

# Chapter 8

## Korean's Economic Relations with CLMV Countries

**Jaewan Cheong**

Korean Institute for International Economic Policy

March 2008

**This chapter should be cited as**

Cheong, J. (2008), 'Korean's Economic Relations with CLMV Countries', in Sotharith, C. (ed.), *Development Strategy for CLMV in the Age of Economic Integration*, ERIA Research Project Report 2007-4, Chiba: IDE-JETRO, pp.262-297.

## Chapter 8

# KOREA'S ECONOMIC RELATIONS WITH CLMV COUNTRIES

*Jaewan Cheong*

### ABSTRACT

Korea's diplomatic relations with Cambodia, Laos, Myanmar, and Vietnam (CLMV) started to normalize in the 1990s. From then on, the CLMV countries have risen to become Korea's principal target in external trade and overseas direct investment (ODI). Especially in ODI, tourism, and official development assistance (ODA), the CLMV countries have been rapidly rising as preferred destinations of Korea. Vietnam, in particular, has become one of Korea's major destinations of ODI after the two started forming friendly relations in 1992. The economic cooperation between the two areas has indeed been showing signs of expansion and this is envisaged to continue as long as the economic growth of Korea and CLMV countries continues. For Korea, this can be made possible through the expansion of ODA support and continued application of the Generalized System of Preference to less developed countries, as well as the improvement of its trade imbalance. For CLMV countries, required action points include the development of human resources, improvement of foreign investment environment, systematization and development of aid management organizations, restructuring of state-owned enterprises, promotion of private sector participation, and development of the financial and capital markets. Clearly, the challenge to sustain economic growth is more daunting for CLMV countries given their lower state of economic development. Strengthening the economic cooperation between Korea and CLMV countries could help the latter address this challenge.

### 1. INTRODUCTION

Cambodia, Laos, Myanmar, and Vietnam—known collectively as CLMV—are rapidly getting the attention of many as the newly rising economic circle in Asia due to their investment advantages (e.g., abundant natural resources, and inexpensive labor power). Their pursuit of economic reforms to achieve progress and development by embracing an open door policy as manifested in their joining the World Trade Organization (WTO) recently has added more to their growing popularity in the region. Cambodia and Vietnam joined the WTO successively (in 2004 and 2007, respectively) while Laos is seeking admission. (On the other hand, Myanmar was a GATT member and a member

of the WTO since the latter came into being in 1995) Accordingly, the economic system of these countries is changing rapidly, including their foreign trade and investment environment.

Necessary for the steady development of the ASEAN+3 and the formation of an economic community in East Asia is the dissolution of development gaps within the region, which continue to rise. These development gaps between the more advanced developing countries and the least developed ones as represented by the CLMV countries are at a serious level. The expansion of these gaps has grave consequences on the process of economic integration in East Asia.

Simultaneous with the rising economic importance of the CLMV countries is the rapidly increasing economic cooperation between Korea and the CLMV countries. This is manifested not only in trade and overseas direct investment (ODI) but also in the cooperation between and among their governments. Especially in ODI, tourism, and official development assistance (ODA), the CLMV area is rapidly rising as a newly emerging market.

This research focuses on the economic cooperation between Korea and the CLMV countries over the years. It analyzes the scope of this cooperation and suggests policies for its expansion. The first section examines the international trade policies of Korea and strategies concerning CLMV countries. Then, the trade and investment of Korea to CLMV countries through the private sector is analyzed in a second section. The next section examines the economic cooperation between Korea and the CLMV countries at the government level. It discusses the ODA policy of Korea, which became official in the 1980s through the establishment of the Economic Development Cooperation Fund and later on, the grant-type ODA. The fourth section makes an evaluation of the economic cooperation relationship between Korea and the CLMV countries. The final section provides some policy recommendations that are necessary for expanding such cooperation.

## **2. KOREAN INTERNATIONAL TRADE POLICIES AND STRATEGIES CONCERNING CLMV COUNTRIES**

During the 1950s, there was no significant international trade policy in Korea as the country was heavily dependent on foreign aids. Significant transformations came,

however, beginning the 1960s, when the economic development path of Korea has centered on international trade, especially exports. From 1964, when exports totaled almost USD100 million, and up to the present, Korea's export growth rate was as high as over 20 percent in yearly average. Accordingly, Korea has found its place among the 12 largest exporting countries. Export has especially played a critical role in its economic growth and job creation. The international trade policies of the Korean government have accounted for this highly recognized success along with many other factors, such as its strong emphasis on training and education toward a well-trained labor force. Moreover, it was in the 1960s when the foundation for the many trade policies in Korea such as import and export measures, and trade diplomacy, among others, were established. In particular, during this period, the economic growth strategy shifted from the import-substitution type to the export-orientation type.

In the 1970s, the export promotion policies that were started in the previous decade were continued and intensified, and other policies that encouraged exports were implemented. Then, in the 1980s, the ballooning trade surplus and increasing trade pressures triggered the government to adopt a trade liberalization policy. While import liberalization areas were widened, advancement and globalization of trade management system were carried out.

In the 1990s, in addition to the trade sector, Korea opened its political, economic, cultural, and social sectors. Upon closing of the Uruguay Round in 1993 and its accession to the Organization for Economic Co-operation and Development, otherwise known as OECD, an omni-directional opening of the country proceeded. Korea even extended trade diplomacy with northern countries, then Communist ones. Korea formed diplomatic relations with Vietnam in 1992, with Laos in 1995, and with Cambodia in 1997. Then, beginning year 2000, the Korean government pursued simultaneous multilateral free trade agreements (FTAs) with these countries and provided support to companies to move toward globalization. In the same year, the Generalized System of Preferences (GSP) has been introduced as a means to support the industrialization and economic development of developing countries. Among the CLMV countries, Cambodia, Laos, and Myanmar are receiving GSP from Korea.<sup>1</sup>

---

<sup>1</sup> GSP refers to the preferential system of tariff by developed countries in which a tariff rate lower than the regular rate (in other words, the most favored nation [MFN] tariff rate) or no tariff is imposed on goods imported from developing countries or those that are especially classified as least

Meanwhile, Korea's ODI has seen its active start from the late 1980s when international trade surplus began to accumulate. Previously, the overseas investment policy was limited to secondary measures for boosting exports or developing resources that the country did not produce.

Up to 1979, Korea's overseas investment policy was a policy-initiating process and then it became a policy-adjusting process from 1980 to 1985. From 1986, the Korean government started to deregulate ODI as the won (Korean currency) appreciated, domestic wage increased, and aggravating trade conflicts from international trade surplus came to surface. In particular, the government adopted the Negative List System in ODI. From 1991 to the onset of the East Asian crisis, the Korean government encouraged ODI not only in the aspect of management of international trade balance but also in the aspect of industrial policy. Because of these changes in policy, the relocation of labor-intensive industries was accelerated. Around that time, the Indochina region was opened to outsiders and it therefore emerged as Korea's new investment destination. Since 1999, the private sector has been the leading source of ODI as procedures, regulations, and preconditions related to the overseas investments have been relaxed. The government has also been very active in providing ODI since 2005.

Thus, it was during the late 1980s when Korea pursued external economic expansion in terms of broadening its international trade policy, which was also the same time when the CLMV countries started to open their market. When CLMV countries tried to transform into a market-oriented economy and sought for economic reforms, Korea restored its diplomatic relations with these countries. Since then, trade and investment between these two regions has considerably increased.

### **3. ECONOMIC COOPERATION WITH CLMV COUNTRIES: PRIVATE SECTOR**

#### **3.1 Trade sector**

Trade between Korea and CLMV countries started to grow when the Indochina region opened its door to outsiders and restored its diplomatic relations with Korea. Before that,

---

developed countries in order to promote export expansion and industrialization in these countries. GSP plays a key role in supporting the "industrialization through export" strategy of developing countries. Korea is currently applying GSP in 49 least developed countries including 13 countries in Asia, 34 countries in Africa, 1 country in the American continent, and 1 country in the Middle East.

only Myanmar had trade relations with Korea, albeit somehow insignificant. Particularly due to the restoration of diplomatic relations and the effects of the *Doi Moi* reforms that invigorated the Vietnamese market and made it the newly emerging market in the region, the trade between Korea and Vietnam has shown a rapid growth. Over the years, the trade between these two countries has risen steadily although it fell in the narrow range right after the East Asian crisis. Trade volume amounted to USD 1,998 million in 1996 right before the East Asian crisis and totaled USD5,320 million as of 2006. Nevertheless, the CLMV region takes up only 0.84 percent of Korea's total foreign trade since its total trade has grown rapidly and its trade size with China, Japan, and the US has expanded.

While Korea's trade with Myanmar has continued, the other countries were out of the picture for a while when the communist regimes took charge in the Indochina region.

**Table 1: Korea's trade with CLMV by year (1996~2006)**

		(US\$ in million, %)										
		1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Cambodia	Volume	0	54	63	85	98	109	118	110	133	150	210
	Growth Rate			16.7	34.9	15.3	11.2	8.3	-6.8	20.9	12.8	40.0
Laos	Volume	10	9	5	12	5	6	4	8	10	16	41
	Growth Rate		-10.0	-44.4	140.0	-58.3	20.0	-33.3	100.0	25.0	60.0	156.3
Myanmar	Volume	148	154	161	203	312	283	199	213	192	176	217
	Growth Rate	48.0	4.1	4.5	26.1	53.7	-9.3	-29.7	7.0	-9.9	-8.3	23.3
Vietnam	Volume	1,831	1,842	1,545	1,709	2,008	2,118	2,710	3,072	3,929	4,126	4,852
	Growth Rate	18.5	0.6	-16.1	10.6	17.5	5.5	28.0	13.4	27.9	5.0	17.6
CLMV	Volume	<b>1,989</b>	<b>2,059</b>	<b>1,774</b>	<b>2,009</b>	<b>2,423</b>	<b>2,516</b>	<b>3,031</b>	<b>3,403</b>	<b>4,264</b>	<b>4,468</b>	<b>5,320</b>
	Growth Rate	<b>20.9</b>	<b>3.5</b>	<b>-13.8</b>	<b>13.2</b>	<b>20.6</b>	<b>3.8</b>	<b>20.5</b>	<b>12.3</b>	<b>25.3</b>	<b>4.8</b>	<b>19.1</b>
CLMV/World		<b>0.71</b>	<b>0.73</b>	<b>0.79</b>	<b>0.76</b>	<b>0.73</b>	<b>0.86</b>	<b>0.96</b>	<b>0.91</b>	<b>0.89</b>	<b>0.82</b>	<b>0.84</b>
ASEAN/World		11.56	11.72	10.84	11.37	11.51	11.10	11.18	10.39	9.70	9.80	9.74

Source: Korea International Trade Association (KITA).

**Table 2: Korea's exports to and imports from CLMV by country and year (1995~2006)**  
(US\$ in million)

	Cambodia		Laos		Myanmar		Vietnam	
	Export	Import	Export	Import	Export	Import	Export	Import
1995					87	13	1,351	194
1996			8	2	130	18	1,599	232
1997	52	2	7	2	137	17	1,603	239
1998	62	1	5	0	148	13	1,361	184
1999	80	5	10	2	187	16	1,445	264
2000	96	2	4	1	289	23	1,686	322
2001	102	7	6	0	232	51	1,732	386
2002	115	3	4	0	143	56	2,240	470
2003	106	4	8	0	184	29	2,561	511
2004	126	7	9	1	162	30	3,256	673
2005	144	6	14	2	120	56	3,432	694
2006	205	5	23	18	121	96	3,927	925

*Source:* Korea International Trade Association (KITA).

Trade between Korea and the other countries was reactivated only after the Indochina region opened its door and started to convert to the market economic system.

Trade with Cambodia started in 1997 when the two countries restored their diplomatic relation. If the volume of trade was only USD 54 million in 1997, this has increased almost four times to USD 210 million by 2006. Korea has maintained trade surplus with Cambodia, which continues to rise.

Korea and Laos reestablished their diplomatic relation in 1995 and started trading the following year. While there has been trade between the two countries before, the volume was very small. However, from USD 10 million in 1996, this has increased to USD 41 million by 2006. Korea's trade surplus with Laos has been steadily expanding.

Trade between Korea and Myanmar has been ongoing since the 1960s but in small quantity. Things changed in the 1990s when the two countries began to trade actively. The trade volume, which was USD 100 million in 1995, reached an all-time high of USD 312 million in 2000. As of 2006, it was estimated at USD 217 million. Korea has been maintaining trade surplus with Myanmar as well.

**Table 3: Korea's exports to CLMV countries by commodity (2006)**  
(US\$ in thousand)

Cambodia			Laos		
MTI code	Commodity	Value	MTI Code	Commodity	Value
	Total Sum	205,093		Total Sum	23,328
43	Fabrics	82,122	74	transporter	18,928
44	made-up textiles	39,437	81	industrial electronic articles	693
74	Transporter	36,185	84	heavy electric equipment	575
81	industrial electronic articles	6,696	32	articles of rubber	435
62	nonferrous metal products	6,499	61	articles of iron or steel	396
72	special machine	6,498	22	precision chemistry	309
22	precision chemistry	4,694	71	general machine	308
33	articles of leather or fur	2,306	1	agricultural products/farm produce	247
71	general machine	2,123	83	electronic components	245
42	Yarn	1,906	43	fabrics	240
Myanmar			Vietnam		
MTI code	Commodity	Value	MTI Code	Commodity	Value
	Total Sum	121,311		Total Sum	3,927,476
43	Fabrics	18,945	43	fabrics	639,949
72	special machine	17,537	13	mineral fuels	524,815
21	Petrochemicals	13,918	61	articles of iron or steel	350,409
61	articles of iron or steel	9,226	21	petrochemicals	324,510
31	articles of plastic rubber or leather	9,084	81	industrial electronic articles	314,941
44	made-up textiles	8,688	72	special machine	214,371
33	articles of leather or fur	7,455	62	nonferrous metal products	212,512
22	precision chemistry	7,345	74	transporter	169,795
25	materials of paper or articles of paper	4,313	22	precision chemistry	167,202
51	miscellaneous goods/sundries	3,323	44	made-up textiles	123,417

Source: Korea International Trade Association (KITA).

Korea has been trading with Vietnam since the 1980s although the volume was small. Changes occurred, however, in 1986 when Vietnam took the road to reform and opened its market. In 1992, the diplomatic relation between the two countries was revived and since then, significant improvements in trade were seen. In 1991, trade volume amounted to USD 240 million but this has increased almost 20 times to USD 4,852 million as of 2006. Same with the others, Korea has been maintaining trade



**Table 4: Korea's imports to CLMV countries by commodity (2006)**  
(US\$ in thousand)

Cambodia			Laos		
MTI code	Commodity	Value	MTI code	Commodity	Value
	Total Sum	5,461		Total Sum	17,760
44	made-up textiles	3,549	62	nonferrous metal products	14,211
74	Transporter	853	51	miscellaneous goods/sundries	1,578
62	nonferrous metal products	430	1	agricultural products/farm produce	1,125
3	forest products	204	3	forest products	615
51	miscellaneous goods/sundries	97	44	made-up textiles	231
1	agricultural products/farm produce	71			
33	articles of leather or fur	69			
63	table wares	61			
81	industrial electronic articles	43			
4	fishery products	13			
Myanmar			Vietnam		
MTI Code	Commodity	Value	MTI Code	Commodity	Value
	Total Sum	96,433		Total Sum	924,856
13	mineral fuels	50,738	4	fishery products	206,482
44	made-up textiles	18,411	44	made-up textiles	88,161
3	forest products	15,455	1	agricultural products/farm produce	87,479
1	agricultural products/farm produce	5,140	42	Yarn	84,689
4	fishery products	4,715	51	miscellaneous goods/sundries	83,406
51	miscellaneous goods/sundries	724	3	forest products	71,455
59	other livingware	223	52	Furniture	54,608
52	Furniture	172	13	mineral fuels	46,511
74	Transporter	160	84	heavy electric equipment	23,895
72	special machine	138	43	Fabrics	19,154

Source: Korea International Trade Association (KITA).

surplus with Vietnam, which amounted to USD 3 billion in 2006. This can be attributed to the rapidly increasing ODI from Korea to Vietnam.

Korea's export items to CLMV countries (MTI, 2 units) follow a similar pattern for each country. In general, the foremost item is fabrics followed by mineral fuels, articles of iron or steel, industrial electronic articles, special machine, and transporter. Only in Laos is transporter the number one item.

In contrast with its export pattern, Korea's import pattern varies with each country. Made-up textiles take up over 60 percent of Korea's import from Cambodia, followed by transporter. Most of its import from Laos, meanwhile, is nonferrous metal products. Mineral fuels take up half of its total import from Myanmar, followed by fabrics and forest products. Fishery products including shrimp are Korea's foremost import item from Vietnam, followed by fabrics, agricultural products/farm produce, yarn, and miscellaneous goods/sundries.

## **3.2 Overseas Direct Investment (ODI)**

### *3.2.1 Overall feature*

Korea's ODI has been active since the late 1980s. In that period, most investments went to Southeast Asia, including Indonesia, but scarcely reached the CLMV countries. Investment to CLMV countries commenced in the early part of 1990s when the region began to pursue reformation and converted to a market economy. It was also during this period when CLMV restored their diplomatic relations with Korea. Investments increased drastically in the early 1990s but fell during the East Asian crisis and again rose from 2000. Especially in 2005 and 2006, Korea's ODI to CLMV countries registered a groundbreaking increase, taking up 5.5 percent and 10.5 percent, respectively, of the total (in terms of investment approval). Meanwhile, the actually implemented amount is lower than the numbers and appears to be around 44 percent.

In terms of ODI of CLMV countries to Korea, it is noticeable that the investment of early-stage developing countries is still small. As of the end of 2006, their ODI to Korea is only USD 3.2 million from 41 projects, with Vietnam contributing the biggest part.

**Table 5: Korea's ODI to CLMV countries by year (1980~2006)**

(Number, US\$ in million, %)

Year	Acceptance				Investment		
	No. of projects	Amounts	ASEAN/World	CLMV/World	Amounts	ASEAN/World	CLMV/World
1980	2	0.02	29.0	0.0	0.02	30.7	0.0
1981	0	0	11.4	0.0	0	14.1	0.0
1982	0	0	0.7	0.0	0	5.8	0.0
1983	0	0	32.8	0.0	0	25.1	0.0
1984	0	0	1.0	0.0	0	18.9	0.0
1985	0	0	2.3	0.0	0	14.3	0.0
1986	0	0	0.3	0.0	0	0.8	0.0
1987	0	0	45.1	0.0	0	31.2	0.0
1988	0	0	73.8	0.0	0	14.8	0.0
1989	0	0	21.6	0.0	0	16.1	0.0
1990	3	58.7	30.4	2.6	9.5	25.0	1.0
1991	2	64.0	22.4	3.6	5.2	29.6	0.5
1992	21	103.5	13.4	5.1	22.4	22.3	1.8
1993	42	118.1	12.6	5.9	29.5	13.3	2.3
1994	60	186.0	15.4	5.1	92.7	11.2	4.0
1995	53	228.0	15.0	4.4	185.5	19.7	6.0
1996	57	247.4	11.5	3.5	109.4	10.3	2.5
1997	54	239.5	17.8	3.9	175.7	16.8	4.7
1998	17	116.2	12.6	2.0	93.9	10.6	2.0
1999	30	78.8	9.2	1.5	53.8	13.9	1.6
2000	48	129.4	11.4	2.1	82.2	9.3	1.6
2001	70	110.0	7.8	1.7	64.0	7.5	1.2
2002	129	395.1	10.3	6.3	150.5	9.5	4.1
2003	113	730.1	22.3	13.1	166.8	13.4	4.1
2004	137	367.9	9.0	4.7	194.6	8.6	3.2
2005	216	494.6	10.3	5.5	336.3	9.9	5.1
2006	348	1,937.2	20.0	10.5	711.7	12.6	6.6
<b>Cumulative</b>	<b>1,402</b>	<b>5,604.5</b>	<b>15.3</b>	<b>5.3</b>	<b>2,483.7</b>	<b>12.3</b>	<b>3.6</b>

Source: The Export-Import Bank of Korea.

**Table 6: Investment of CLMV and ASEAN to Korea by country (~2006)**

		No. of Projects	Amounts(US\$ in thousand)
Singapore		480	2,188,993
Malaysia		482	3,261,036
Indonesia		39	109,494
Thailand		62	9,314
Brunei		7	1,268
Philippines		52	120,284
CLMV	Cambodia	2	98
	Laos	1	202
	Myanmar	15	730
	Vietnam	23	2,173
	Sub-total	41	3,203
<b>ASEAN Total</b>		<b>1,158</b>	<b>5,693,594</b>

Source: Ministry of Commerce, Industry and Energy of Korea.

### 3.2.2 Korea's ODI to Cambodia

Korea's ODI to Cambodia intensified when their diplomatic relation was restored but it went down during the East Asian crisis. However, it began to recover beginning in 1999. The volume amounted to over USD 109 million and 173 million, respectively, in 2005 and 2006. The actually implemented investment reached USD 209.26 million for 151 projects with an implementation rate of 57 percent.

By industry, manufacturing, which includes fabrics and sewing, takes up 28 percent of the ODI. Recently, it is expanding to the sectors of construction, real estate, and services. Investment on the financial sector, however, has yet to be seen.

**Table 7: Korea's ODI to Cambodia by year (1992~2006)**

(numbers, US\$ in thousand)

Year	Acceptance		Investment	
	No. of Projects	Amounts	No. of Projects	Amounts
1992	1	1,919	1	1,300
1993	0	0	0	319
1994	1	2,300	1	900
1995	1	500	1	258
1996	10	10,157	6	3,798
1997	14	18,067	10	5,845
1998	5	2,176	4	898
1999	7	8,850	8	6,475
2000	6	9,276	6	3,516
2001	7	8,267	5	5,540
2002	9	8,510	9	4,107
2003	9	3,987	9	9,670
2004	9	7,657	8	13,653
2005	35	109,290	31	30,859
2006	51	173,565	52	122,125
Cumulative	165	364,521	151	209,263

Source: The Export-Import Bank of Korea.

According to statistics of the Cambodian government (on approval basis), Korea's investment to Cambodia amounted to USD 257 million from 2000 to 2006, making Korea the third largest investor in Cambodia, next to China and Russia, in terms of total foreign direct investment. Korea's investment to Cambodia peaked in 2002, 2005, and 2006.

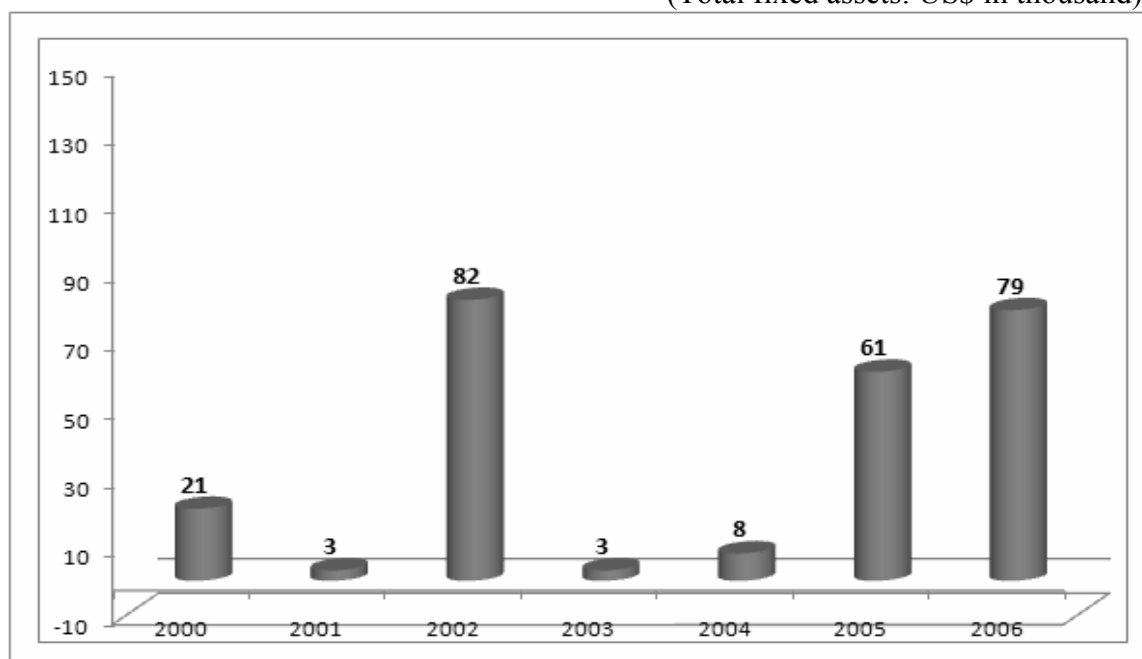
**Table 8: Korean investment to Cambodia by sector (cumulative figure to 2006)**

Sector	Acceptance		Investment	
	No. of Projects	Amount (US\$ in thousand)	No. of Projects	Amount (US\$ in thousand)
Agriculture & Fishery	4	3,120	3	380
Mining	3	15,136	3	18,503
Manufacturing	57	101,892	50	58,518
Construction	25	86,422	24	27,350
Whole Sale & Retail	20	23,231	18	9,162
Transport & Storage	5	4,892	4	4,145
Telecommunications	3	9,349	3	8,050
Lodging & Restaurants	8	3,301	8	2,616
Service	31	47,483	30	21,736
Real Estate	9	69,695	8	58,803
<b>Cumulative</b>	<b>165</b>	<b>364,521</b>	<b>151</b>	<b>209,263</b>

Source: The Export-Import Bank of Korea.

**Figure 1: Korea's investment approvals by Cambodian government**

(Total fixed assets: US\$ in thousand)



Source: International Monetary Fund (August 2007).

### 3.2.3 Korea's ODI to Lao PDR

Korea's investment to Laos started in 1994, a year before their diplomatic relation was restored. ODI to Laos peaked in 1996 and 1997, but declined after the East Asian crisis. It was reactivated beginning 2006. Total accumulated amount (on approval basis) stood at USD 93.16 million for 31 projects as of 2006.

According to statistics of the Export-Import Bank of Korea, Korea's investment to Laos is concentrated on a specific area, which is construction. Investment in the construction industry takes up 84 percent of the total ODI. Manufacturing and service industry received only a small portion of the investment.

**Table 9: Korea's ODI to Lao PDR by year (1992~2006)**

Year	Acceptance		Investment	
	No. of Projects	Amounts (US\$ in thousand)	No. of Projects	Amounts (US\$ in thousand)
1992	1	300	1	300
1993	0	200	0	200
1994	4	2,890	4	818
1995	1	9,900	1	949
1996	2	31,125	1	964
1997	1	27,540	2	25,516
1998	2	5,300	1	5,864
1999	1	700	1	2,274
2000	1	3,000	1	5
2001	0	0	0	35
2002	2	1,300	1	50
2003	2	1,221	1	746
2004	2	1,955	3	2,090
2005	0	0	0	0
2006	12	7,694	12	2,815
Cumulative	31	93,125	29	42,626

Source: The Export-Import Bank of Korea.

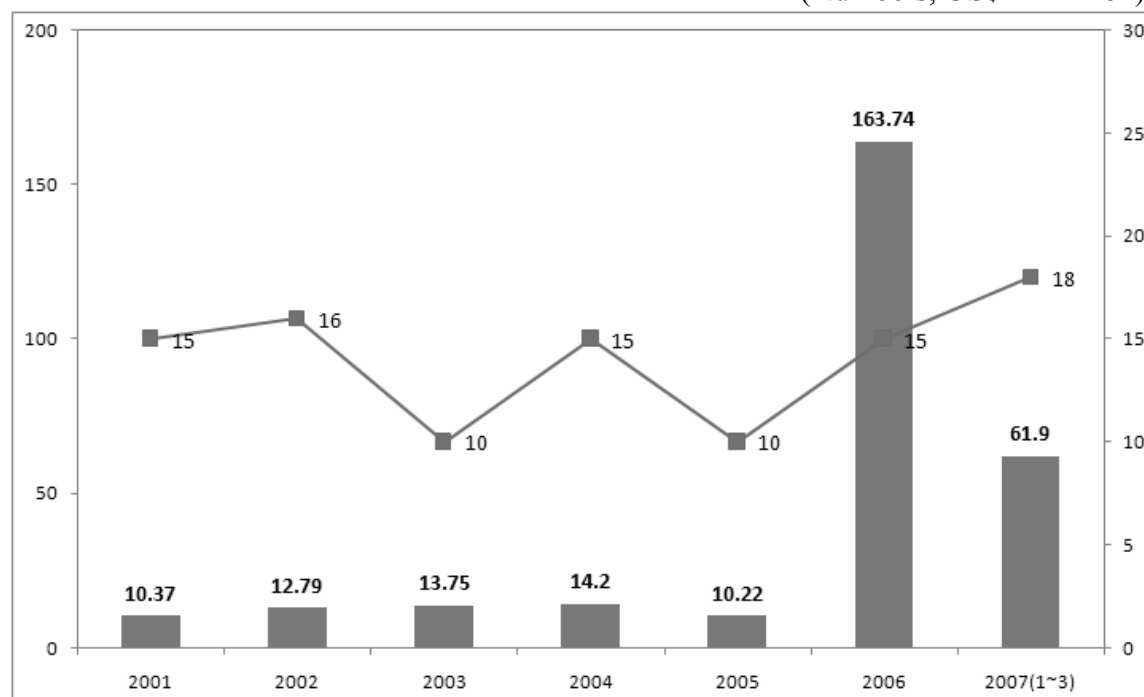
**Table 10: Korea's ODI to Lao PDR by sector (cumulative figure)**

Sector	Acceptance		Investment	
	No. of Projects	Amounts (US\$ in thousand)	No. of Projects	Amounts (US\$ in thousand)
Agriculture & Fishery	1	980	1	201
Mining	1	2,500	1	1,087
Manufacturing	7	3,524	7	2,536
Construction	6	77,990	6	34,173
Whole Sale & Retail	7	2,360	7	843
Transport & Storage	1	130	0	0
Lodging & Restaurants	2	2,400	2	1,900
Service	6	3,241	5	1,886
<b>Total</b>	<b>31</b>	<b>93,125</b>	<b>29</b>	<b>42,626</b>

Source: The Export-Import Bank of Korea.

**Figure 2: Korea's investment approvals by Lao government**

(Numbers, US\$ in million)



Source: Lao Government.



Moreover, based on statistics, Korea's investment to Laos (on the approval basis) has amounted to USD 274.19 million for a total 99 projects from 2000 to March 2007, and has posted a rapid growth in 2006 and 2007. As of March 2007, Korea ranked eighth in total FDI in Laos. It invested heavily on the development of Laos' waterpower resources.

**Table 11: Korea's ODI to Myanmar by year (1990~2006)**

Year	Acceptance		Investment	
	No. of Projects	Amounts (US\$ in thousand)	No. of Projects	Amounts (US\$ in thousand)
1990	3	58,700	2	9,450
1991	2	64,034	1	5,188
1992	1	170	1	4,034
1993	2	2,000	2	984
1994	6	1,965	3	399
1995	5	1,490	5	1,410
1996	6	5,344	6	3,302
1997	10	13,165	8	5,481
1998	1	3,768	1	6,106
1999	4	5,485	2	4,843
2000	11	20,473	10	8,699
2001	8	3,178	6	2,948
2002	1	2,401	1	660
2003	1	2,602	1	496
2004	0	455	0	0
2005	0	830	0	969
2006	2	470	2	465
Cumulative	63	186,530	51	55,434

*Source:* The Export-Import Bank of Korea.

### 3.2.4 Korea's ODI to Myanmar

Korea and Myanmar has maintained diplomatic relation since 1975. Korea's ODI to Myanmar peaked in 1990 and 1991 but grew inconsistently since then. The decline has been drastic from 2001. This decline has been attributed to a number of factors, particularly to the embargo on Myanmar imposed by the international community, the ongoing unstable political and social conflicts within the nation, and its poor condition for investment. Korea's total ODI (on approval basis) was recorded at USD 186.53 million for 63 projects as of 2006.

Korea's ODI to Myanmar is focused on the manufacturing industry including fabrics and sewing, which takes up 58 percent of total investment. In addition to this, lodging and restaurant business are getting a considerable portion of the investment.

According to statistics from the Myanmar Investment Commission, Korea's investment to Myanmar (on approval basis) accumulated to USD 191 million as of June 2006, considered a small amount compared to its investment in other Southeast Asian countries. Korea ranks in 12<sup>th</sup> place in total foreign investment in Myanmar.

**Table 12: Korea's ODI to Myanmar by sector (cumulative figure)**

Sector	Acceptance		Investment	
	No. of Projects	Amounts (US\$ in thousand)	No. of Projects	Amounts (US\$ in thousand)
Agriculture & Fishery	1	2,793	1	506
Mining	1	170	1	170
Manufacturing	42	108,029	34	40,792
Whole Sale & Retail	14	14,547	12	13,135
Lodging & Restaurants	1	60,000	0	0
Service	4	991	3	831
<b>Total</b>	<b>63</b>	<b>186,530</b>	<b>51</b>	<b>55,434</b>

Source: The Export-Import Bank of Korea.

**Table 13: Approved FDI to Myanmar by Country (As of June 2006)**

	Amounts (US\$ in million)	Share (%)
Thailand	7,375	53.39
UK	1,590	11.52
Singapore	1,434	10.38
Malaysia	660	4.78
Hong Kong	504	3.65
France	470	3.40
USA	243	1.76
Indonesia	241	1.75
The Netherlands	238	1.73
Japan	215	1.56
China	193	1.41
Korea	191	1.38
Total	13,815	100.00

Source: Myanmar Investment Commission.

### 3.2.5 Korea's ODI to Vietnam

Korea's ODI to Vietnam has increased drastically since Vietnam emerged as a strong newly emerging market following its *Doi Moi* reforms. Korea's ODI to Vietnam surged with the restoration of their diplomatic relation but declined after the East Asian crisis. Nevertheless, it was reactivated from 2002 and reached USD 1,755.52 million for 283 projects in 2006. Vietnam took the third spot in total Korean ODI, following China and the US. Korea's ODI to Vietnam started to expand rapidly from the end of 200 and this trend is expected to last for a while.

The manufacturing industry, including textiles and garments, machine equipment, electronics and communication equipment, and shoes and leather, receives 50 percent of total Korean ODI to Vietnam. The mining industry, which is related to oil and gas, takes up a big portion of investment, and recently, investment on construction, hotel and restaurant, and real estate is on the rise. Since 2005, when investment started to increase rapidly, investment on basic materials industry including steel manufacturing, and development of new cities and resorts for tourists exhibit an increasing trend.

**Table 14: Korea's ODI to Vietnam by year (1980~2006)**

Year	Acceptance		Investment	
	No. of Projects	Amounts (US\$ in thousand)	No. of Projects	Amounts (US\$ in thousand)
1980	2	20	2	20
1992	18	101,156	8	16,775
1993	40	115,857	17	28,017
1994	49	178,815	44	90,583
1995	46	216,076	36	182,868
1996	39	200,751	38	101,324
1997	29	180,702	25	138,883
1998	9	104,937	4	81,075
1999	18	63,785	17	40,170
2000	30	96,675	29	69,954
2001	55	98,575	47	55,475
2002	117	382,858	100	145,686
2003	101	722,351	96	155,886
2004	126	357,803	112	178,882
2005	181	384,435	172	304,458
2006	283	1,755,523	276	586,321
Cumulative	1,143	4,960,319	1,023	2,176,377

*Source:* The Export-Import Bank of Korea.

Korean ODI to Vietnam is mainly focused on the manufacturing industry, particularly on textiles and garments, machine equipment, electronics and communication equipment, basic metals, and shoes and leather. Investment on petrochemical products and transportation equipment has been on the rise.

**Table 15: Korea's ODI to Vietnam by sector (cumulative figure)**

Sector	Acceptance		Investment	
	No. of Projects	Amounts (US\$ in thousand)	No. of Projects	Amounts (US\$ in thousand)
Agriculture & Fishery	16	18,663	14	8,453
Mining	7	1,471,706	5	456,259
Manufacturing	913	2,516,217	818	1,359,774
Construction	48	274,647	45	52,984
Whole Sale & Retail	32	34,203	26	17,554
Transport & Storage	12	20,248	11	15,853
Telecommunications	2	15,014	1	2,819
Lodging & Restaurants	23	219,204	19	98,747
Service	69	174,637	63	53,710
Real Estate	21	215,780	21	110,224
<b>Total</b>	<b>1,143</b>	<b>4,960,319</b>	<b>1,023</b>	<b>2,176,377</b>

Source: The Export-Import Bank of Korea.

There are many Korean financial institutions in Vietnam as well. Based on the approval data of the Financial Supervisory Services, three local subsidiaries, four branch offices, and 11 resident offices opened in Vietnam. These institutions consist of five banks, four stock/investment trust companies, four nonlife insurance companies, and one life insurance company. Korea's investment on Vietnam's stock market has been exhibiting a drastic upsurge as well, with over USD 1 billion invested on 13 funds as of the first half of 2007.

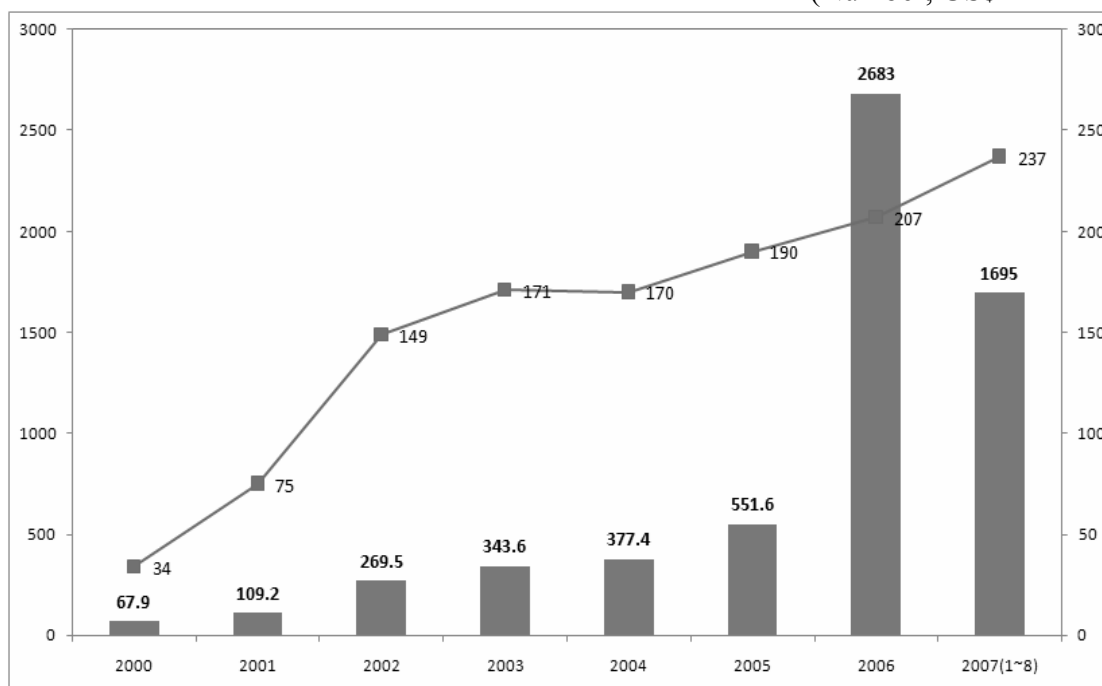
Statistics clearly demonstrate the remarkable increase of Korea's investment to Vietnam. On approval basis, Korea emerged as number one foreign investor in Vietnam as of the second half of 2007. It was the fourth largest investor in 2005 and third in 2006. The Korean investment boom to Vietnam began toward the end of 2005. By 2006, Korea's investment to Vietnam was over USD 2.6 billion and reached USD 1.7 billion as of August 2007.

**Table 16: Korea's ODI to Vietnam by manufacturing sector (cumulative figure)**

	Acceptance		Investment	
	No. of Projects	Amounts (US\$ in thousand)	No. of Projects	Amounts (US\$ in thousand)
Food & Beverages	34	101,282	30	72,980
Textiles & Garments	320	705,881	289	436,619
Shoes & Leather	100	263,658	95	188,466
Wooden Furniture	24	15,352	23	6,506
Papers & Printing	27	32,475	23	9,719
Petrochemical products	106	169,843	97	84,377
Nonmetallic minerals	20	49,491	14	13,510
Basic metals	30	272,020	25	104,600
Fabricated metals	44	83,680	40	37,192
Machine equipment	58	314,636	52	63,566
Electronics & Communication equipment	35	294,482	28	240,412
Transportation equipment	36	128,756	34	58,891
Others	79	84,661	68	42,936
<b>Total</b>	<b>913</b>	<b>2,516,217</b>	<b>818</b>	<b>1,359,774</b>

Source: The Export-Import Bank of Korea.

**Figure 3: Korea's investment approvals by Vietnam government**  
(Number, US\$ in million)



Source: Ministry of Planning and Investment of Vietnam.

### 3.3 Tourism and the Korean Wave (Hallyu)

Since the 1990s, increased incomes from economic growth and liberalization on traveling to foreign countries have increased the Korean overseas tourism. While Southeast Asia is a popular destination of Korean tourists, CLMV countries are quickly emerging as a favorite new destination after the region opened its doors to foreigners and underwent economic reforms in the late 1990s. From year 2000, the Ha Long Bay in Vietnam, Angkor Wat in Cambodia, and Bagan in Myanmar have emerged as popular tourist destinations. Many direct flights to the region and increased ODI to these countries are the other reasons behind this booming tourism.

In particular, Vietnam and Cambodia have interested Koreans. Korean tourists to Vietnam amounted to over 420,000 out of the total of 3,580,000 foreign tourists in 2006, or 11.8 percent, the second largest group next to China. From 130,000 in 2003, Korean tourist arrivals have shown a yearly increase of 30 to 40 percent and this trend is expected to last in the future. In Cambodia, Koreans occupy the top place since they have taken 12.2 percent of the total number of foreign tourists in 2004. As of 2006, 16.7 percent of the total of 1,700,000 foreign tourists who visited Cambodia is Korean. In spite of their rich tourism resources, however, Laos and Myanmar have not been able to

**Table 17: Korean tourist in Vietnam and Cambodia by year (2003~06)**

		2003	2004	2005	2006
Vietnam	Tourist (1,000)	130.1	233.0	317.2	421.7
	Growth rate (%)	23.8	79.1	36.1	29.4
	Korean/Total (%)	5.4	8.0	9.1	11.8
Cambodia	Tourist (1,000)	62.3	128.4	216.6	220.9
	Growth Rate (%)		106.1	68.7	2.0
	Korean/Total (%)	8.9	12.2	15.2	16.7

*Source:* Ministry of Tourism of Cambodia, Vietnam National Administration of Tourism

attract Koreans due to their poor infrastructure, although the number of Korean tourist has recently shown signs of increasing.

In addition, the Korean wave or pop culture, also referred to as “Hallyu,” has spread everywhere in Vietnam since the 2000s. Due to the expansion of economic and human resources exchange, the Korean culture has been spreading rapidly in Vietnam. Korea’s outstanding economic achievements, its success in the World Cup, and the rapid development of its entertainment industry have all contributed to the success of the Korean pop culture. From TV dramas, movies, music, and games, to fashion and food, the Korean wave has invaded the CLMV region. Now very popular in Vietnam, the Korean wave has also begun to penetrate Myanmar and Cambodia.

#### **4. ECONOMIC COOPERATION WITH CLMV COUNTRIES: GOVERNMENTAL COOPERATION**

##### **4.1 Korea’s ODA policy and strategy toward CLMV countries**

Having reached the status of a newly industrialized economy (NIE), Korea started providing official development assistance (ODA) in mid-1980s. The establishment of an Economic Development Cooperation Fund (EDCF), a kind of concessional loan, in 1987, under the auspices of the Export-Import Bank of Korea (Korea Eximbank), marked the beginning of Korea’s ODA. While the EDCF provided loans to developing countries to help strengthen their industrial capacity, assist in the stabilization of their



economies, and promote economic ties with Korea, the Korean government went another step forward. In 1991, it established the Korea International Cooperation Agency (KOICA), which has since then been responsible for grant-type ODA. The development assistance programs of Korea are largely managed by these two institutions. Considering the fact that (East) Asia emerged as Korea's largest trading partner, the recent ODA of Korea has concentrated in this region. To assist in the economic development and public welfare improvement in developing countries, Korea has been increasing its ODA on a regular basis. Between 1995 and 2005, it increased from USD 110 million to USD 750 million.

**Table 18: ODA and EDCF primary aid recipients of Korea (2006)**

Region	KOICA(18 Countries)	EDCF(11 Countries)
Asia	Vietnam, Indonesia, Philippines, Cambodia, Laos, Mongolia, Bangladesh, Sri Lanka	Vietnam, Indonesia, Philippines, Cambodia, Bangladesh, Sri Lanka, Pakistan
Latin America and the Caribbean	Guatemala, Paraguay, Peru	Guatemala, Colombia
East Europe and CIS	Uzbekistan, Kazakhstan	
West Asia		Yemen
Africa	Ghana, Ethiopia, Kenya, Congo, Tanzania	Angola

*Source:* The Office for Government Policy Coordination (2006).

Korea has raised the loan to Southeast Asian countries through the EDCF and has maintained close relations in politics and economy. In particular, Korea plans to include Vietnam along with Indonesia and Philippines in the category of primary aid recipients, and expand the aid for these countries after 2007. By making a Framework Agreement with these primary recipient countries, the Korean government plans to simplify the aid procedure. Meanwhile, Cambodia is selected as a secondary aid recipient. Myanmar and Laos are also included in the list of aid recipient countries.<sup>2</sup>

<sup>2</sup> In the ODA policy of Korea, primary aid recipients are selected among countries with GDP of less than 5,000 per capita and in consideration of the development potential of the recipient country, the economic cooperation level of the two countries, and diplomatic considerations. While there are

Similar to the EDCF, grant-type ODA has been enhanced for Southeast Asian countries as well. This aid has especially focused on CLMV countries to support these emerging markets and build a base to expand economic cooperation with Korea. The increasing demands for development and the high potential for economic collaboration in this region account for this aid strategy.

## **4.2 EDCF and grant-type ODA**

### *4.2.1 Overall feature*

From the beginning, Southeast Asia has been the biggest recipient of Korea's EDCF; about one third of EDCF has gone to this region. From a total of 80 countries worldwide, Indonesia had the biggest share; Vietnam was in third place; Cambodia was in sixth place; and Philippines was in seventh place. Myanmar and Laos were in the twelfth and twenty-eighth spots, respectively. The CLMV region has received a total of USD 494.65 million or 18 percent of the total EDCF. This ratio would be higher if the aid to Vietnam of USD 100 million in 2007 is added.

As for bilateral grant support, Southeast Asia has been the main recipient; one-fourth of total grant-type ODA has gone to this area. Again, Indonesia, Vietnam, Philippines, Cambodia, and Laos were among the main recipients. The CLMV region has received 45 percent of the aid allocated to Southeast Asia.

---

currently 80 EDCF aid recipients at the end of 2006, these countries are classified into 11 primary aid recipients and 69 common countries. The selection is made by considering the income standard of the concerned participant and its economic cooperation relationship with Korea, among other criteria. The interest rate (0.5~3.0%) and repayment period (25~30 years) are applied in grades by classifying them into groups from I to V by considering their income standard, among other factors. In case of the grant administered by the KOICA, the government of the recipient country makes the request directly to the Korea government or is selected by the embassies and delegations abroad, the regional office of KOICA, or through the Ministry of Foreign Affairs.

**Table 19: Korea's usage of EDCF to ASEAN by country (~2006)**

Rank <sup>1)</sup>	Country	Loans			Overseas Investment Credit	
		No. of Projects	Amounts (US\$ in million)	Share(%) <sup>1)</sup>	No. of Projects	Amounts (US\$ in million)
1	Indonesia	13	271.70	9.8	1	1.28
3	Vietnam	10	227.96	8.1		
6	Cambodia	6	159.29	6.4		
7	Philippines	8	130.78	4.6	1	0.86
12	Myanmar	6	84.70	2.9		
28	Lao PDR	1	22.70	0.9		
<b>ASEAN Total</b>		<b>44</b>	<b>897.13</b>	<b>32.7</b>	<b>2</b>	<b>2.14</b>
<b>CLMV Total</b>		<b>23</b>	<b>494.65</b>	<b>18.3</b>		

Remark: 1) Rank and Share are from Korea's total EDCF amount.

Source: The Export-Import Bank of Korea.

**Table 20: Korea's grant-type ODA to ASEAN countries by year (2000~2006)**

(Approval, US\$ in thousand)

Country	2000	2001	2002	2003	2004	2005	2006
Brunei	49	10	18.0	26	21	19	-
Indonesia	1,984	1,939	2,544	2,613	6,545	9,305	17,650
Malaysia	259	128	83	139	120	122	40
Philippines	2,224	3,038	1,729	5,964	6,366	5,059	6,644
Singapore	-	-	-	-	-	0.2	-
Thailand	651	599	869	904	1,990	3,150	1,349
Cambodia	637	1,057	1,467	2,341	3,341	5,813	6,328
Lao PDR	629	681	1,262	2,048	3,379	2,119	4,243
Myanmar	730	651	1,406	1,460	2,045	3,407	2,794
Vietnam	4,880	4,814	4,700	3,515	9,789	9,290	7,873
<b>ASEAN Total</b>	<b>12,043</b>	<b>12,917</b>	<b>14,078</b>	<b>19,010</b>	<b>33,596</b>	<b>38,284</b>	<b>46,921</b>
<b>ASEAN/World(%)</b>	<b>31.4</b>	<b>27.5</b>	<b>23.0</b>	<b>15.3</b>	<b>18.9</b>	<b>18.2</b>	<b>24.2</b>

Source: Korea International Cooperation Agency.

#### 4.2.2 Country-specific features

Korea's grant to Cambodia has increased every year. Beginning 1991, Cambodia was ranked 100<sup>th</sup> in terms of the amount of grant it received from Cambodia. By 2006, it has jumped to sixth place. The main areas of aid are infrastructure construction, volunteers, and projects.

Korea's grant to Laos has been rapidly increasing as well. In 1991 when KOICA started to offer grants, Laos ranked at 114<sup>th</sup> in terms of total received. However, in 2006, it occupied the ninth spot out of 138 recipient countries. The main areas of aid are volunteers, invitation of trainees, and infrastructure construction.

**Table 21: Korea's grant to Cambodia (2001~06)**

Projects	Unit	2001	2002	2003	2004	2005	2006
Total Amount	1,000 USD	1,056.06	1,764.85	2,340.72	3,340.97	5,813.20	6,328.39
Infra Construction	1,000 USD	0	537.58	520.15	1,117.65	2,473.25	2,230.53
	Number	0	1	1	2	4	3
Materials, Facilities	1,000 USD	129.66	181.84	66.32	0	0	0
	Number	3	3	2	0	0	0
Taekwondo Teachers	1,000 USD	49.49	59.51	69.26	95.01	77.53	74.91
	Number	1	1	1	1	1	1
Projects	1,000 USD	429.55	228.36	960.91	686.21	939.05	1,196.67
	Number	1	2	2	3	3	3
Invitation of Trainees	1,000 USD	366.09	589.94	534.68	437.38	477.64	619.37
	Number	112	128	136	108	92	113
Invitation of Experts	1,000 USD	35.14	52.61	39.60	152.76	0	97.80
	Number	3	2	2	3	0	2
Medical Doctors	1,000 USD	46.12	115.02	121.71	145.41	150.69	81.31
	Number	1	1	1	1	1	1
Volunteers	1,000 USD	0	0	24.79	678.34	1,542.56	1,728.60
	Number	0	0	4	43	75	113
Cooperation Agents	1,000 USD	0	0	3.30	28.21	33.73	47.29
	Number	0	0	1	2	5	5
Cooperation Doctors	1,000 USD	0	0	0	0	0	49.40
	Number	0	0	0	0	0	1
Assistance to NGOs	1,000 USD	0	0	0	0	118.74	202.52
	Number	0	0	0	0	3	3

Source: Korea International Cooperation Agency.

**Table 22: Korea's grant to Laos (2001~06)**

Projects	Unit	2001	2002	2003	2004	2005	2006
Total Amount	1,000 USD	680.4	1,418.99	2,028.35	3,378.88	2,118.64	4,242.53
Infra Construction	1,000 USD	175.35	450.68	1,122.39	1,435.72	414.2	728.23
	Number	2	2	3	3	3	2
Materials, Facilities	1,000 USD	66.99	232.81	49.98	407.34	0	23.2
	Number	2	3	1	1	0	1
Emergency Relief	1,000 USD	10.2	0	0	0	0	0
	Number	1	0	0	0	0	0
Projects	1,000 USD	0	0	0	0	0.35	519.53
	Number	0	0	0	0	0	1
Invitation of Trainees	1,000 USD	189.7	436	297.38	277.31	268.49	731.11
	Number	59	92	75	58	58	101
Invitation of Experts	1,000 USD	0.53	0	29.1	109.03	63.96	100.18
	Number	1	0	1	1	5	2
Medical Doctors	1,000 USD	58.15	0	0	0	0	0
	Number	1	0	0	0	0	0
Volunteers	1,000 USD	137.14	193.34	329.06	920.78	1,167.29	1,985.08
	Number	7	11	14	34	49	81
Cooperation Agents	1,000 USD	8.1	65.15	94.63	113.82	104.24	99.71
	Number	4	7	11	14	12	18
Cooperation Doctors	1,000 USD	0	0	53.73	68.01	69.92	55.48
	Number	0	0	1	1	3	2
Assistance to NGOs	1,000 USD	34.24	41.02	52.08	46.88	30.19	0
	Number	1	1	1	1	1	0

*Source:* Korea International Cooperation Agency.

Myanmar has also been one of main recipients of Korean aid but the amount of aid is smaller than that for other East Asian countries due to Myanmar's deteriorating political and economic conditions. As of 2006, it ranked sixteenth out of 138 recipient countries. The project area takes about half of its aid amount while the rest goes to volunteers and invitation of trainees.

**Table 23: Korea's grant to Myanmar (2001~06)**

Projects	Unit	2001	2002	2003	2004	2005	2006
Total Amount	1,000 USD	651.2	1,574.4	1,460.42	2,045.07	3,407.37	2,794.24
Infra Construction	1,000 USD	0	0	6.81	769.36	460.77	37.03
	Number	0	0	0	2	2	1
Materials, Facilities	1,000 USD	0	151.16	7.79	20.43	13.85	0
	Number	0	1	1	1	2	0
Emergency Relief	1,000 USD	0	0	0	0	101.63	0
	Number	0	0	0	0	1	0
Projects	1,000 USD	171.82	297.81	520.35	235.59	947.33	1,441.94
	Number	1	2	2	3	3	3
Invitation of Trainees	1,000 USD	222.97	564.20	409.52	336.65	528.37	338.28
	Number	64	106	96	74	105	54
Invitation of Experts	1,000 USD	69.19	42.43	21.63	37.43	25.94	0
	Number	3	2	1	1	1	0
Medical Doctors	1,000 USD	44.58	111.32	107.40	129.49	55.04	0
	Number	1	1	1	1	1	0
Volunteers	1,000 USD	61.40	259.80	295.33	339.96	1,069.74	828.50
	Number	11	15	14	24	37	41
Cooperation Agents	1,000 USD	5.26	35.82	59.37	101.26	81.87	74.73
	Number	2	4	8	10	13	11
Taekwondo Teachers	1,000 USD	75.98	83.14	1.83	47.33	32.26	73.76
	Number	1	1	1	1	1	1
Assistance to NGOs	1,000 USD	0	28.71	30.38	27.57	90.57	0
	Number	0	1	1	1	2	0

*Source:* Korea International Cooperation Agency.

Since the restoration of diplomatic relation in 1992, the economic exchange between Korea and Vietnam has increased tremendously. In 1991, Vietnam ranked 104<sup>th</sup> in terms of amount of aid received. By the 2000s, it has jumped to third place out of 138 recipient countries. Foremost area of aid is infrastructure construction, which has been heavily in demand considering the growth of the economy. Other areas include volunteers, invitation of trainees, projects, and assistance to NGOs.

**Table 24: Korea's grant to Vietnam (2001~06)**

Projects	Unit	2001	2002	2003	2004	2005	2006
Total Amount	1,000 USD	4,814.11	4,705.65	3,514.61	9,789.17	9,289.57	7,873.33
Infra Construction	1,000 USD	2,776.47	2,393.39	1,911.04	7,035.94	5,736.51	2,856.41
	Number	7	8	7	5	8	8
Materials, Facilities	1,000 USD	0	129.78	0	0	22.24	44.23
	Number	0	2	0	0	1	1
Emergency Relief	1,000 USD	0	10.13	10.14	30.27	20.70	49.97
	Number	0	1	1	1	1	1
Projects	1,000 USD	546.11	580.33	15.09	95.04	526.85	826.20
	Number	2	2	1	1	2	3
Invitation of Trainees	1,000 USD	758.32	846.39	713.41	730.28	731.19	1,144.99
	Number	221	227	175	180	143	166
Invitation of Experts	1,000 USD	75.85	50.24	37.82	45.80	23.02	69.40
	Number	3	2	3	4	2	11
Medical Doctors	1,000 USD	0	0	0	104.76	72.63	96.57
	Number	0	0	0	1	1	1
Taekwondo Teachers	1,000 USD	44.15	55.64	58.40	72.25	23.09	0
	Number	1	1	1	1	1	0
Volunteers	1,000 USD	292.49	439.02	490.49	1,339.41	1,888.93	2,427.31
	Number	21	27	26	65	98	127
Cooperation Agents	1,000 USD	124.75	76.11	118.36	188.46	142.79	169.59
	Number	8	10	9	16	16	23
Cooperation Doctors	1,000 USD	87.67	53.25	80.85	26.56	0	0
	Number	2	2	1	1	0	0
Assistance to NGOs	1,000 USD	108.30	71.37	78.98	120.41	101.64	188.66
	Number	4	3	3	4	3	3

*Source:* Korea International Cooperation Agency.

### **4.3 Participation in programs to narrow the development gap within the East Asian region**

Many programs and joint projects are being conducted in Southeast Asia to narrow the development gap. This movement has been active since the inception of the “ASEAN Plus Three (Korea, China, Japan) Framework.” These programs can be classified by a program initiator or program objective, and the number of programs would increase if specific programs or enterprises by certain countries are included. The best known

programs include the Greater Mekong Sub-region Economic Cooperation Program (GMS Program) by the Asian Development Bank; the ASEAN - Mekong Basin Development Forum, Initiative for ASEAN Integration (IAI), and Vientiane Action Program (2005-2010) by the ASEAN; and the Plan for Private Sector Development in the Greater Mekong Subregion by the United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP).

Korea has not only been working on concessional loan and grant for the least developed among developing countries (LDDC) within Southeast Asia but also participating in many projects to narrow the economic gap. Its support for the IAI and the Korea-ASEAN Cooperation Project is a good example. Korea provided IAI with USD 5 million for five projects until 2005. Korea also sent survey workers to inspect the needs for additional aid and small-area development projects. The Korea-ASEAN Cooperation Project, which began in 1990, has supplied a total of USD 34 million to about 100 projects for human resource development and technology transfer by the end of 2006. The yearly fund amount was USD 2 million, but the Korean government increased it to USD 3 million yearly in recognition of ASEAN's importance.

**Table 25: Korea's assistance to IAI (5 projects)**

	project name(total amounts)	recipient	amounts (USD)
1	TRN/02/005-Feasibility Study for the Missing Links and Spur Lines of the Singapore-Kunming Rail Link Project in CLMV(USD 830,000)	Cambodia Laos Myanmar Vietnam	5,000,000
2	ETF/02/003-ICT Legislation(USD 2,635,656)	Vietnam	
3	ETF/02/005-e-Government(USD 3,800,380)	Laos	
4	EFT/02/002-National ICT Development Master Plans(USD 3,800,380) * ASEAN Request: USD 5,881,824	Myanmar	
5	TRA/02/001-Capacity Building in the Trade in Goods and Trade in Services for CLMV Countries (USD 3,474,929)	Cambodia	

*Source:* Jaewan Cheong, Yul Kwon, Yunjong Wang, and Satoru Okuda.(2005).



## 5. EVALUATION AND PROSPECTS OF THE ECONOMIC COOPERATION WITH CLMV COUNTRIES

### 5.1 Review and sector characteristic

Korea's constant economic growth and the CLMV region's rapid economic growth as a newly emerging market call for increased economic cooperation between the two regions. Above all, exchanges in the private sector, including export and import, investment, tourism, and the diffusion of the Korean wave, have been expanded. Governmental cooperation through EDCF and grant has increased over the years. Compared to other regions, CLMV have been a major recipient of Korean ODI. While the economic exchange between Korea and Vietnam has increased rapidly since the *Doi Moi*, that with Myanmar has been slow despite its high potential for development, due to its deteriorating political and economic situation, and the international embargo.

Some specific patterns can be found in the economic exchange between Korea and CLMV countries. First, Korea has maintained trade surplus with CLMV countries, a good example of which is the USD 3 billion worth of surplus in trading with Vietnam. The characteristics of the import-export structure follow some distinct pattern. Fabrics are one of main export items of Korea to CLMV countries. Articles of iron or steel, industrial electronic articles, special machine, and transporter are other main export items of Korea to CLMV countries. As for imports from CLMV, made-up textiles, nonferrous metal products, mineral resources, and agricultural products are among the biggest items.

Second, Korea's ODI has been focused on Vietnam. The Vietnam investment boom, which started in the second half of 2005, has been active not only on "green field-type FDI" but also on international portfolio investment (IPI) for stock and real estate. In addition, the invested sectors have been diversified from the traditional labor-intensive industries to basic materials industry such as steel, real estate development, construction, and finance. In other countries, investment is concentrated on manufacturing (Cambodia and Myanmar) and construction (Laos).

Third, in terms of governmental cooperation, CLMV countries have been receiving more support as main recipients compared to other countries. In particular, Vietnam earned the main recipient status and started to receive increased EDCF from 2007.

With the trend toward regionalism, many movements supporting economic

integration have emerged in the East Asian region. However, there has not been any significant change between Korea and CLMV countries. Korea has been pursuing simultaneous and multilateral FTA and a unified FTA with ASEAN so bilateral FTA with CLMV countries seems not to be in the priority list. Meanwhile, support to narrow the development gap in the region continues to become active, as the East Asian region moves toward one unified market.

## **5.2 Prospects of economic cooperation with CLMV countries**

The economic exchange between Korea and CLMV countries is expected to increase steadily in the future as long as there is no sudden economic depression or crisis like the one in 1997. The entire aspect of economic cooperation between the two areas such as in the field of investment cooperation and foreign trade is expected to expand. Various factors like the following would seem to make the economic cooperation between Korea and CLMV countries more active.

First, the economic growth of the two areas would continue. On top of this, the CLMV area is expected to grow even higher as a newly emerging market and accordingly, the import market of the two areas would become even greater. Second, the economic exchange between the two areas is envisaged to expand more as the pace of economic integration within the region accelerates. This is because among the areas of the Korea-ASEAN FTA, the field of commercial article has taken effect since June 2007 while the services field has also reached an agreement in 2007. Moreover, the fact that discussions for economic integration of East Asia has intensified suggests that greater economic cooperation between the two areas is underway. Third, the risks posed by China due to sudden changes in the exchange rate of the yuan, expansion of anti-foreign investment within China, increase in wages, and strong demands of the Chinese government for technology transfer are expected to shift investment priorities to CLMV countries. Specifically, Vietnam and Cambodia are anticipated to emerge as supplementary investment destinations and this will further expand Korea's investment into CLMV. Such movement is already becoming a reality in Vietnam. Fourth, with Korea's goal of assuming a greater role in the international community, it is expected that cooperation among the governments of the two regions will increase considerably. Most of all, because Korea has achieved much success from being a recipient of

international aid after World War II to becoming an aid-giving country later, it will steadily expand ODA funds into CLMV.

## **6. POLICY RECOMMENDATION FOR EXPANSION OF ECONOMIC COOPERATION**

### **6.1 Policy recommendation for Korean government**

To expand the economic cooperation between Korea and CLMV countries, a steady economic growth for the latter is necessary most of all. While these development countries lack experience or knowledge of economic development, Korea has a successful experience in shifting from being a development aid recipient to a development supporter by achieving the “miracle of Han River” and being recognized globally for its information technology and infrastructure. Therefore, for a steady economic growth of CLMV countries, the support of Korea in the areas of education and training and transfer of economic development experiences is necessary. Especially, the capacity building of CLMV countries is also important.

Considering the fact that the CLMV area consists of least developed countries and the economic status of Korea is considerably higher, the support of the latter through the expansion of ODA support and the application of the GSP is very important. Korea, in fact, has been promoting to increase the ODA scale and preparing for its accession to the OECD Development Assistance Committee. Improvement of the currently operated GSP is also necessary. The preferential tariff toward least developed countries by Korea is only applicable to 480 items in 2005, is very restrictive to the extent that it has not even reached 0.1 percent, and mainly consists of the primary products manufactured by least developed countries even for the subjected item. Accordingly, the GSP is unable to materialize the initial purpose of the policy to support the industrial development of developing countries. Therefore, it is necessary to expand the GSP so that the least developed countries for which it is intended could benefit more.

Finally, improving the deepening trade imbalance between Korea and CLMV countries is necessary. Such trade imbalance is in part a consequence of the expansion of economic cooperation between the two areas. There are two explanations. First, the mechanical equipment and material parts brought by Korean companies to CLMV as part of their investment have increased rapidly. Second, a lot of machines, equipment,

materials, and parts for manufacturing export products are imported by CMLV from East Asia including Korea, as part of CLMV's export-driven growth strategy centered on foreign invested companies. Despite this fact, the trade imbalance is an important problem that needs an immediate solution. To make this improvement diversification of import items by Korea is required.

## **6.2 Policy suggestion for CLMV countries**

For CLMV countries to achieve a steady economic growth, the following policies should be prioritized.

First, the development of competent workers who are key resources to manage the national economy is necessary. Because this is a required factor for the establishment, operation, and management of economic policy from the drafting of mid- to long-term economic development plans, it should be a priority of CLMV countries.

Second, with CLMV countries shifting to a market economy system and adopting an open door policy, the improvement of foreign investment environment is required given that FDI and external trade act as driving forces of economic growth. Improving the investment environment is necessary to attract more FDI inflows, which are necessary to make up for the insufficient domestic capital and technology. To make this happen, the improvement of transportation, power and communication infrastructure, as well as law and system, is necessary.

Third, the aid provided by developed countries and international organizations is an important development resource for least developed countries. Recently, a lot of aid is going to CLMV countries. Therefore, in order to utilize such aid more effectively and properly, the systematization and development of aid management organizations is also necessary.

Fourth, continued restructuring of SOEs and further promotion of private sector participation are required. The fact that all of the CLMV countries are called "economies in transition" suggests that the restructuring of SOEs is extremely important. In addition, the extended role of the private sector is also required for a steady economic growth.

Finally, promoting the financial and capital markets is necessary. The development of the financial industry, which is in charge of mobilizing and arbitrating financial

capital, is a crucial and indispensable precondition to manage the national economy efficiently. The absence of a sound financial system leads to problems in raising enough operation funds and investment capital. The introduction of an effective and clear financial policy is clearly important to bring about effective reforms in CLMV countries.

## REFERENCES

- Cheong, Jaewan, Yul Kwon, Yunjong Wang and Satoru Okuda. 2005. *The Evolution of ASEAN Plus Three Framework and Its Future Challenges*. Seoul: Korea Institute for International Economic Policy. (in Korean)
- Cheong, Jaewan, Sung-Hoon Park, and Soonchan Park. 2006. *Mid & Long-Term Strategies towards an Advanced Trading Economy: Strengthening Cooperation in the Global Economy*. (in Korean)
- International Monetary Fund. 2007. *Cambodia: Selected Issues and Statistical Appendix*. Washington, D.C.
- Korea International Cooperation Agency. 2007. *2006 KOICA Aid Statistics*. Seoul. (in Korean)
- Korea International Trade Association. <http://www.kita.net> (Accessed 1 September 2007)
- Ministry of Commerce, Industry and Energy of Korea. <http://www.mocie.go.kr> (Accessed 2 September 2007)
- Ministry of Finance and Economy of Korea. <http://www.mofe.go.kr> (Accessed 8 September 2007)
- Ministry of Tourism of Cambodia. <http://www.mot.gov.kh> (Accessed 25 August 2007)
- The Export-Import Bank of Korea. <http://www.koreaexim.go.kr> (Accessed 26 August 2007)
- Vietnam National Administration of Tourism. <http://www.Vietnamtourism.com> (Accessed 25 August 2007)