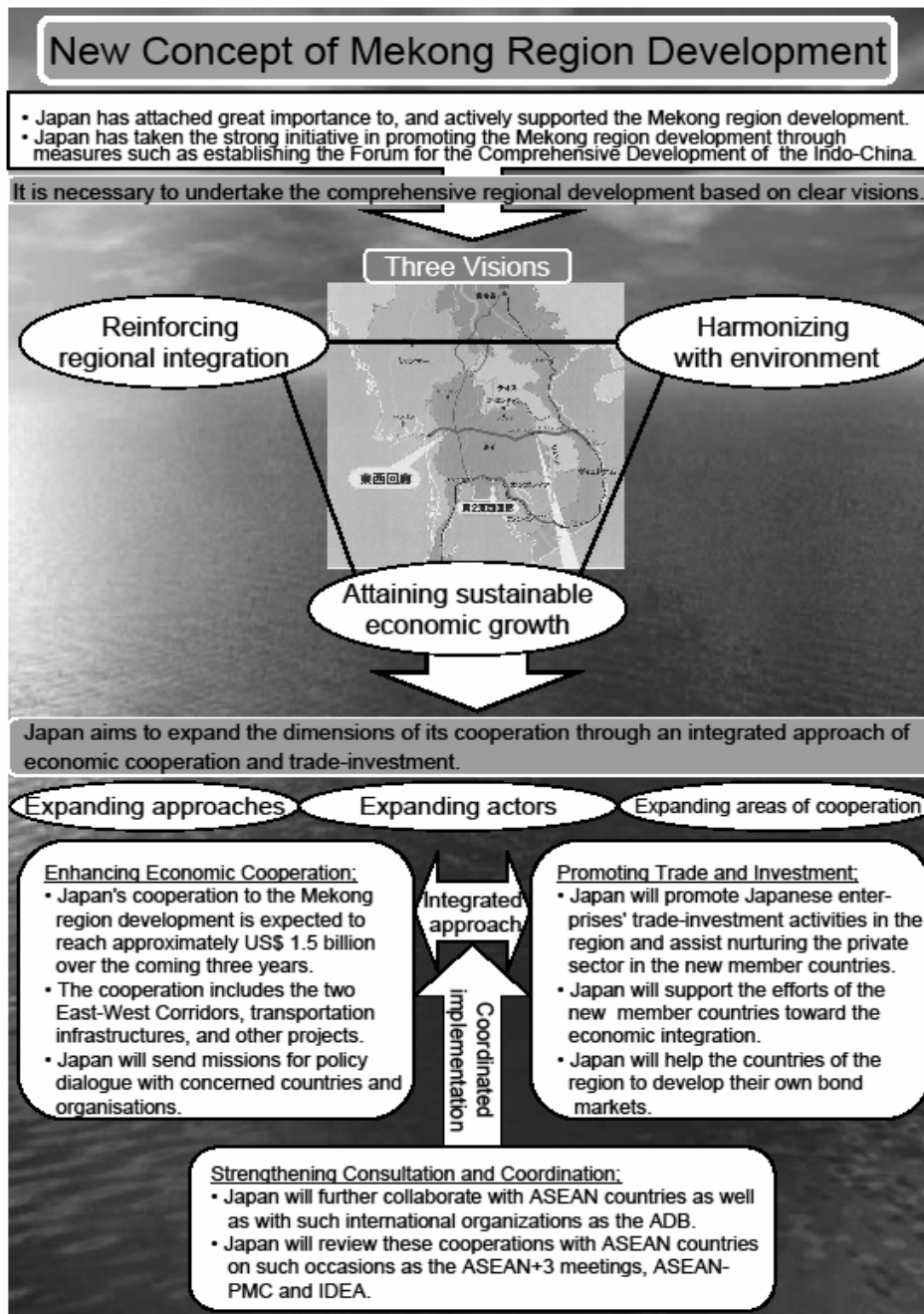


Table 4: Major projects of Japan's Initiative for the Mekong Region Development (2004-2006)

Country	Project Name	Type of ODA	Date of E/N	Amount
	O Mon Thermal Power Plant Unit No.2 Construction Project	yen loan	31-Mar-04	275.47
	Hanoi-Hochiminh Railway Line Bridges Safety Improvement Project	yen loan	31-Mar-04	82.22
Vietnam	Cai Mep-Thi Vai International Port Construction Project	yen loan	31-Mar-05	363.64
	Phan Ri-Phan Thiet Irrigation Project	yen loan	29-Mar-06	48.74
	Small-Scale Pro Poor Infrastructure Development Project (II)	yen loan	29-Mar-06	147.88
	Regional and Provisional Hospital Development Project	yen loan	29-Mar-06	18.05
	Project for Improvement of Safety Laboratory for National Institute of Hygiene and Epidemiology	grant aid	28-Sep-06	8.91
Cambodia	Greater Mekong Telecommunications Backbone Network Project	yen loan	16-Mar-05	30.29
	Sihanoukville Port SEZ Development Project	yen loan	1-Mar-06	3.18
	Project of the Improvement of the National Road No.1 in Cambodia	grant aid	12-Jun-06	47.46
	Project for Construction of Primary Schools	grant aid	18-Jun-04	4.25
	Project for Renovation of Technical School for Medical Care	grant aid	11-Aug-04	7.74
Laos	Greater Mekong Power Network Development Project	yen loan	7-Mar-05	33.26
	Project for the improvement of the Vientiane No. 1 Road	grant aid	27-Jul-05	20.92
	Project for the Vientiane Water Supply Development	grant aid	10-Feb-06	0.42
	Project for the Improvement of District Hospitals	grant aid	10-Feb-06	1.50
	Project for the Vientiane Water Supply Development	grant aid	2-Jun-06	28.75
	Project for the Improvement of District Hospitals	grant aid	21-Aug-06	4.13
	Project for Improvement of Maternal and Child Health Care Services (Phase V)	grant aid	1-Mar-04	6.62
	Project for Afforestation in Central Dry Zone	grant aid	9-Jul-04	3.44
Myanmar	Project for Afforestation in Central Dry Zone (Phase II)	grant aid	27-Jun-05	2.93
	Project for Afforestation in Central Dry Zone (Phase III)	grant aid	17-Aug-06	3.30
	Project for Improvement of Maternal and Child Health Care Services (Phase VI)	grant aid	22-Nov-06	3.10
Region Wide	technical cooperation with Thailand			1146.20
Thailand	Animal Disease Control in Thailand and neighboring countries	technical cooperation		
	HIV/AIDS Regional Coordination Center Project	technical cooperation		

Source: MOFA, JBIC

Table 5: Assistance for the CLV Development Triangle

Vietnam	The Project for Constructing Dak Joong Irrigation System
	The Project for Equipment Supply to Kon Tum Vocational Training School
	The Project for Constructing Tran Qui Gap Primary School
	The Project for Constructing Kim Dong Primary School
	The Project for Construction Le Dinh Chinh Junior High School in Ea Kenh Commune
	Small-Scale Pro Poor Infrastructure Development Project (II)(Vietnam)
Cambodia	The Project for Well Construction in Ratanakiri Province
	The Project for Labang II Irrigation System Rehabilitation in Ratanakiri Province (Phase II)
	The Project for the Rural Electrification on Micro-Hydropower in Remote Province of Mondul Kir
Laos	Supporting Community Initiative for Primary Education Development in Attapeu & Sekong
	The Project for Construction of Bridge between Kengkaxar Village and Nongfanyong Village

Source: MOFA of Japan.

At the 10th ASEAN-Japan Summit convened in Manila in January 2007, Prime Minister Shinzo Abe announced the expansion of Japan's ODA to the Mekong region for the next three years and the granting of US\$41 million to the Japan-ASEAN Integration Fund (JAIF) established in March 2006 as assistance for the development of the CLMV.

3. JAPAN'S ODA TO CLMV COUNTRIES AND THAILAND

3.1 Japan as Top Donor to CLMV Countries

Data from the Organisation for Economic Co-operation and Development (OECD) show that Japan is a top donor to all CLMV countries and Thailand based on the 2004-2005 average of gross ODA. Japan's share of each country's gross ODA are around one-fourth in each country of CLM, nearly 40 percent in Vietnam and over 80 percent in Thailand (Table 6). Multilateral aid agencies like the World Bank or the ADB are usually the next largest donors. In Myanmar, however, UN aid agencies are the major donors. Aside from Japan, Australia is listed as one of the top ten bilateral donors

to all CLMV countries and Thailand. Australia also supports the promotion of regionwide cooperation in the Mekong region and provided funding for the first Thai-Lao Friendship Bridge over the Mekong. This bridge, which was opened in 1994, links the Thai province of Nong Khai and the Lao PDR capital of Vientiane. Australia seems to have a very clear cooperation strategy with the CLMV countries.²

Table 6: Top Ten Donors of Gross ODA, 2004-05 average. (in million US\$)

Cambodia			Laos			Myanmar			Viet Nam			Thailand		
Japan	94	22.4%	Japan	65	25.3%	Japan	26	24.8%	Japan	670	37.5%	Japan	765	83.5%
AsDF	84	20.0%	AsDF	58	22.6%	EC	14	13.3%	IDA	418	23.4%	Germany	31	3.4%
US	60	14.3%	IDA	42	16.3%	UK	11	10.5%	AsDF	207	11.6%	France	27	2.9%
IDA	43	10.2%	France	21	8.2%	Australia	11	10.5%	France	116	6.5%	EC	19	2.1%
France	28	6.7%	Sweden	19	7.4%	UNDP	10	9.5%	UK	82	4.6%	GFATM	19	2.1%
Australia	27	6.4%	Germany	15	5.8%	UNICEF	8	7.6%	Germany	79	4.4%	Denmark	17	1.9%
Germany	24	5.7%	Australia	12	4.7%	Korea	7	6.7%	Denmark	73	4.1%	US	16	1.7%
Korea	21	5.0%	EC	10	3.9%	Norway	6	5.7%	Netherlan	55	3.1%	Australia	8	0.9%
UK	20	4.8%	Luxembourg	8	3.1%	GFATM	6	5.7%	Australia	50	2.8%	Canada	7	0.8%
Sweden	19	4.5%	Korea	7	2.7%	UNTA	6	5.7%	EC	35	2.0%	Norway	7	0.8%
	420	100.0%		257	100.0%		105	100.0%		1785	100.0%		916	100.0%

Source: Organisation for Economic Co-operation and Development (OECD).

Large-scale assistance from Japan to the Mekong region started in 1991. Vietnam received total ¥1,209,778 million through Japan's ODA between fiscal years (FY) 1991 and 2005. Thailand received ¥1,337,842 million in the same period. On the other hand, Cambodia received ¥155,774 million; Laos, ¥130,687 million; and Myanmar, ¥97,193 million (Table 7). It is clear that Japan's ODA to Vietnam is almost ten times bigger compared to those extended to other CLM countries. The difference comes from the received amount of ODA loans. Many large-scale projects in Thailand and Vietnam are financed with yen loans. As for economic assistance to the "Mekong Region

² Watanabe (2004) had a comparison analysis of the regional cooperation projects by JICA and AusAID. It was found that JICA's approach had more limited impact compared with AusAID.

Development Projects,” the largest amount went to the airport sector, followed by road, harbor, and bridge sectors.

3.2 Japan’s ODA by Country

Vietnam

Vietnam’s economy has rapidly expanded since the introduction of the Doi Moi policy in 1986. Large-scale assistance through ODA loans began in 1992. Since 1995, Japan has been the largest donor country to Vietnam.

The present medium-term strategy of Japan’s ODA loan to Vietnam has two pillars: (1) sustained economic growth and increased international competitiveness built on private sector development and (2) rectification of regional gaps, poverty reduction, and improvement of the standard of living. Additionally, high priority is placed on policy and institutional reform, environmental countermeasures, and human resource development. Social development projects have the largest allocation in the technical assistance program of the Japan International Cooperation Agency (JICA) to Vietnam.

Laos

Laos also adopted a reform and liberalization policy in 1986. Initial assistance involved technical cooperation for the construction of Luang Prabang Hospital, feasibility studies for the construction of the Vientiane Airport, and the rehabilitation of the Namgum Dam. After this, assistance to Laos was extended mainly in the form of grant-based assistance and technical cooperation. In JICA’s technical assistance program for Laos, human resources development accounts for a uniquely large proportion of projects at roughly 20 percent, around the same percentage as social development and rural development.

Table 7: Japan's ODA to CLMV countries (in million Japanese yen)

		Cambodia	Laos	Myanmar	Vietnam	Thailand
yen loan	1959-1990	1,517	5,190	402,972	40,430	833,011
(E/N basis)	1991-2000	4,142	3,903	0	651,989	1,079,862
	2001	0	4,011	0	74,314	6,405
	2002	0	0	0	79,330	45,170
	2003	0	0	0	79,330	44,852
	2004	7,342	3,326	0	82,000	0
	2005	318	0	0	90,820	35,453
	2006	2,632	500	0	104,078	0
	sub-total	15,951	16,930	402,972	1,202,291	2,044,753
grant aid	1959-1990	2,637	23,214	97,594	31,292	141,324
(E/N basis)	1991-2000	68,627	58,030	67,888	58,681	15,825
	2001	7,645	7,003	5,993	8,371	315
	2002	10,306	6,567	2,162	5,237	354
	2003	6,250	4,111	992	5,650	431
	2004	6,693	3,017	909	4,914	501
	2005	6,909	4,235	1,717	4,465	236
	2006	9,025	6,909	640	1,964	0
	sub-total	118,092	113,086	177,895	120,574	158,986
technical	1959-1990	1,706	4,613	15,097	2,449	91,807
cooperation	1991-2000	16,769	20,121	6,674	33,111	83,285
(JICA only)	2001	4,306	4,486	3,319	7,909	6,925
	2002	4,037	3,545	2,794	6,708	5,677
	2003	3,755	2,983	1,658	5,577	4,296
	2004	4,082	2,773	1,446	5,711	4,702
	2005	4,593	2,576	1,641	5,661	3,553
	2006	4,042	2,382	1,725	5,275	2,960
	sub-total	43,290	43,479	34,354	72,401	203,205
	1959-1990	5,860	33,017	515,663	74,171	1,066,142
	1991-2006	171,473	140,478	99,558	1,321,095	1,340,802
Whole ODA	total	177,333	173,495	615,221	1,395,266	2,406,944

Source: MOFA of Japan

Japan has been the largest bilateral donor to Laos since 1991. Its cooperation is focused mainly in the areas of human resources development, BHN, agriculture and forestry, and industrial infrastructure. In recent years, assistance was provided to promote private investment and trade as well as tourism development because Laos aims to participate in the ASEAN Free Trade Area (AFTA) by 2008.

Cambodia

In 1991, after the conclusion of a peace agreement, Japan's Self-Defense Force took part in the United Nations' peace-keeping operations in Cambodia from 1992 to 1993, and its ODA resumed primarily in the form of grant-based assistance and technical cooperation. Social development has the largest allocation in JICA's technical assistance to Cambodia.

In the infrastructure sector, restoration of national roads, Routes 6 and 7, and rehabilitation of the Phnom Penh Port were implemented with grant-based assistance. In response to the 3rd Consultative Group Meeting for Cambodia held in Tokyo in 1999, Japan extended an ODA loan for the urgent rehabilitation project of Sihanoukville Port at the request of the Cambodian Government. Japan has contributed greatly to the realization of peace in Cambodia.

Assistance is also provided to Phnom Penh, the country's capital, and Sihanoukville as the growth corridor for infrastructure improvement and policy system reforms. These reforms are expected to invigorate private economic activities in the region and lay the foundations that should contribute to the sustained growth of the tourism industry, a source of precious foreign currency income. Cambodia succeeded in joining the World Trade Organization (WTO) in 2004, paving the way for its integration

in the international economy.

Myanmar

Japan suspended economic cooperation with Myanmar, in principle, following the military coup d'état in 1988. The only exception was grant aid for debt relief which was based on a 1978 resolution of the Trade and Development Board (TDB) of the United Nations Conference on Trade and Development (UNCTAD). Japan has been providing debt-relief measures in the form of grant aid equal to the total amount of the principal and interest on government loans prior to fiscal year 1987 with respect to repayments from Myanmar (with the result that net payments are zero). In addition, when Aung San Suu Kyi was released from house arrest in July 1995, the Japanese Government reviewed its aid policy toward Myanmar and decided to reconsider and implement suspended ongoing projects, including projects that would directly benefit the people of Myanmar by addressing their basic human needs (BHN), on a case-by-case basis while monitoring democratization and the improvement of human rights.

In the absence of progress toward democratization and human rights improvements, however, Japan's assistance to Myanmar is limited to small-scale, grassroots assistance through nongovernmental organizations (NGOs). Development assistance extended to Myanmar is the lowest among the GMS countries.

3.3 JICA's South-South Cooperation and Thailand

JICA has supported South-South Cooperation with two schemes: the Third-Country Training Program initiated in 1975 and the Third-Country Expert Program in 1995.

Among the ASEAN countries, there are already countries that no longer need ODA

based on the definition of the OECD-Development Assistance Committee (OECD-DAC). These countries are Singapore and Brunei. There are also some countries at a relatively advanced stage of economic development like Thailand and Malaysia. Overall, the ASEAN member countries have accumulated a variety of experience and knowledge on economic development. For this reason, agreements have been made to actively advance South-South Cooperation.

Japan concluded its partnership programs with Singapore and Thailand in 1994. The South-South Cooperation to CLMV with the latter as recipient countries was implemented through these programs. CLMV, however, suggested that the support provided failed to match their needs. JICA, therefore, introduced the JICA-ASEAN Regional Cooperation Meeting (JARCOM) in 2002 to align donor countries' resources with recipient countries' needs. JARCOM's main aim is to form south-south cooperation and regional cooperation projects to redress intraASEAN disparities.

Thailand used to be one of the assistance-receiving countries in the Mekong region, but in recent years, it has also become a donor country extending assistance to other countries in the basin through the Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy (ACMECS) established in 2003. In this manner, Japan cooperates with Thailand as a fellow donor country through the South-South Cooperation scheme.

4. KEY CHALLENGES AND DIRECTION FOR REGIONWIDE COOPERATION

The New Concept of Mekong Region Development announced in 2003 is an attempt at regionwide development mentioned in Japan's ODA Charter. It crosses national borders and targets five countries and one area located in the Mekong river basin; namely,

Cambodia, Laos, Myanmar, Thailand, Vietnam, and China's Yunnan Province. Promotion of the Mekong Region Development is expected to strengthen relations between countries in the region and create a more favorable environment for reducing disparities within the ASEAN by raising the economic levels of the new members located in this region. Among other things, it is also expected to strengthen ASEAN integration.

As regionwide development is a new challenge under the Japanese bilateral ODA, the following difficulties and recommendations have been identified based on a review of existing papers:

(1) Regionwide development may cause a growth gap between countries or areas that can enjoy the benefits of development and those unable to access such benefits. Therefore, countermeasures to alleviate such a gap must be prepared even if the emergence of such a gap is unavoidable in the process of economic growth. It is important to provide support, such as social welfare, to areas that cannot receive the benefits of regionwide development through close coordination.

(2) When providing public goods under regionwide development, it is possible to create a difference of priorities between regional public goods and domestic public goods in each country. It is important for Japan to present a clear regionwide development strategy and to make a master plan in the Mekong region through policy negotiations in order to provide regional public goods efficiently and effectively. It is especially important in the fields of navigation, disaster prevention, water utilization, and environmental conservation in the Mekong River to coordinate the interests of

upstream and downstream areas as well as right and left banks where conflicts naturally tend to occur.

(3) To advance a regionwide development vision and strategy, sharing of information and cooperation with international organizations such as the ADB and the Mekong River Commission (MRC) must be started from the policy formulation and planning stages. It is essential for Japan to actively make technical proposals and offer information. It is also important to decide on a regionwide development strategy and financial sharing arrangement in an integrated manner and in cooperation with other donors on a long-term basis.

(4) To carry out a regionwide development project such as the Mekong Region Development, a long-term effort and a flexible approach are required as socioeconomic changes occur very quickly in this region where the speed of growth is very fast. Development vision, priority projects, and other development-related matters should be reviewed periodically and then advanced again with necessary modifications by paying attention to changes in private investment and physical distribution in the region.

(5) For efficient and effective regionwide cooperation, it is necessary to provide comprehensive assistance, including improvements in policies, institutions, and maintenance in order to solve various problems. It is also essential to advance assistance efforts by interlinking ODA loans, grant aids, and technical cooperation organically.

(6) Development of border areas is key to regionwide development. Japan has implemented several development studies, such as the Integrated Development Plan for the Border Region (Laos and Thailand) and the Study on Special Economic Zone Development Plan in Border Area (Savannakhet Province in Laos). To effectively promote a regionwide development project spanning multiple countries in the Mekong region, it is necessary to allocate some amount out of the total budget appropriated for bilateral assistance in each country to a regionwide project having cross-border effects.

(7) Cooperation with the private sector should be thoroughly considered for the efficient operation of infrastructure and for the promotion of market enhancement. In the case of the Cai Mep-Thi Vai International Port Construction Project in Vietnam, operation of the new port facilities will be entrusted to private-sector operators to ensure efficient operations and maintenance management. In general, ODA loans should be used for market enhancement measures in commercially nonviable fields because private participation is available in fields where commercial viability has been realized by market enhancement measures.

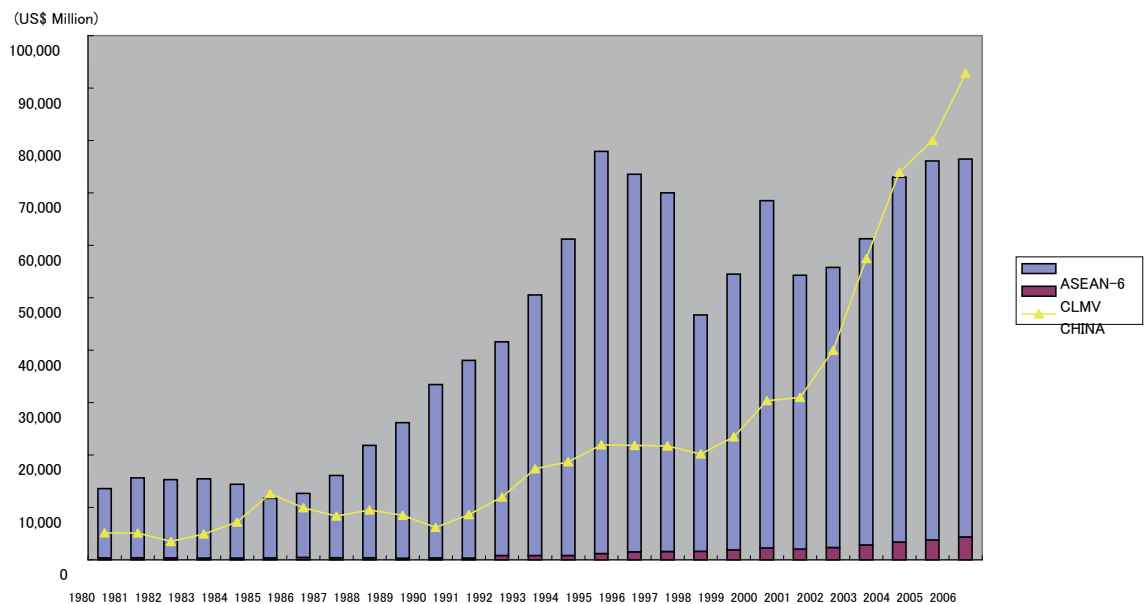
5. JAPAN'S TRADE AND INVESTMENT WITH CLMV

While Japan is the top donor country for all CLMV countries, its trade and investment relations are quite weak. In this section, the authors examine the trade and investment performance between Japan and CLMV.

5.1 Japan's Trade with CLMV

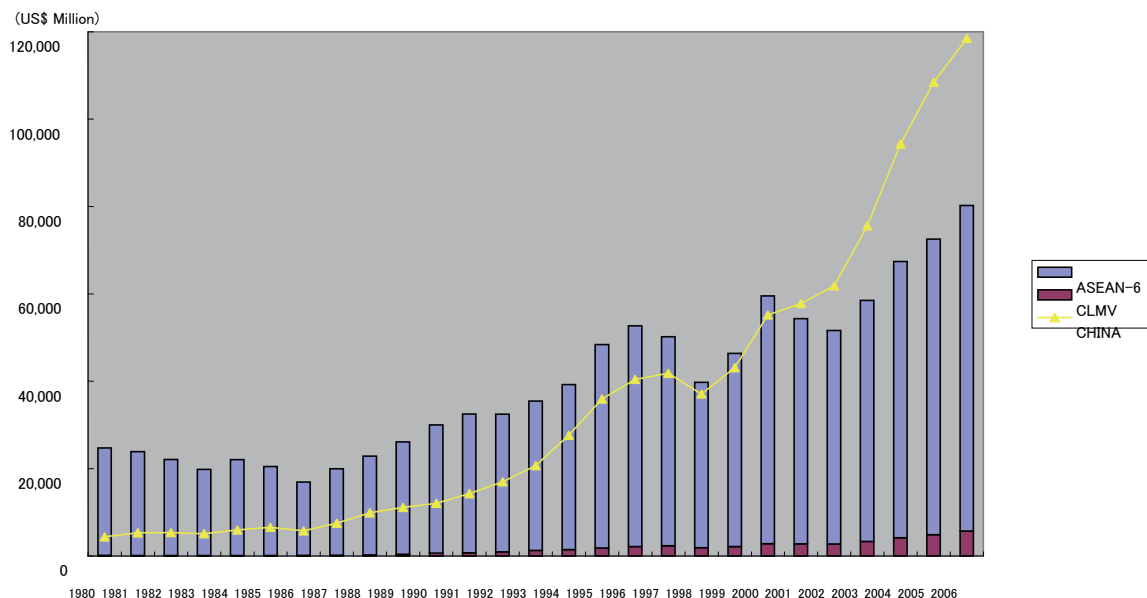
Bilateral trade between Japan and the ASEAN grew in the 1990s and up to 2006 in spite of a temporary decline after the Asian Financial Crisis of 1997. Japan's exports to the ASEAN increased by 2.3 times from US\$ 33,406 million in 1990 to US\$ 76,434 million in 2006. Its imports from the ASEAN increased by 2.7 times, from US\$ 29,975 million in 1990 to US\$ 80,197 million in 2006. The ASEAN is an important trading partner of Japan, accounting for 11.8 percent of Japan's total exports and 13.9 percent of its total imports in 2006.

Figure 2: Japan's Exports to ASEAN and China



(Source) IMF, *Direction of Trade*.

Figure 3: Japan's Imports from ASEAN and China

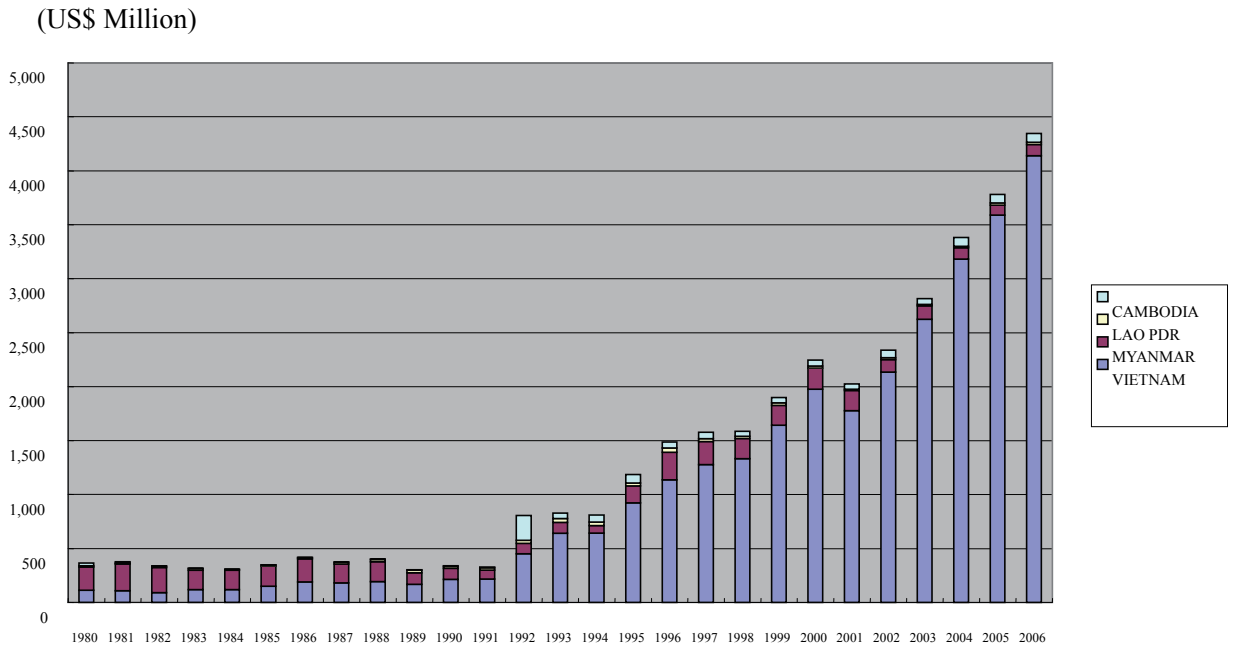


(Source) IMF, *Direction of Trade*.

However, the bulk of trade between Japan and the ASEAN happens between Japan and the original six ASEAN members while the four new ASEAN member countries, i.e., CLMV, account for only a small share. CLMV occupied only 5.7 percent in Japan's exports to the ASEAN and 7.2 percent in Japan's imports from the ASEAN. CLMV have not yet become major trading partners of Japan.

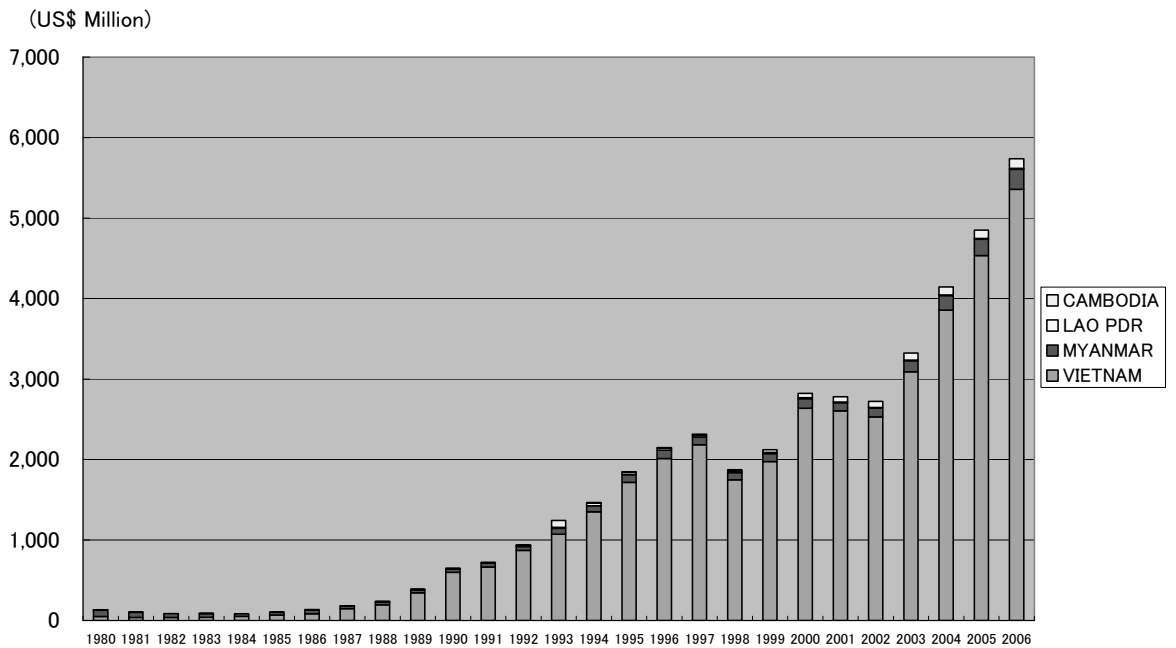
Moreover, Vietnam alone assumed a lion's share of Japan's trade with CLMV, occupying 95.3 percent in Japan's exports to CLMV and 93.4 percent in its imports from CLMV in 2006. In other words, Cambodia, Laos, and Myanmar have yet to become significant trading partners for Japan.

Figure 4: Japan's Exports to CLMV



(Source) IMF, *Direction of Trade*.

Figure 5: Japan's Imports from CLMV



(Source) IMF, *Direction of Trade*.

Among the CLMV, Vietnam and Cambodia showed a brisk performance in their trade with Japan while Laos and Myanmar recorded rather dismal figures. Japan's exports to Vietnam increased by 19.3 times from US\$ 214 million to US\$ 4,140 million for the period between 1990 and 2006. Japan's imports from Vietnam increased nine times for the same period from US\$ 597 million to US\$ 5,358 million. Japan's exports to Cambodia increased by 17.9 times from US\$ 5 million to US\$ 82 million while its imports from Cambodia expanded 34.2 times from US\$ 3 to US\$ 119 for the same period.

On the other hand, Japan's exports to Laos stagnated from US\$ 20 million in 1990 and US\$ 21 million in 2006 while its imports from Laos increased from US\$ 5 million in 1990 to US\$ 12 million in 2006. Japan's exports to Myanmar also stagnated at US\$ 101 million in 1990 and US\$ 104 million in 2006, while its imports from that country showed a steady increase from US\$ 42 million in 1990 to US\$ 248 million in 2006.

5.2 CLMV's Trade Dependency on Japan

Although Japan is currently not a major trading partner of CLMV, it was a relatively important trading partner for CLMV in 1990. Approximately 7 percent of Cambodia's, Laos's, and Myanmar's total exports went to Japan while Vietnam exported 13.5 percent of its total exports to Japan in 1990 (Table 8). However, all CLMV countries reduced their export shares to Japan in 2006. Cambodia and Laos exported only 1 percent and Myanmar only about 5 percent of their total exports to Japan in 2006. Only Vietnam exported more than 12 percent of its total exports to Japan in the same year.

Table 8: CLMV's Trade Dependence on Japan, China, and the United States

CLMV's Trade with Japan

	Exports		Imports	
	1990	2006	1990	2006
Cambodia	7.6%	1.0%	9.0%	4.3%
Laos	7.1%	1.0%	14.5%	1.4%
Myanmar	6.9%	5.2%	16.6%	3.0%
Vietnam	13.5%	12.3%	5.9%	9.5%

CLMV's Trade with China

	Exports		Imports	
	1990	2006	1990	2006
Cambodia	1.2%	15.7%	9.1%	26.5%
Laos	9.1%	4.1%	11.6%	12.3%
Myanmar	13.7%	6.4%	21.9%	35.8%
Vietnam	9.9%	7.1%	7.1%	20.6%

(Note) Including Hong Kong

CLMV's Trade with the United States

	Exports		Imports	
	1990	2006	1990	2006
Cambodia	0.0%	53.3%	0.0%	0.9%
Laos	0.1%	0.8%	0.7%	0.5%
Myanmar	2.3%	0.0%	2.9%	0.2%
Vietnam	0.0%	21.3%	0.0%	2.5%

(Source) IMF, Direction of Trade.

CLM's import dependence also substantially declined. Japan's share in Cambodia's total imports declined from 9 percent in 1990 to 4.3 percent in 2006 while its share in Laos's total imports shrank from 14.5 percent in 1990 to 1.4 percent in 2006. Myanmar followed the same trend, i.e., 16.6 percent in 1990 to 3 percent in 2006. Vietnam is the only exception; it increased its import dependence on Japan from 5.9 percent in 1990 to 9.5 percent in 2006.

The U.S. opened its markets to Cambodia and Laos, in particular. It absorbed more than a half of Cambodia's total exports, mainly garments, and more than 20 percent of Vietnam's total exports in 2006, although there were no imports from the United States

from the two countries in 1990. On the other hand, China emerged as a major supply source of commodities and goods to CLMV. China increased its share in Cambodia's total imports from 9.1 percent in 1990 to 26.5 percent in 2006. It also increased its share in Laos's total imports from 11.6 percent in 1990 to 12.3 percent in 2006. China supplied more than one-third of Myanmar's total imports in 2006, which was about 20 percent in 1990. China's share in Vietnam's total imports also increased from 7.1 percent in 1990 to 20.6 percent in 2006. On the whole, Japan has reduced its relative importance in CLMV's external trade while the United States and China have played a more active role.

Nevertheless, the relative slow development of trade between Japan and CLMV in the 1990s does not necessarily mean it has continued to stagnate in recent years. Japan started to open its markets to CLMV's products by providing the Generalized System of Preferences (GSP), development-and-import-formula business activities, and making FDIs in these countries. Since 2003, Cambodia, Myanmar, and Vietnam have shown double-digit growth rates in their bilateral trade with Japan although Laos had shown ups and downs (Table 9). Such a trend is encouraging for both CLMV and Japan. Japanese markets can contribute more to CLMV trade and industrial development in the near future.

Table 9: Growth of Japan's Imports from CLMV

Rank	Country	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
	World Total	21.9%	3.9%	-3.0%	-17.1%	11.1%	21.7%	-8.0%	-3.2%	13.4%	18.9%	13.3%	12.1%	7.5%
1	China	29.6%	12.5%	3.6%	-11.3%	16.4%	27.6%	4.9%	7.1%	22.1%	25.0%	15.0%	9.1%	7.9%
24	Vietnam	26.6%	17.2%	8.7%	-20.0%	13.0%	33.4%	-1.3%	-2.7%	22.0%	25.0%	17.4%	16.6%	15.7%
64	Myanmar	22.9%	9.9%	-3.9%	-9.3%	13.5%	17.5%	-14.5%	8.2%	26.5%	29.0%	13.0%	20.5%	20.7%
81	Cambodia	-16.5%	-10.3%	100.6%	21.5%	117.3%	49.9%	26.8%	13.3%	18.9%	11.8%	6.2%	13.3%	15.7%
134	Laos	-3.9%	-20.8%	-10.2%	-7.8%	-30.9%	-11.2%	-42.3%	-2.9%	9.8%	8.7%	0.1%	53.3%	-3.1%

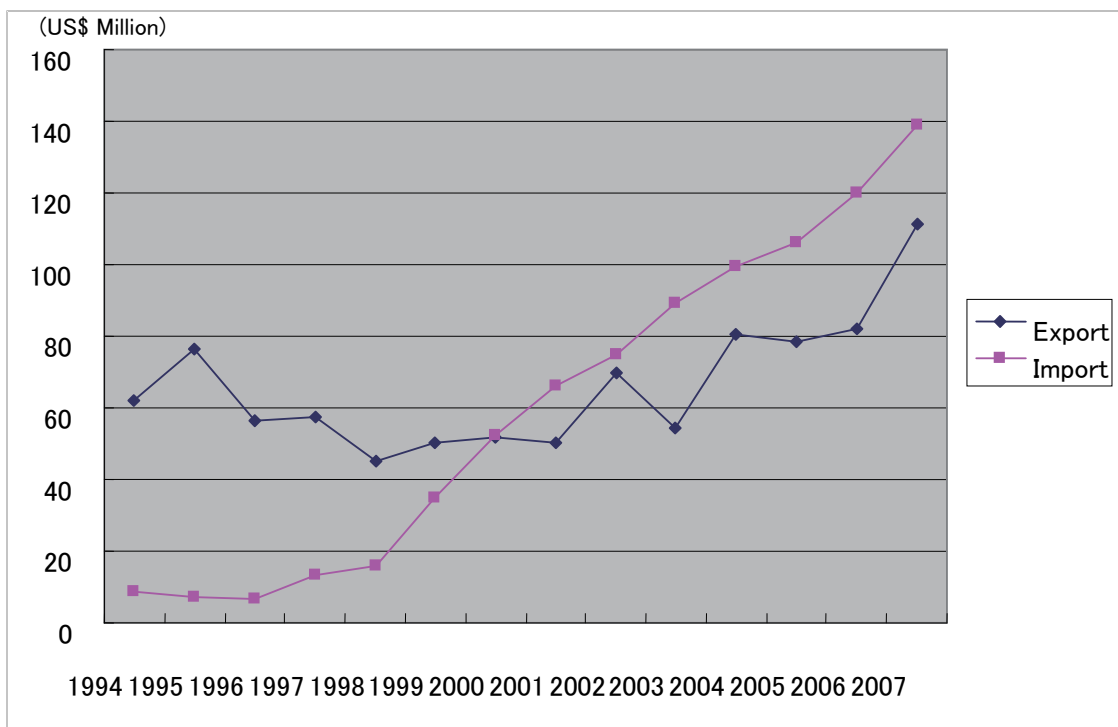
(Source) Japan Customs.

5.3 Japan's Trade with Each CLMV

5.3.1 Japan's Trade with Cambodia

Cambodia is not a major trading partner for Japan since it was ranked 106th in terms of export and 81st in terms of import among more than 200 of Japan's trading partners. However, Japanese trade with Cambodia steadily increased after 2000 for both imports and exports. Japan's imports from Cambodia sharply increased after 1998, although it had been insignificant during the previous years.

Figure 6: Japan's Trade with Cambodia



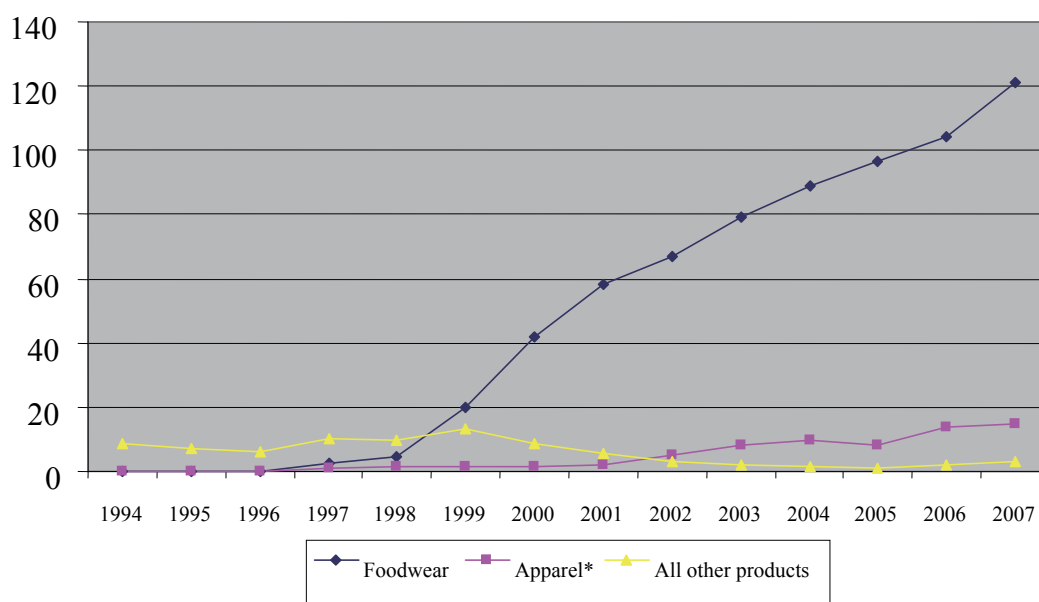
Source: World Trade Atlas.

Japanese imports from Cambodia have been historically dominated by forest products, although these were successfully replaced by footwear after 1998. Therefore,

the increase in Japan's imports from Cambodia was due to Cambodia's rapid increase in footwear exports. At the same time, the volume of all other products gradually decreased to a very low level. Cambodia's exports of apparel products also gradually increased after 2002.

Figure 7: Japan's Import from Cambodia by Commodity

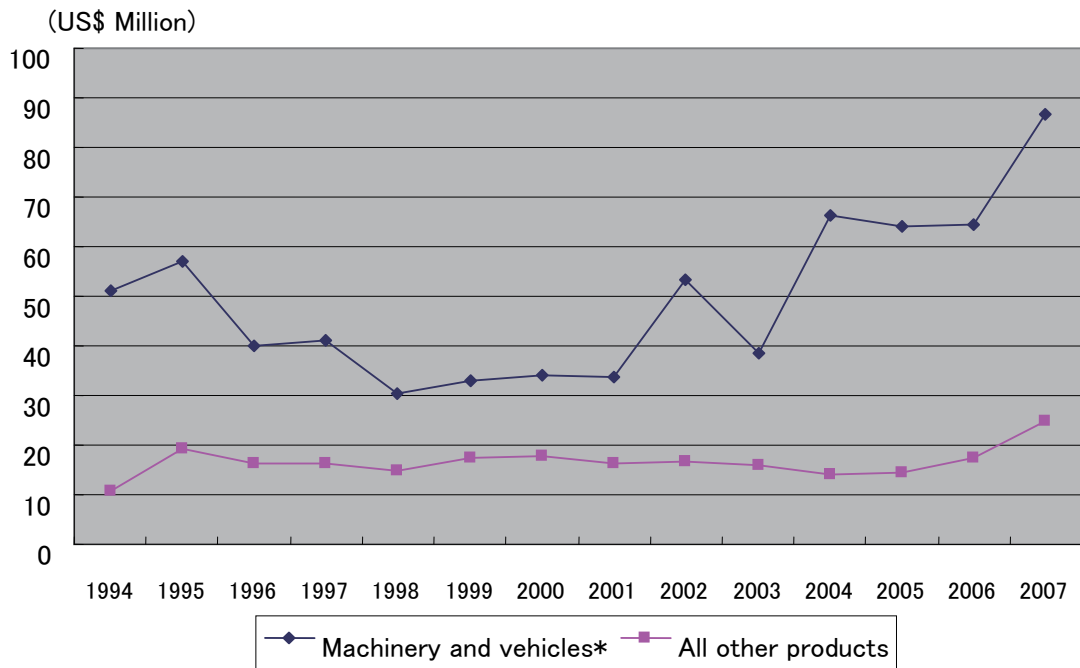
(US\$ Million)



Note*= Apparel products include knit apparel and woven apparel.

Source: World Trade Atlas.

In terms of Japanese exports to Cambodia, machineries and vehicles dominated all other products. Even though the share of this product category decreased between 1996 and 2003, it increased dramatically again after 2003. The volume of all other export products remained stagnant between US\$10 million and US\$20 million per year.

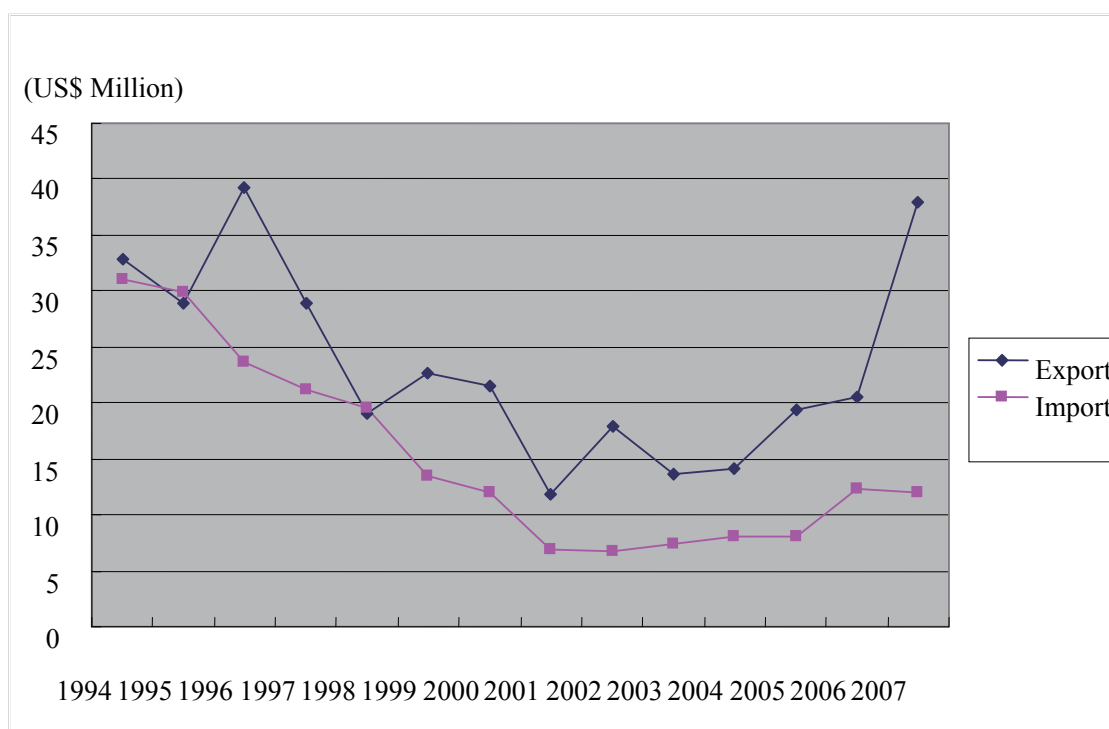
Figure 8: Japan's Export to Cambodia by Commodity

Note: *The category machineries and vehicles include electronic machineries, railway, ships, boats, and aircraft.

Source: World Trade Atlas.

5.3.2 Japan's Trade with Laos

Among the CLMV, Laos is the least significant trading partner for Japan. Laos was ranked 134th for import and 135th for export among Japan's trading partners. Although Japan's trade with Laos has been small, Japan enjoyed a trade surplus in almost all periods under consideration. In Figure 9, it can be seen that Japan's trade with Laos decreased from 1994 to 2001 for both exports and imports, but Japanese exports gradually increased from 2003 afterwards.

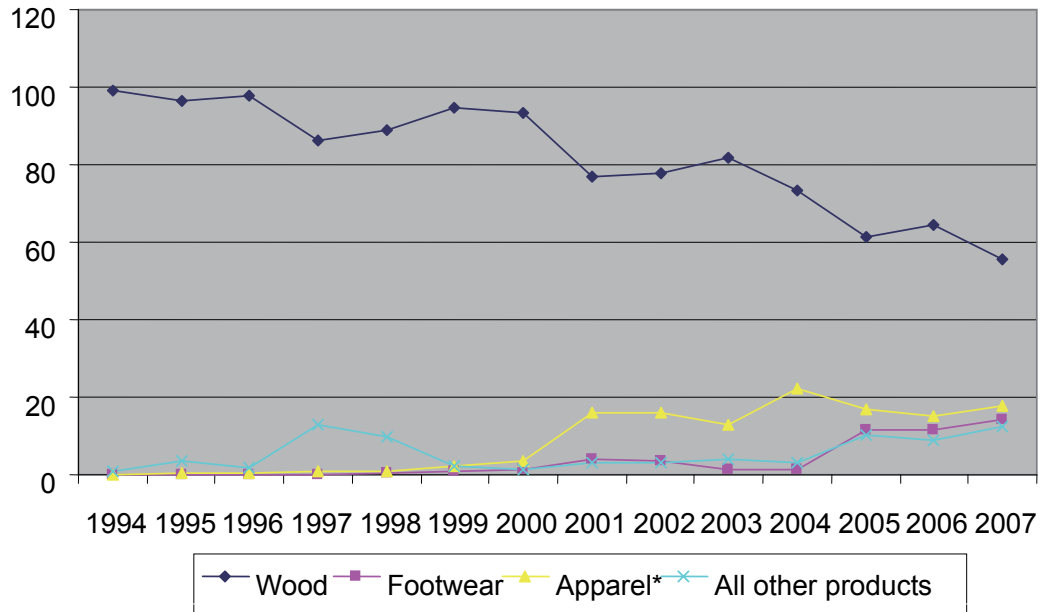
Figure 9: Japan's Trade with Laos

Source: World Trade Atlas.

Figure 10 shows Japan's imports from Laos for the period from 1994 to 2007. It can be seen that only one product (i.e., wood) dominated Japan's imports from Laos. However, this gradually decreased year after year throughout the period while exports of apparel, footwear, and all other products gradually increased.

Figure 11 shows Japan's exports to Laos by commodity groups. Not surprisingly, Japan's major exports to Laos were electronic and machinery products, the volume of which gradually declined from 1994 to 2004, but sharply increased again afterwards. The volume of all other products remained stagnant around US\$ 10 million per year throughout the period.

(US\$ Million) **Figure 10: Japan's Imports from Laos, by Commodity**

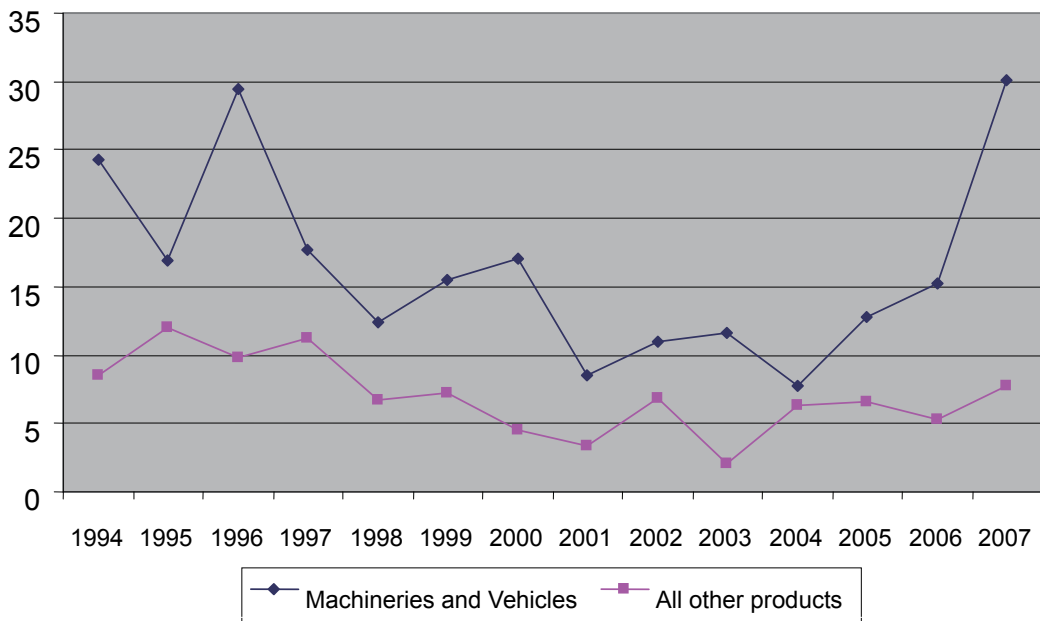


Note: *Apparel include knit apparel and woven apparel.

Source: World Trade Atlas.

Figure 11: Japan's Exports to Laos, by Commodity

(US\$ Million)

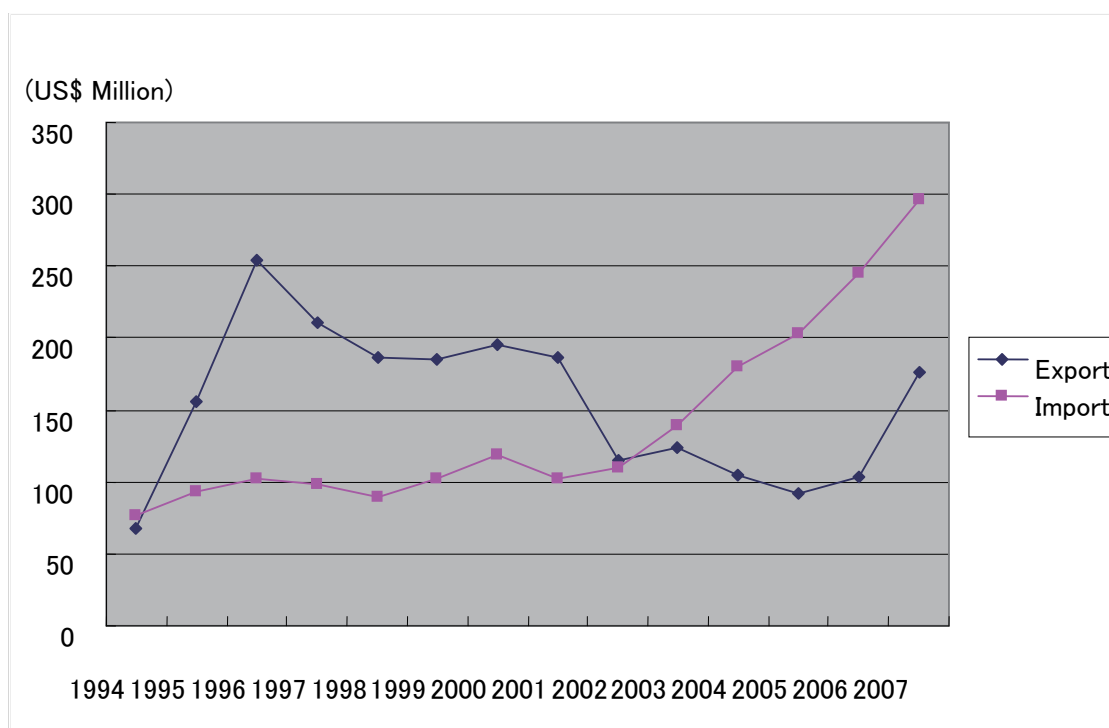


Source: World Trade Atlas.

5.3.3 Japan's Trade with Myanmar

Japan's trade with Myanmar is the second largest in CLMV after Vietnam. Myanmar ranked 64th in terms of Japan's imports and 89th for exports. Japan enjoyed a trade surplus with Myanmar up to 2002. However, this situation was reversed in 2003 when imports from Myanmar sharply increased while exports gradually declined.

Figure 12: Japan's Trade with Myanmar

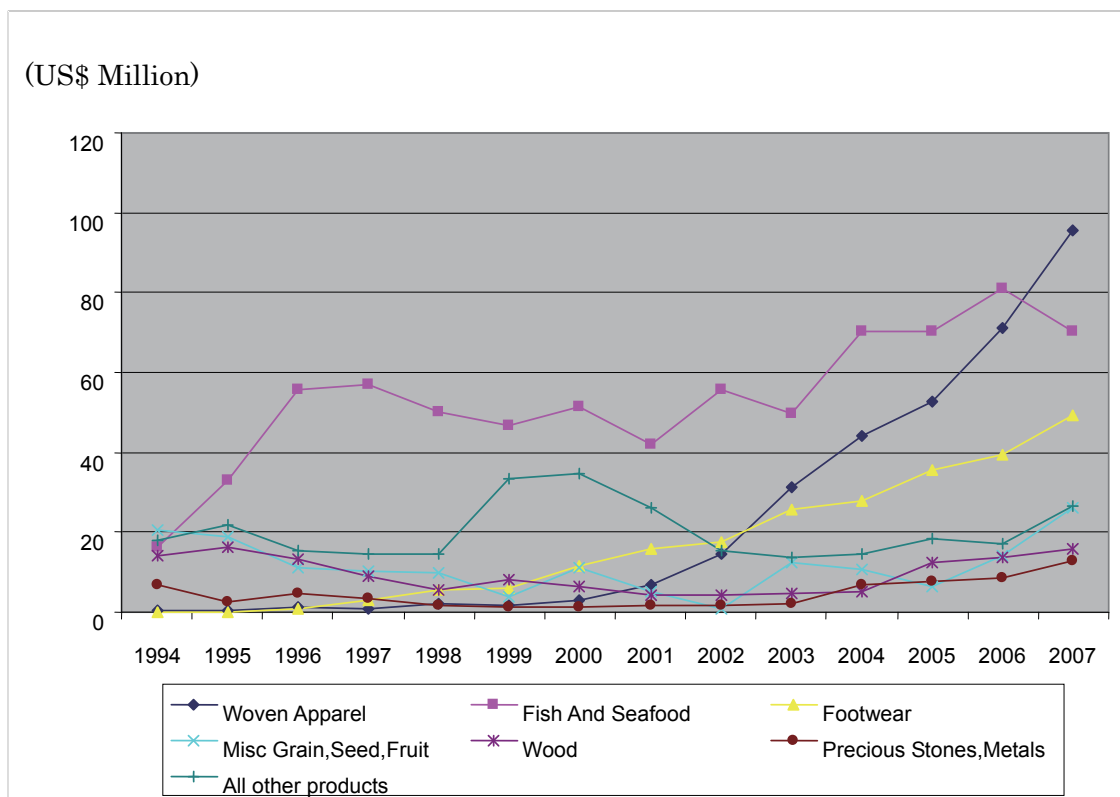


Source: World Trade Atlas.

Japan's imports from Myanmar by commodity groups are shown in Figure 13. Fish and seafood had long occupied a large share of Japan's imports from Myanmar. The volume of fish and seafood still represents significant amount of Japanese imports from the country. After 2002, woven apparel and footwear accounted for a bigger share of

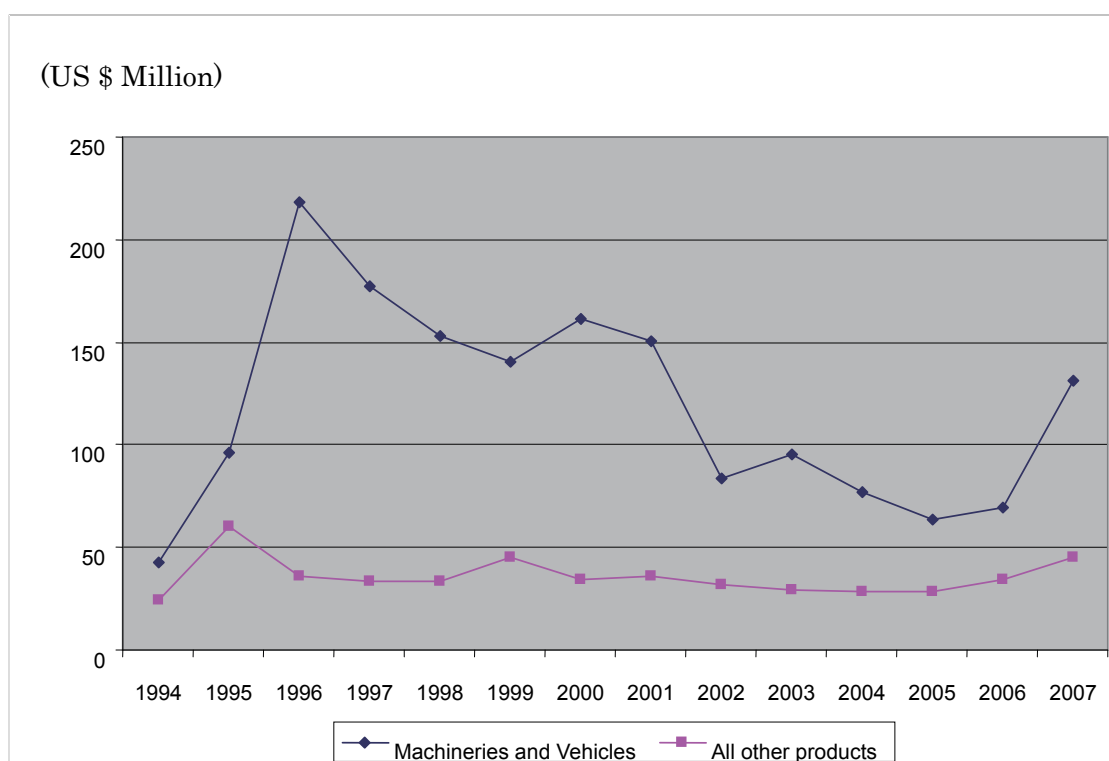
Japan's imports. Specifically, the volume of woven apparel products imported by Japan from Myanmar sharply increased after 2003; this trend is expected to continue in the future. It surpassed the imports of fish and seafood in 2007. Wood, precious stones, and all other products imported from Myanmar remained under US\$ 20 million per year.

Figure 13: Japan's Imports from Myanmar, by Commodity



Source: World Trade Atlas.

On the other hand, Japan's exports of machineries and vehicles to Myanmar were the same as for the other CLMV countries.

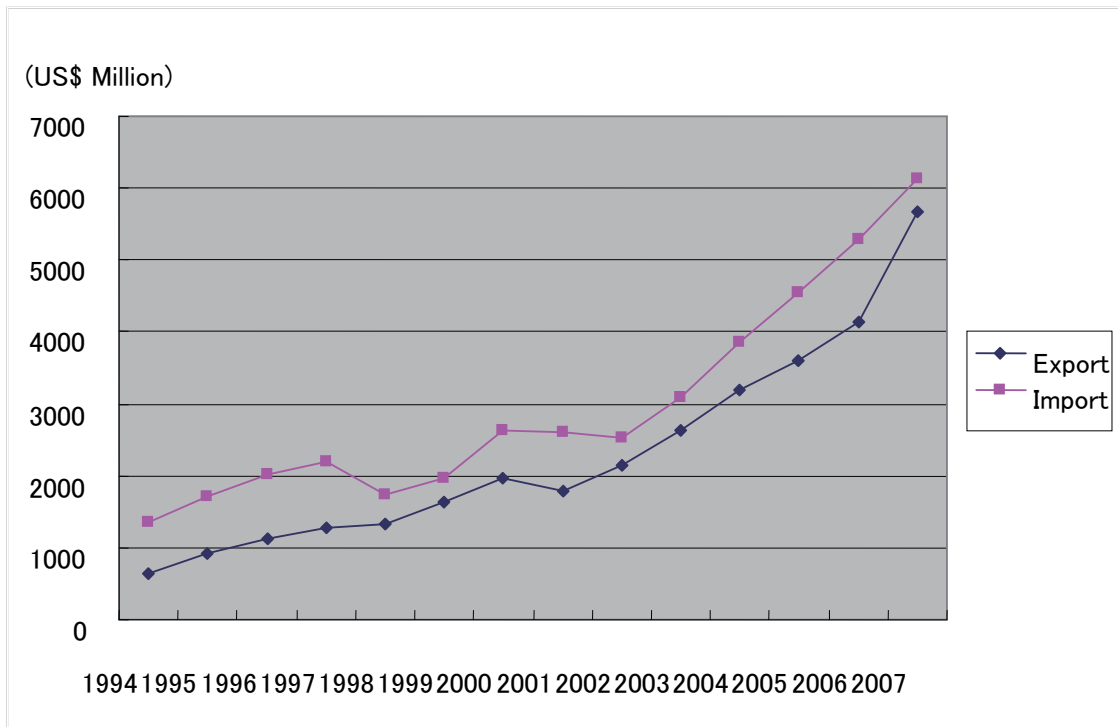
Figure 14: Japan's Exports to Myanmar

Source: World Trade Atlas.

5.3.4 Japan's Trade with Vietnam

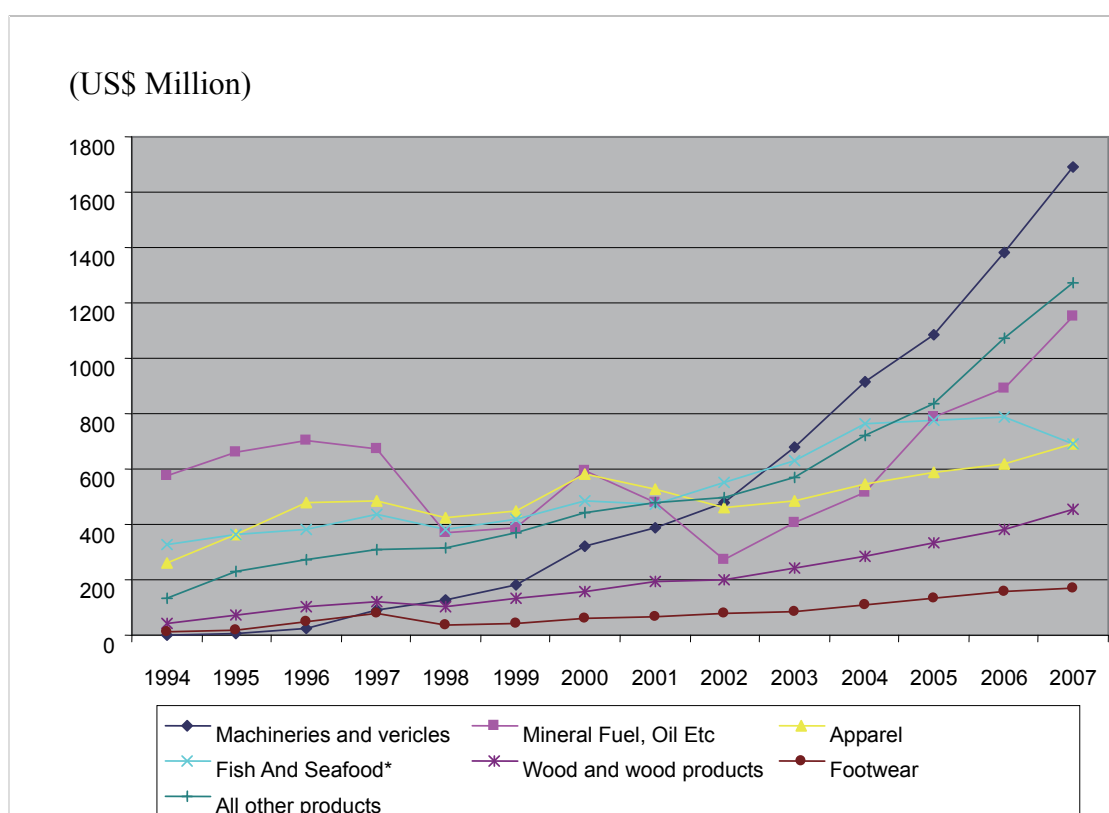
Vietnam is a major trading partner for Japan in terms of exports and imports. It was ranked 24th in Japanese imports and 25th in Japanese exports. Japan's imports from Vietnam represented more than 90 percent of Japan's imports from CLMV while its exports to Vietnam accounted for over 80 percent of Japan's exports to CLMV.

Japan's trade relations with Vietnam strengthened since 2002 for both imports and exports. Even though imports and exports show an upward trend, Japan's imports from Vietnam have been always greater than its exports to Vietnam.

Figure 15: Japan's Trade with Vietnam

Source: World Trade Atlas.

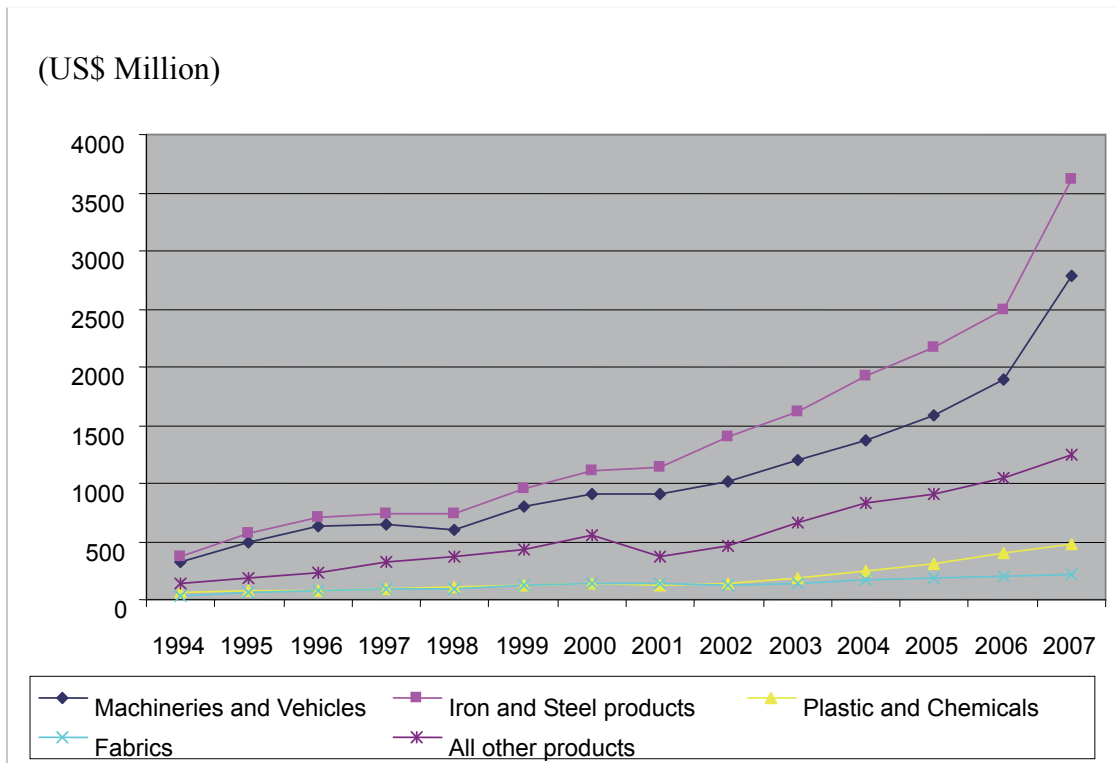
As seen in Figure 16, mineral and fuel, fish and seafood, and apparel products played a dominant role in Japanese imports from Vietnam up to 2002. However, starting 1998, the volume of machinery and vehicle products increased remarkably and surpassed all other imported products after 2002. Vietnam was the only country in CLMV that could export capital and intermediate products like machinery and vehicles to Japan.

Figure 16: Japan's Imports from Vietnam

Note: *Fish and seafood include processed and prepared fish and meat.

Source: World Trade Atlas.

Japan exported mainly iron and steel products to Vietnam. As in the case of other CLMV countries, machinery and vehicles were also major export products to Vietnam. Japan's exports of iron, steel, machinery, and vehicle products gradually increased from 1994 to 2002 and then sharply increased up to 2007. Exports of fabrics, plastic, and chemical products also gradually increased, but still remained at a low level of less than US\$ 500 million per year. The volume of other exported products also gradually increased.

Figure 17: Japan's Exports to Vietnam

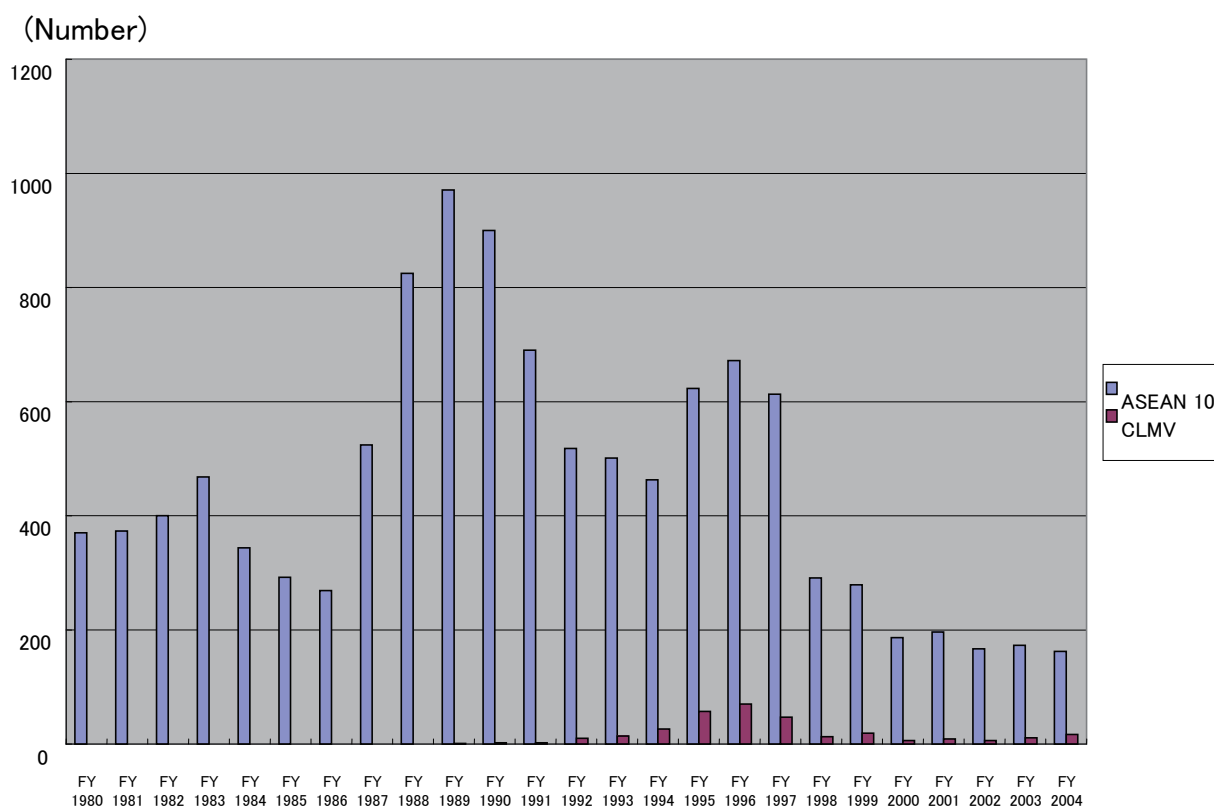
Source: World Trade Atlas.

All in all, Japan imported from CLMV not only natural resources but also labor-intensive, manufactured products such as clothes and footwear, the latter of which has a broader impact on CLMV's economic and industrial development in terms of employment and technology transfer. Japan is now heavily dependent on China's supplies of such daily products, but it can offer a huge domestic market of such items to CLMV producers as well. To open Japanese markets to CLMV products is critically important to enhance bilateral trade between Japan and CLMV in the future.

5.4 Japan's Investment in CLMV

While Japanese firms vigorously invested in the original ASEAN economies throughout the 1980s and the latter half of the 1980s in particular, they started investing in CLMV only in the 1990s and thereafter. According to the figures from Japan's Ministry of Finance, the first investment of a Japanese firm in Vietnam was recorded in 1989. After that, Japanese investments in CLMV gradually increased and reached a peak of 70 cases in 1996, accounting for approximately 10 percent of Japanese investments to the whole ASEAN. However, after the Asian Economic Crisis of 1997, Japanese investments in CLMV substantially declined as did those to the original ASEAN countries.

Figure 18: Japanese Foreign Investments in ASEAN and CLMV, Number



Source: Japanese Ministry of Finance

Among CLMV, Vietnam attracted the most Japanese investors since the mid-1990s and up to present while Cambodia, Laos, and Myanmar are not yet major host countries for Japanese investors. A detailed picture for CLMV follows:

5.4.1 Japanese Investment in Cambodia

Cambodia received FDI at a yearly average of US\$ 225.7 million between 2000 and 2004. However, the FDI inflows to Cambodia suddenly increased, and it received US\$ 1050.2 million in 2005 and US\$ 4414.8 million in 2006. According to Dr. Chap's chapter in this volume, Cambodia received FDI equivalent to 4.7 percent of its GDP between 1998 and 2003, and this figure was the second highest among the ASEAN countries, coming behind Singapore with 5.9 percent. Cambodia has been attracting an increasing number of foreign investments recently.

However, Japan accounted for a negligible share (0.2 percent) of total FDI in Cambodia between 2000 and 2006. In contrast, China accounted for 36.6 percent, followed by Korea (32.0 percent), and the ASEAN (13.4 percent).

Table 10: Foreign Direct Investments in Cambodia, Approved Based, Share (%)

	2000	2001	2002	2003	2004	2005	2006
ASEAN	32.3%	47.5%	18.1%	23.9%	20.9%	19.4%	7.3%
China	17.7%	3.6%	16.7%	51.7%	57.0%	66.3%	30.7%
Hong Kong	3.0%	0.8%	1.1%	8.3%	0.0%	0.2%	0.2%
Taiwan	11.8%	40.8%	4.7%	2.0%	9.7%	1.5%	2.0%
Korea	12.1%	1.5%	54.6%	3.7%	3.5%	8.2%	43.3%
Japan	0.1%	0.0%	1.5%	0.0%	1.5%	0.0%	0.1%
American Continent	7.9%	4.2%	2.2%	0.0%	4.0%	1.4%	2.9%
European	13.7%	1.4%	1.1%	9.4%	3.5%	2.1%	13.5%
Others	1.3%	0.0%	0.0%	1.0%	0.0%	0.9%	0.0%
FDI Total (USD Million)	218.0	204.7	237.7	251.2	216.9	1050.2	4414.8

(Source) The Council for the Development of Cambodia.

Japanese investors are said to be more sensitive than other Asian countries' enterprises to good governance, policy consistency and predictability, and law enforcement. Lack of these factors hinder Japanese firms from investing in Cambodia. In order to improve investment climate in Cambodia, then Prime Minister Shinzo Abe and Cambodian Prime Minister Hun Sen, signed the "Agreement between Japan and the Kingdom of Cambodia for the Liberalization, Promotion, and Protection of Investment" on June 14, 2007 in Tokyo. Under this agreement, Japanese firms are entitled to be treated equally in terms of regulation and taxation as Cambodian firms when they invest in Cambodia. Moreover, Cambodia committed to combat an alleged corruption problem. Such efforts are expected to promote Japanese investments in Cambodia in the near future.

5.4.2 Japanese Investment in Laos

Laos received 919 foreign investment projects with a total amount of US\$ 5,572.2 million from 2001 to March 2007. In terms of amount, Thailand was the top investor with US\$ 1,334.1 million, occupying 23.9 percent of total foreign investments, followed by China with US\$ 763.6 million (13.7 percent), Vietnam with US\$ 463.4 million (8.3 percent), and France with US\$ 419.1 million (7.5 percent). Thailand has long been a top investor in Laos due to geographical proximity, cultural and language similarities, and economic and industrial complementarities.

However, in terms of number of investments, China ranked 1st with 223 projects between 2001 and March 2007, followed by Thailand with 157 projects, and Vietnam with 157 projects. China has invested more rapidly in Laos in recent years. Thailand and China are currently the two major investors in Laos.

In contrast, Japanese investments in Laos have been slow. There were 29 Japanese investment projects with a total amount of US\$ 418.4 million for the same period, accounting for only 3.2 percent in the number of projects and 7.5 percent in total amount approved. In order to promote Japanese investments in Laos, Japan and Laos signed the “Agreement between Japan and the Lao People’s Democratic Republic for the Liberalization, Promotion, and Protection of Investment” on January 16, 2008 in Tokyo. As in the case of Cambodia, such efforts are expected to promote Japanese investments in Laos in the near future.

Table 11: FDI inflows to Laos, 2001 to March 2007

No	Country	Number	Amount (US\$ Million)
1	Thailand	157	1,334.1
2	China	223	763.6
3	Vietnam	105	463.4
4	France	53	419.1
5	Japan	29	418.4
6	India	3	350.2
7	Australia	24	317.7
8	South Korea	99	274.2
9	Singapore	19	96.2
10	Malaysia	30	82.1
	Others	177	1,053.2
	Total	919	5,572.2

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5.4.3 Japanese Investment in Myanmar

In terms of ranking, Japan is not an important investor in Myanmar since its major foreign investment source countries are from the neighboring countries, including the ASEAN and China. According to data from the Ministry of National Planning and

Economic Development (MNPED) as of August 2007, Japan ranked 12th in foreign investments received by Myanmar, which represents only 1.5 percent share of Myanmar's total foreign investments. Japan's investment in Myanmar was significantly smaller than those of Hong Kong (ranked 5th), China (ranked 6th), and South Korea (ranked 9th).

Japanese investments were quite active in the first half of the 1990s. However, after the Asian Economic Crisis of 1997, they became dormant, and there were no new investments from Japan after 2005.

Up to August 2007, 22 Japanese investment projects were approved by the Myanmar Investment Commission (MIC). Of these, two projects terminated their operations, leaving 20 projects existing in Myanmar (Table 13). There are 11 Japanese investments in the manufacturing sector. Even though Japanese investments in Myanmar are rather small, Japan is one of the major investors in manufacturing. Japanese firms are more interested in the labor-intensive manufacturing sectors. However, unlike Chinese and Korean investors, they were not very successful in natural resources development, such as exploration and exploitation of natural gas and construction of hydropower plants. In reality, Myanmar's natural resources are a hot target of other Asian countries' investors including China, India, and Thailand.

Table 12: FDI inflows to Myanmar

(US\$ Million)

No	Country	1989-1996	1997-2004	2005	2006	2007	Total
1	Thailand	1,027	314	6,034			7,376
2	U.K	1,332	148		273		1,753
3	Singapore	1,213	333		81		1,626
4	Malaysia	462	198				661
5	Hong Kong	403	101				504
6	China	29	165	1	281		475
7	France	470	0				470
8	U.S.A	244	0				244
9	Indonesia	211	31				241
10	South Korea	70	122		37	12	240
11	The Netherlands	238	1				239
12	Japan	167	45				212
13	Philippine	7	140				147
14	India	0	5	31	48		83
15	Australia	40	42				82
16	Austria	73	0				73
17	Canada	33	7				40
18	Russia	0	0		33		33
19	Panama	0	29				29
20	Germany	15	0				15
21	Denmark	13	0				13
22	Cyprus	0	5				5
23	Macau	2	2				4
24	Vietnam	0	4				4
25	Switzerland	0	3				3
26	Bangladesh	3	0				3
27	Israel	0	2				2
28	Brunei	0	2				2
29	Srilanka	1	0				1
	Total	6,052	1,699	6,066	753	12	14,581

(Note) 2007 includes figures from January to August.

(Sources) Myanmar Investment Commission (MIC).

Table 13: Japan's existing investments in Myanmar (as of August 2007)

(US \$ Million)

No.	Business sector	No. of projects undertaken	Approved Amount
1	Fisheries	2	13.727
2	Manufacturing	11	44.383
3	Hotel and Tourism	3	68.000
4	Real Estate	1	31.313
5	Industrial Estate	1	12.000
6	Others	2	1.966
Total		20	171.389

Source: Ministry of National Economic Planning and Development

5.4.4 Japanese Investment in Vietnam

Japan is one of earliest and biggest foreign investors in Vietnam. The contribution of Japanese FDI in terms of percentage of disbursed and registered capital volume is higher than that of any other investor countries. Aside from this, there are many Japanese investors registered as originating from other third countries and territories. These investments were made by Japanese-affiliated firms in third countries.

Japanese FDI inflows to Vietnam started in 1989 through a project establishing the Mekong Auto Corp. Japanese investments increased considerably after 1994 when the U.S. embargo against Vietnam was lifted. The first Japanese FDI boom in Vietnam reached its peak in 1996 and then decreased until 1999. The lost growth momentum of Vietnam economy, the impact of Asian Economic Crisis of 1997, and

Table 14: FDI in Vietnam by Top Five Investor Countries, 1988 – March 2007

(US\$ Million, Implemented Capital)

Ranking	Country/ Territory	Number of projects	Registered capital	Legal capital	Disbursed capital
1	Japan	903	8,772.1	3,754.7	5,202.9
2	Singapore	529	9,695.5	3,496.5	4,068.7
3	Taiwan	1,739	9,655.5	4,242.9	3,172.6
4	Republic of Korea	1,655	n.a.	4,594.9	2,946.3
5	Hong Kong	432	5,685.3	2,095.5	2,326.1

Source: Department of Foreign Investment, Ministry of Planning and Investment, Vietnam.

Japanese firms' discontent with Vietnam's investment climate have been claimed as the causes of this decline.

Japanese FDI inflows again increased starting 2000. Then Vietnam Prime Minister Phan Van Khai and former Japan Prime Minister Koizumi signed the "Japan-Vietnam Joint Initiative to Improve the Business Environment with a View to Strengthening Vietnam's Competitiveness" in April 2003. Eventually, the "Agreement between Japan and the Socialist Republic of Vietnam for the Liberalization, Promotion, and Protection of Investment" was signed in November 2003. The former contributed to betterment of the investment climate in Vietnam, and the latter gave more confidence Japanese investors in Vietnam's investment environment. Thus, Japanese FDI inflows have considerably accelerated. The investment promotion and protection agreement between Japan and Vietnam was the first one Japan signed with the CLMV countries. As previously mentioned, Cambodia and Laos followed Vietnam's initiative afterwards.

Table 15 : Japanese FDI in Vietnam, 1988 – Oct. 2007

Year	Number of projects		Amount of capital (in mill US dollars)	
	Cumulative	New	Cumulative	New
1988-93	50	--	378.4	--
1994	76	26	679.0	300.6
1995	n.a.	n.a.	1130.0	451.0
1996	177	n.a.	2400.1	1270.1
1997	236	59	3037.5	637.4
1998	256	20	3299.1	261.6
1999	270	14	3360.6	61.5
2000	296	26	3441.2	80.6
2001	336	40	3604.2	163.0
2002	385	49	3706.8	102.6
2003	493	108	4032.5	325.7
2004	551	58	6211.4	2178.9
2005	684	133	6907.2	695.8
2006	838	154	8397.6	1490.4
2007	903	65	8772.1	374.5

Source: Ministry of Planning and Investment and General Statistic Office of Vietnam.

Vietnam ranked 8th on the list of top destinations for Japanese investments in 2000. It jumped to 4th rank in 2005 after China, India, and Thailand. Japanese FDI projects in Vietnam are mostly motivated by market-seeking and efficiency-seeking incentives.

Japanese enterprises usually take into account such factors as Vietnam's economic growth rate, availability of skilled labor, and industrial clusters, when they decide to invest. Vietnam's political, social, and exchange rate stabilities also attract Japanese investors. Vietnam has become a popular investment destination for Japanese firms seeking to reduce their excessive dependence on China (i.e., China+1 strategy).

Nevertheless, the lack of skilled workers, middle-level managers, and engineers (especially mechanical and electronic engineers) in Vietnam do not satisfy Japanese investors. Moreover, there is a shortage of Japanese-speaking staff in Vietnam.

Japanese FDI projects are mostly located in the northern and southern pivotal economic regions of Vietnam. A large number of Japanese FDI projects are in manufacturing concerns. There are also quite a number of projects in the service sectors, including construction, logistics, hotels and restaurants, but few in agriculture, aquaculture, and the mining industry. Recently, there has been a surge of Japanese investments in Vietnam's electronics and telecommunications industries.

Japanese manufacturing FDI enterprises tend to commit high localization. Many commitments, however, could not be realized due to the underdevelopment of Vietnam's supporting industries. Regarding technology transfer, almost all Japanese manufacturing and construction enterprises have transferred assembly, operating, maintenance and quality control technology to Vietnam. However, they failed to transfer more advanced and complex technologies to local business partners and workers in Vietnam. Technology diffusion from Japanese companies to Vietnamese firms has generally been rather slow.

Many Japanese firms are interested in investing in CLMV. However, most of them are still in the stage of gathering information, planning and doing feasibility studies,

except the case of Vietnam where Japanese firms are already vigorously doing business. On the other hand, CLMV governments are also trying to attract and promote Japanese investments in their countries by, for example, signing investment promotion and protection agreements with the Japanese government. More and more Japanese investments will be coming to CLMV countries in the near future, and they are expected to contribute to the host countries' economic and industrial development in the long run.

6. CONCLUDING REMARKS

Japan has played an important role in economic cooperation with CLMV. The present approach of Japanese economic cooperation is on a country-by-country basis. In contrast, the New Concept of Mekong Region Development is a new attempt based on regionwide development. This development concept appeared in Japan's ODA Charter, which was revised in 2003. Japan will continue to develop economic and social infrastructure that are in great demand in CLMV countries and provide assistance to promote sustained growth according to the New Concept.

While Japan, along with Thailand, is a top donor in CLMV, Japan's regionwide development strategy and plan for these areas are not yet clear. To implement regionwide development efficiently and effectively, it is essential to pursue studies related to regional public goods provided by regionwide development. In this sense, the Mekong Region Development Scheme provides an important opportunity for China, Japan, and Korea to cooperate. Through the cooperation process of these three countries and the ASEAN, East Asia's sustainable growth will be ensured.

Another challenge for Japan is to promote its trade and investment with CLMV countries. Japan's trade and investment relations with CLMV have been relatively weak.

However, Japan recently increased its imports from CLMV and showed an increasing interest in investing in those countries. Japan has been importing from CLMV not only natural resources but also labor-intensive products such as clothes and footwear, the latter of which is said to have a broader impact on exporting economies in terms of employment creation and technology transfer. Japan is currently heavily dependent on China's supplies of such items and has been trying to diversify its procurement source countries. Accordingly, Japan can offer its markets to CLMV, and this will significantly contribute to CLMV's economic and industrial development in the long run. Japanese investments in CLMV will also contribute to export promotion of their products in Japan. Both the Japanese and CLMV governments are exerting effort to promote foreign investments by, for example, signing investment promotion and protection agreements between them. Such efforts to promote trade and investment between Japan and CLMV will bear their fruits in the near future.

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