Cover Story

Along the Mekong
An Economic Belt Beyond the River

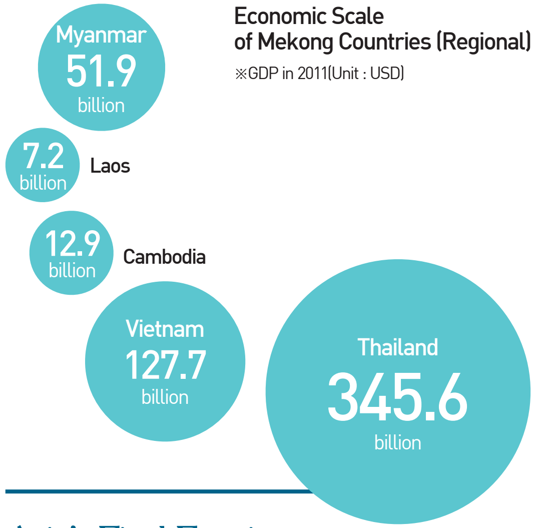
An Arena of Intense Competition

We visited the economic belt along the Mekong River on the Indochinese peninsula, located between India and China. The region is expected to become the next China, in addition to being the Southeast Asia's bridgehead to India. This is a place where companies leaving China settle and those heading to India stop. When world powers, such as the United States, China, and Japan, push forward with national agendas in the surrounding countries, and global companies compete to advance into the region, what must be done in the region?

The Mekong
Symbol of Infinite Potential

Shim, Sang-hyung _ Senior Principal Researcher, POSCO Research Institute

The POSCO Research Institute (POSRI) and Korea Joongang Daily sent a special group of reporters, including three researchers and four journalists, to the Mekong River. They examined the region for themselves and over the course of their 30-day excursion spoke with numerous individuals living and working along the river, which runs through Vietnam, Laos, Cambodia, Myanmar, border cities of Thailand, and China's Yunnan Province. This report serves as both a vivid recount of their experiences in the economic belt along the Mekong, as well as an analysis of the region.



The Mekong, known as the "Mother of all Rivers," runs through the Indochinese peninsula. This "mother of rivers" is an area people depend on for their livelihoods, a religion in which they believe, and the driving force behind the splendid civilization of Indochina. However, it is also a region that has gone through many challenges. It was once occupied by the United Kingdom and France, and threatened by Japan during the Second World War. In addition, the war between the United States and Vietnam was also fought along the river, followed then by a series of civil wars.

Asia's Final Frontier

The Mekong River became a symbol of infinite growth potential, worthy of the world's attention. In the 1990s, after the end of the Cambodian Civil War, the Mekong countries began to implement reforms and opening policies. Since then the region has caught the world's attention due to its great potential as a market for both production and consumption; it holds abundant natural resources (timber, minerals, and water resources) and boasts a population of more than 300 million. The average age in Vietnam is 30, in Laos 19, and in Myanmar 27, numbers which serve as a forecast of the infinite potential of a young Indochina. Above all else, the geopolitical value of Indochina sharply rose when it emerged as a strategic location that linked powerful countries in the East and West, such as Japan and the U.S., with the rapid growth of China that borders Indochinese countries. In particular, after Myanmar, once regarded as the the Achilles' heel of regional development and cooperation along the Mekong, finally opened up in 2011, interest in next emerging economies increased significantly.

The economic gap between the Mekong countries is large. While Thailand's per capita GDP is nearly USD 5,000, those of Cambodia and Myanmar lie between USD 800 and 900, some of the world's lowest levels. Thailand plays the role of Southeast Asia's manufacturing plant as it is both an assembly and production location for Japanese manufacturers as well as the center of trade of raw materials, half-finished goods, and completed products. On the contrary, Vietnam is only maintaining its place as a production base for labor-intensive products, including textiles, garments, and shoes, with its population of 90 million making for a robust workforce. A growing number of companies are now moving to Cambodia, which has been actively attracting foreign capital after adopting export-oriented industrialization as its economic growth model.

According to data released by the United Nations Conference on Trade and Development (UNCTAD), Cambodia ranks the lowest (fourth on a scale of 1 to 4) in terms of investment attractiveness. At the same time it ranked second when it comes to real investment inflow, indicating investor overvaluation. Whereas Myanmar and Laos are properly valued with both low potential and FDI inflow, Thailand is undervalued.

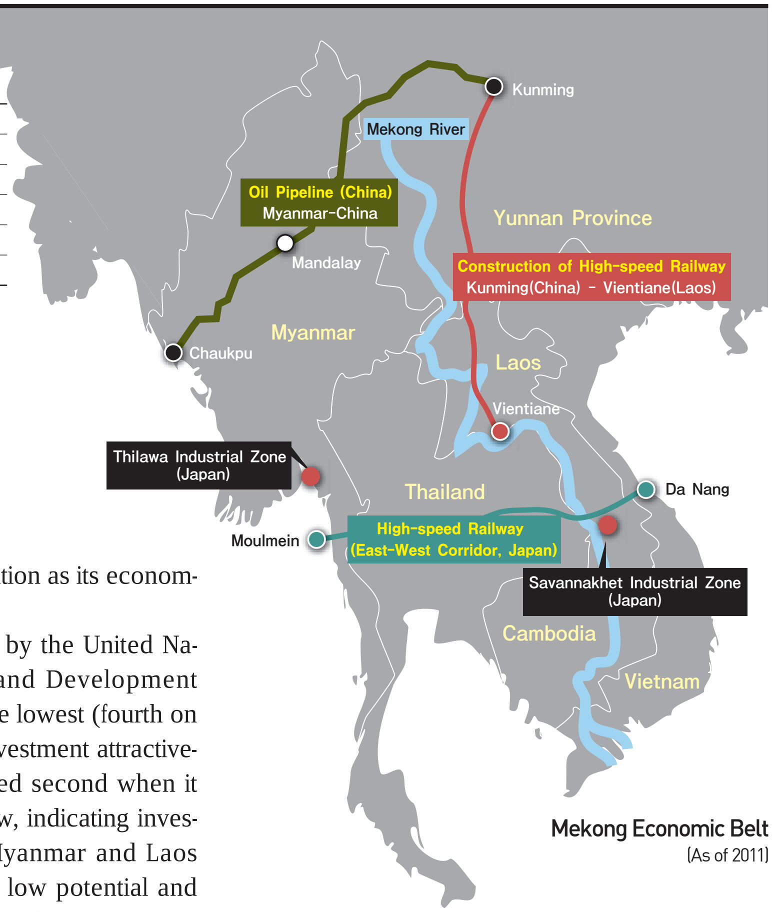
Garment Business Conditions by Country

Injae Garment Corporation, a Korean company that runs garment factories in Cambodia, told a different story. A spokesperson for the company, which had previous experience operating in Bangladesh, stated that there is no better place than Cambodia to run a

5 Mekong Countries

1. Population (Millions)	236.7
2. GDP(USD 100 million)	-
3. Per capita GDP(USD)	-
4. Export(USD 100 million)	3315
5. Import(USD 100 million)	3834
6. FDI Inflow(2000 – 2011) (USD 100 million)	2778

Source : ADB, Key Indicators 2012: World Bank DB



Mekong Economic Belt
(As of 2011)

Myanmar	① 60.4	② N/A	③ N/A	④ 80	⑤ 135	⑥ 126.5
Laos	① 6.4	② 83	③ 1320	④ 30	⑤ 46	⑥ 38.5
Thailand	① 67.6	② 3457	③ 4972	④ 2264	⑤ 2289	⑥ 1548.7
Cambodia	① 14.5	② 128	③ 897	④ 62	⑤ 107	⑥ 96.9
Vietnam	① 87.8	② 1236	③ 1407	④ 879	⑤ 1257	⑥ 967.7

Canaan Farmers School in Myanmar. Local children gather to collect water.

garment business. Despite the recent rise in wages, Cambodia's minimum monthly wage is only USD 81 and the average monthly wage of the factory USD 135, half of that of Vietnam. Cambodia eliminated tariffs on goods for re-export and corporate taxes for a period that will range between 3 and 9 years. The spokesman for the company said that though Myanmar is rising, there is no need to undergo extraneous hardships in the country, given the relatively short life cycle of the garment industry, as Myanmar does not have adequate infrastructure for the garment industry.

One corporation that transferred its business to Myanmar 3 years ago after shutting down a factory in Qingdao, China, confirmed the Injae Garment Corporation spokesperson's remarks. The monthly factory wages in Myanmar are between USD 80 and 100, the lowest level among the Mekong region's nations. Still, high transportation costs sparked by insufficient infrastructure such as roads, as well as additional costs caused by power interruptions, offset the low-cost advantages offered by Myanmar. A spokesperson for the company said that as Myanmar only recently begun to reform and open, the lack of infrastructure and bureaucracy serve as serious obstacles to business. In addition, Myanmar's location on the western Indo-Chinese Peninsula makes it difficult for Korean and Japanese companies to meet pressing deadlines when importing goods from Myanmar. For this reason, the garment corporation in question left one of its factories in Qingdao to handle urgent orders and manufacture specially-designed goods.

Hansae Vietnam, a large Korean apparel manufacturer, supplies clothing to Gap, an American-based multinational clothing and accessories retailer. The average monthly wage of its factory workers is USD 220 while the minimum wage in Vietnam lies between USD 95 and 190. Despite these comparatively high labor costs, Vietnam has multiple other advantages as the world's largest garment production base. Vietnam has an immense garment industry complex as well as offers favorable conditions for companies exporting to the United States. Hansae also recognizes Vietnam's potential as a consumer market of 90 million, which could develop into a luxury market as the average national income rises.

The Japanese Government and Japanese Companies together: The ASEAN Network

Japan and China are two countries that seized the opportunities available in the Mekong economic region early on. Japan, having entered the ASEAN market in the 1960s, has expanded its regional production network and contributed to the increase in trade in the ASEAN region. In particular, Japanese car manufacturers and electronics companies set up supply chains in the ASEAN bloc, taking advantage of the ASEAN Industrial Cooperation Scheme, an economic integration policy. Thanks to preferential tariff policies on imported components, Japanese companies were able to reduce costs, leading to better price competitiveness. One example in particular, Honda Motor Company, built an office in Thailand that handles finance, R&D, and assembly lines for key components such as large molds. Honda Motor Company procures parts for automatic transmissions from subsidiary suppliers and outsourcing partners in Indonesia, parts for manual transmission from the Philippines, and constant velocity joints from Malaysia. Vehicles assembled in Thailand are then exported back to ASEAN countries. Currently, as many as 5,000 Japanese companies do business in Thailand and 700 to 800 in Southern Vietnam. Today, corporations have a tendency to transfer labor-intensive businesses to Cambodia, situated between Thailand and Vietnam, in an effort to avoid higher labor costs. As official development assistance (ODA), the Japanese government has embarked on an endeavor to repair roads linking Phnum Penh, Cambodia and Ho Chi Minh City, Vietnam, as well as construct bridges over the Mekong River by 2015. In addition, Japan plans to develop the Cambodian Sihanoukville port and a small economic zone, which will help Japanese companies take advantage of the regional development gap within the ASEAN bloc.

Japan seems to have developed a grand plan that spans throughout East Asia with its large-scale ODA projects founded on thorough market research and strategies of research centers, all in order to promote development in local countries and regions and help Japanese countries enter these regions. As such, a cooperation mechanism is being pushed forward, with the Japanese government expanding markets by initiating development projects as Japanese companies grow on the basis of investment and exports.

China Seeks to Take the Lead in Broad Economic Zone

China has pushed ahead with strategies in the Mekong region for many purposes, through multidimensional approaches. First, the country plans to

The Korean government's inter-country cooperation will pave the way for the Korean economy and companies to rise globally, based on a foundation built in the Mekong economic belt.

use the Indian Ocean rather than the Strait of Malacca, through which 65% of shipments for China pass. To achieve this goal, China has striven diligently over the past 20 years to improve relations with Myanmar. China also devotes itself to development investment in order to secure resources, having now completed an 800-kilometer pipeline to import gas from Myanmar while carrying out a hydroelectric project and investing in lumber and ore resources.

Above all else, China is currently seeking to take the lead in a broad economic zone that links Southern China and the Mekong economic belt. With this goal in mind, China is building a network of roads from Kunming in China's Yunnan Province that will partition the Indochinese peninsula into four corridors. These transport corridors—Kunming-Laos-Thailand, Kunming-Hanoi-Hai Phong, Kunming-Nanning-Hanoi, and Kunming-Myanmar highways—are all either under construction or have been completed. The construction of such a transportation network, along with robust state of trade, has led to the formation of a Chinese commercial area. In other words, a wide range of development projects carried out by the Chinese government has attracted Chinese merchants who have subsequently come to dominate this commercial district. So far, more than 200 private Chinese garment companies have entered the Cambodian market, while unofficial statistics indicate that as many as 2 million Chinese stay in Myanmar. The increase in the number of Chinese residents in Mekong countries seems to indicate that China is set to expand its influence within the region.

Even with the growth of the Chinese manufacturing industry, Chinese goods such as electronics, advanced-technology products, steel goods, garments, textiles, and cars, have rapidly encroached on the Mekong economic region.

Korea's Need for a Public Sector-Private Sector Joint Strategy

The ASEAN bloc is Korea's second largest trading partner, accounting for 13% of Korea's exports and 17% of its investment in foreign manufacturing, making it an important region that has both direct and indirect impact on the Korean economy. ASEAN holds an ultimate goal of building a globally competitive economic community by integrating member states' economies into a single market and production base. To do this, the association will first expand investment to improve infrastructure in underdeveloped member countries along the Mekong. This is an opportunity for Korean companies to carry out development projects in the region including Cambodia, Laos, Myanmar, and Vietnam (CLMV).

In order to seize impending opportunities the Korean government must take initiative and establish a systematic cooperative framework, as Japan and China have done. The Korean government must select the most efficient projects in each respective country and support those projects with greater ODA and money made available through the Economic Development Cooperation Fund (EDCF). Such efforts will pave the way for Korea and its companies to rise globally, based on a foundation built in the Mekong economic belt, thus increasing Korea's global influence.

Department store on the main street of Yangon, Myanmar. A few goods are on display

Allow us to examine two construction projects: the Mekong River embankment and the construction of a riverside park, both implemented with the help of EDCF. Korea's Heunghwa Construction won the contract, having begun business in 2008 importing Korean construction equipment. A few years later, Korean heavy equipment, such as dump trucks, mixers, and excavators, as well as Korean vehicles, became very popular in Laos, which led Korean corporations to export large amounts of products to Laos. This is a good example of the way in which numerous opportunities emerge when the government opens doors through inter-country cooperation, allowing companies to enter new markets.

The Mekong economic belt could also be a land of opportunity for the small and medium-size companies of Korea that ran into dead ends in China after sharp wage increases. As wages in the Mekong countries are expected to remain low, companies in labor-intensive industries may invest in the region. To help these companies move their businesses to the Mekong region, governments should cooperate with each other and help companies that would otherwise find difficulty adapting to local environments and managing risks.

Finally, the agricultural sector, where Chinese companies have already developed inroads, is an area in which Korean companies with advanced technologies could also excel. Cultivating major crops such as palm oil, rubber, and coffee could make use of the fertile and plentiful land in the Mekong region, making it a promising area of business.

Mekong Logistics Network Economic Corridors

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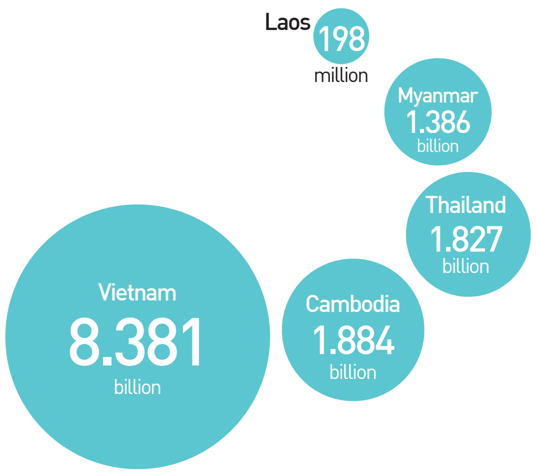
Korea's Foreign Direct Investment in Mekong Countries

(Unit: USD, cumulative total as of the end of 2012)



Development Stages of the Economic Corridors

Stage 1: Transport Corridor
Improve infrastructure including roads and railways

Stage 2: Transport and Trade Facilitation Corridor
Institute a system to facilitate cross-border trade

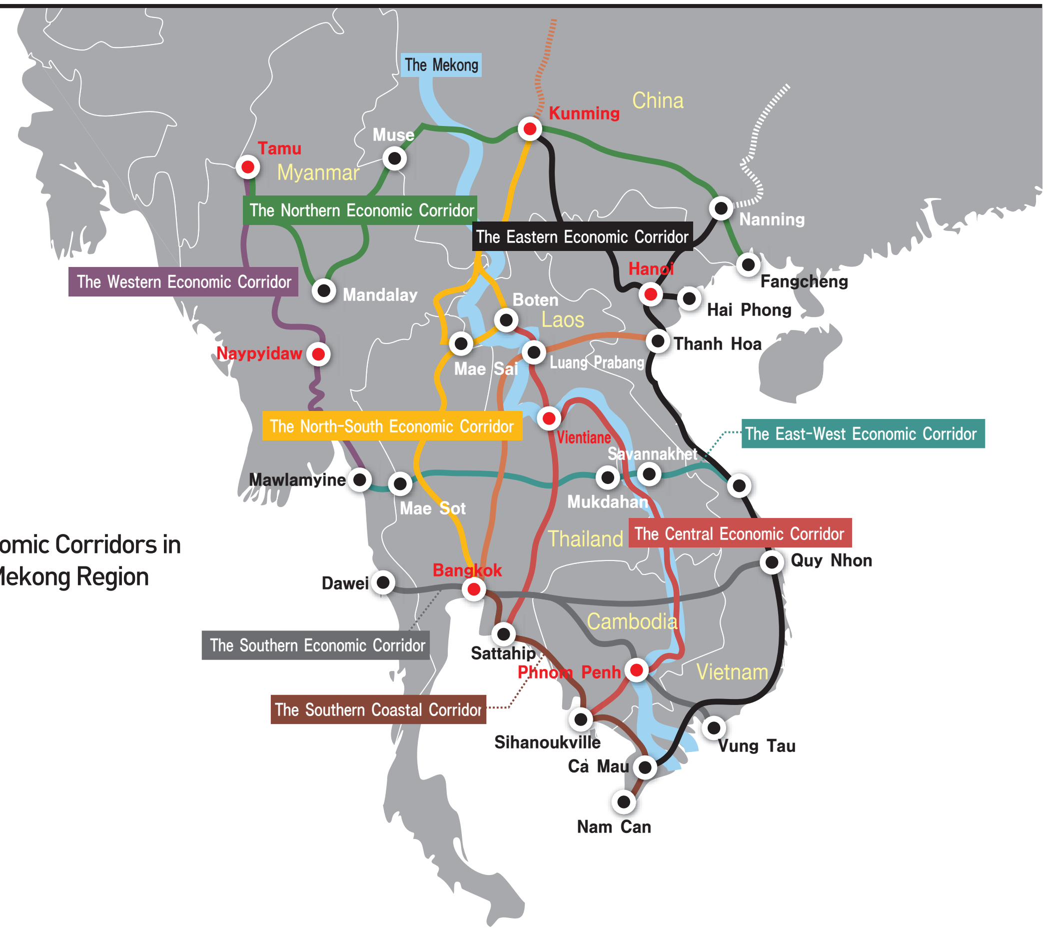
Stage 3: Logistics Corridor
Develop cross-border logistics

Stage 4: Urban Development Corridor
Establish economic infrastructure including electricity, water, and sewage facilities

Stage 5: Economic Corridor
Set up specialized economic zones in border areas to promote private investment

※Currently, stages 1-3 are under way

Economic Corridors in the Mekong Region



Fifty-four years after the end of the Indochina War, war clouds are again hanging over the Mekong region. But this time it is a war in the Economic Corridors. And there is no gunfire, only a behind-the-scenes struggle among countries that is growing more intense.

The Economic Corridors refer to a network of roads that connect the Mekong countries–China, Myanmar, Thailand, Laos, Cambodia, and Vietnam–like blood vessels. Developing the corridors is part of the Greater Mekong Subregion (GMS) Economic Cooperation Program led by the Asian Development Bank (ADB). The GMS project aims to develop the corridors into an "economic belt" by 2018 through efforts to boost a variety of industries, cross-border trade, and tourism. The GMS program covers nine transport corridors, including the East-West Economic Corridor (EWEC) linking Mawlamyine, Myanmar to Da Nang, Vietnam, and the Southern Economic Corridor (SEC) connecting Dawei, Myanmar, to Quy Nhon and Vung Tau, Vietnam.

On April 26, I visited the 1,450-km-long East-West Economic Corridor (EWEC). In two days, I drove 540 km from Savannakhet, Laos, to Da Nang, Vietnam. I wanted to see how much potential the road had and whether it could be used for transport. I started from Mukdahan, a town in Thailand bordering Laos. Next to the border, dozens of freight cars stood in a roughly 100-meter-long line.

The Thai-Lao Friendship Bridge built by Japan linked the two countries. The 12-meter-wide bridge spanning 1.6 km was completed in 2006, financed by Japanese loans worth USD 70 million.

In fact, behind the "friendship" lies careful calculation by the Japanese government. Japan needed to complete the EWEC, which had been cut off by the Mekong River. The corridor is an essential supply route for Japanese companies operating in Thailand because transporting goods to the Mekong region through the corridor is faster and safer than crossing the Straits of Malacca and Singapore.

Indeed, the Friendship Bridge has brought significant change. Says Jjonggon, a trucker in Thailand, "The number of vehicles and goods has increased four to five times since the bridge was built." Jeong Wang-chan, Vice President of the Kolao Group, a Korean company that operates in Savannakhet, explains further, "In the past, we had to use barges, so it took two days to transport exports during the dry season, but now it takes less than an hour."

It took less than 15 minutes by car to cross the border and arrive at Savannakhet. Except for driving on the right instead of the left and using a different currency, nothing changed after crossing the border. One official at the Laos Immigration Office said, "About 1000 to 2000 people pass through here every day."

Savannakhet is a strategic point where the EWEC meets the SEC, and it is also the site of an industrial complex. In the downtown area, large and small factories were located 1 to 2 km apart–clear evidence of urban planning. At one construction site in the complex, excavators were digging up soil. The Savan-Seno Special Economic zone (SEZ) was established within the Savannakhet industrial zone in 2004. A growing number of Japanese companies that have come through the Economic Corridors launched their operations in the complex.

Kp-Nissei Mizuki Company, a subcontractor for Nikon, also operates in Savannakhet. "Most companies in the region have benefited from the Economic Corridors and special economic zones," says Chitarat Pilapandet, the general manager of Kp-Nissei Mizuki. "For the past 30 years, companies within the SEZs have paid almost 0% in taxes." The Korean investment company Kolao has also established a motorcycle manufacturing facility in the industrial complex. However, it still transports most raw materials and finished products through the Thai-Lao Friendship Bridge. Jeong said, "The East-West Economic Corridor has great potential, but for now, it is still not effective." He says this is because of the section from Laos to Vietnam, noting that unlike the Thai language, Vietnamese is very different from the Lao language, and Vietnam requires lengthy administrative procedures. The volume of goods transported from Vietnam is also less than that of goods coming in from Thailand, and the section from Laos to Vietnam is rugged and narrow because of its mountainous location.

The East-West Economic Corridor was indeed narrow and rugged. From Savannakhet, a two-lane road extended endlessly for the six-hour drive to the Laos-Vietnam border. When a cultivator appeared, the traffic was backed up because the road was so narrow. Sometimes cows and pigs ran onto the road. However, except for the first 50 to 60 km section from the Laos-Thailand border, the road was relatively well paved. In addition, the Japan International Cooperation Agency (JICA) plans to pave the road's unfinished middle section by 2015. I had to drive for one hour through a road that was still under construction and could not drive faster than 30km/h.

Around 2 pm, after about 3 hours had passed since my departure, the landscape began to change. Leafy trees and ridges came into view. This meant I had gotten closer to the Vietnam border. It was rough terrain, which was well known as "the Ho Chi Minh Trail," where guerrillas would hide during the Vietnam War.

After driving for one more hour, I saw a road sign that read "77 km to Laobao," indicating the border between Laos and Vietnam. More cars became visible. I was surrounded by freight cars carrying stone and hardwood. On the other side of the road, trailers carrying cars were heading in the opposite direction. This indicates that Laos exports raw materials and imports industrial products from Thailand and Vietnam. The Vinh Phuong Restaurant near the border played Vietnamese broadcasts and accepted Lao Kip, Vietnamese Dong, and Thai Baht.

It took more than twice as much time to pass through the Laos-Vietnam border than it took to pass through the Thailand-Laos border. Administrative procedures in Vietnam were slow, unlike in Thailand and Laos. After crossing over, I had to keep driving uphill. The country's floating population seemed twice as large as that of Laos. And it was a rugged mountainous area: a truck coming from the opposite direction approached at an average speed of only 30 km/h. Drivers could not go faster because they might fall dozens of meters from the cliffs.

At about 6 pm, the sun went down. I continued to drive the dark two-lane road without the aid of streetlights. I finally saw a traffic light in downtown Dong Ha, a city in central Vietnam. I drove for two more hours and arrived in the Vietnamese city of Hue at 8:20 pm. I was only 100 km away from Da Nang. Tourist buses filled the four-lane road. The area was ablaze with neon signs. I decided to stay the night at Hue.

In order to go to Da Nang from Hue, you have to go through the Hai Van Pass, one of the most scenic hillside roads in the world. The winding route stretches 21 km, which is the worst condition for a supply chain. However, now you can get across in ten minutes, thanks to the 8-km-long Hai Van Tunnel, which was built by a Japanese company in 2005.

By 4 pm on April 27, I had driven 540 km from Mukdahan. As soon as I passed through the tunnel, I saw Da Nang Port. At the port, containers from all over the world were piled up like mountains. The EWEC ended there. However, the road will be extended further through sea routes to the Americas and Asia.

Cambodia is Ready to Leap from Poverty

Sa, Dong-cheol _ Senior Principal Researcher, POSCO Research Institute

A garment factory in Phnom Penh. Factory workers work diligently even the day after a national holiday.

Once known as the Khmer Empire, Cambodia is a country that ruled the Indochinese Peninsula from the 9th to the 14th century. At the same time, it is a country that still suffers from trauma caused by the memory of the so-called "Killing Fields."

One of the world's poorest nations, with a per capita income of less than USD 900, Cambodia now seeks to leave the past behind and move forward into the future. Last February 20th, the 2013 Cambodia Outlook Conference was held in the capital Phnom Penh. Since 2007, the annual conference has been organized by the Cambodia Development Resource Institute (CDRI), the country's leading independent development policy research institute, in partnership with ANZ Royal Bank. In his keynote address, Prime Minister Hun Sen declared, "We are now at a critical point in Cambodia's socio-economic development as we build on our past successes and move steadily towards graduation from least developed country status to lower middle-income status by 2015-16."

Cambodia's Growth Engines : Garment and Tourism Industries

According to the Asian Development Bank (ADB), Cambodia's economy grew 7.3% last year. Among the five countries bordering the Mekong, it had the second highest growth rate after Laos at 7.9%. Cambodia's rapid growth can be attributed to an increase in garment exports as well as a booming tourist industry and real estate development.

Recently, a growing number of garment makers have moved their factories to Cambodia due to rising labor costs and real estate prices in neighboring nations such as China and Vietnam. As of 2011, the garment industry accounted for 17% of Cambodia's GDP and 80% of its exports. When I visited a Korean-operated garment factory in Phnom Penh around the middle of April, most of the factory workers were working diligently even though it was the day after the Cambodian New Year (Chaul Chnam Thmey), a national holiday.

The booming tourism industry fueled by visitors to Angkor Wat is also an important growth engine, with the ancient temple alone generating half of the country's tourist income. The number of foreign tourists exceeded 1 million in 2004 and reached 3.85 million in 2012, bringing in USD 2.2 billion in tourism income, or 15.3% of Cambodia's GDP. The tourism industry brings in a large amount of foreign currency, serving as an essential growth engine along with the garment industry.

The construction sector is also vibrant due to a recent housing and construction boom. Indeed, a number of large-scale skyscrapers were under construction in central Phnom Penh when I visited. A local Korean tour guide told me: "The skyline in Phnom Penh is rapidly changing because of the construction boom in high-rises." According to The Phnom Penh Post, the number of construction companies registered with the Cambodian government totaled 1,205 as of last year.

New Frontier Market in Asia

Foreign investment to Cambodia is rising again thanks to the high, steady growth of the Cambodian economy following a decline during the global financial crisis. The increase in foreign investment indicates that investors recognize Cambodia's growth potential even though it is still a relatively small economy with a population of only 15 million. Cambodia was also designated by Deutsche Bank as a "new Asian frontier market" in 2012 following Myanmar, Laos and Bangladesh.

According to the Korea Trade-Investment Promotion Agency (KOTRA), Korean companies' investment in Cambodia rose 87% year-on-year to USD 272 million in 2012, accounting for 12.5% of total foreign direct investment (FDI) in the Southeast Asian country. In other words, Korea was the nation's largest investor last year. The World Bank forecasts that Cambodia's growth rate will reach 7% both this year and next.

If the upward trend continues, Cambodia will become a lower middle-income country without difficulty. To that end, however, the country must solve a number of problems. Above all, it has to improve its aging infrastructure including roads and electric utilities. The traffic congestion in Phnom Penh is also a very serious problem, with only 12% of its roads being paved. Also, Cambodia depends on imports for 40% of its electricity demand, and the power supply is often interrupted, leading some businesses to operate their own power generators in case of blackouts.

Recent rises in wages and strikes are also obstacles to economic development in Cambodia. Even though the monthly minimum wage was increased by USD 14 in May, laborers keep demanding further pay raises, which could hinder inbound investment. Labor market stability is critical for Cambodia to promote the garment industry, an important growth engine.

The Mekong River

www.internationalrivers.org

The Mekong is a trans-boundary river that runs from the Tibetan Plateau to the South China Sea, through China's Yunnan Province and Indochinese countries including Myanmar, Laos, Thailand, Cambodia and Vietnam. The 4,800-km-long river is the longest in Southeast Asia and the 12th longest in the world. The size of the Mekong Basin is 795,000 km^2, which is approximately 3.5 times larger than the Korean Peninsula. The average annual discharge of the Mekong is about 475 km^3. The name Mekong is derived from "Mae Nam Khong," which means "the Mother of all Rivers." The Mekong River is the lifeline for all countries touched by its waters. In particular, about 86% of Cambodia's territory lies within the Mekong Basin, and more than half of its population depends on the river for their livelihoods. Even the fish caught in the Mekong constitutes more than 80% of the animal protein in the Cambodian diet.

As the five countries on the Indochinese Peninsula have emerged as an important economic bloc, countries such as Korea, China and Japan are involved in an intense competition to push ahead with development projects in the Mekong region. Two major cooperative development efforts being carried out in the area are the Greater Mekong Subregion (GMS) Economic Cooperation Program and the Mekong River Commission (MRC).

The GMS program, launched by the Asian Development Bank (ADB), is a regional development project aimed at the economic development and improvement of infrastructure in China and five Mekong countries as well as the enhancement of regional cooperation. The MRC is an intergovernmental body, which was established under the 1995 Mekong Agreement signed by Thailand, Cambodia, Laos, and Myanmar, with an aim to promote sustainable development of water and related resources and alleviate poverty in the Mekong region.

The development of the Mekong area has produced not only economic benefits but serious adverse effects as well. The ecosystem along the Mekong has been destroyed due to uncontrolled development and dam construction. Since China has built dams on the upstream Mekong, Laos and Cambodia are either building or planning to build dams of their own in an effort to address power shortages. But the international community has warned that building dams on the Mekong could destroy biological diversity and trigger water disputes among the six countries located along the river.

From Landlocked Country to Land-linked Country

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The Laos-Vietnam Border on the East-West Economic Corridor
The area is consistently crowded by trucks heading to Vietnam

Laos is a landlocked country on the Indochinese Peninsula, surrounded by five countries–China, Thailand, Vietnam, Myanmar, and Cambodia. Without access to the sea, the nation depends on land and air routes to transport goods. As such, Laos's geography is its Achilles' heel. Even more, the land routes within Laos have not been well developed. It takes 6 to 7 hours to drive the approximate 400 km route from Vientiane, the capital of Laos, to Savannakhet, an industrial city in Southern Laos. Although Route 13 connects the two cities, it is difficult to exceed speeds of over 80 kph, and almost impossible to exceed 100 kph; not only is it difficult to pass other vehicles on the two-lane route, but grazing cows and pigs frequently run into the road. Air routes also do not seem to be feasible in the near future given the lack of infrastructure and economic conditions in Laos.

Attracting Investment to Become a Strategic Point

Laos's slow logistics flow has contributed to its low national competitiveness. "According to statistics, logistics costs in Laos are about one and a half times higher than those of neighboring countries," said Park Ho-jeong, the vice-chairman and chief operating officer of the Lao Securities Exchange (LSX). "In order to increase industrial competitiveness, Laos must reduce production costs. But it may be difficult unless the country resolves the logistics issue."

Laos hopes that the development of the Mekong region will help the county make the transition from "landlocked country" to "land-linked country." The nation seems to believe that if the whole country is linked to its neighbors, Laos would no longer be a nation enclosed by land, but a strategic point through which other countries must pass. To that end, Laos has been actively attracting investment in logistics infrastructure.

In 2006, Laos completed the Friendship Bridge, connecting Savannakhet, Laos and Mukdahan, a border city in Thailand. The project was funded by a Japanese loan of USD 70 million. The final stage of construction of the East-West Economic Corridor, linking Savannakhet with Da Nang Port, Vietnam, is in full swing. As new bridges and roads are constructed, the Laotian economy is growing at a rapid pace.

According to the Bank of Laos, Laos achieved China's 8% growth target with economic growth rates of 8.1% and 8.0% in 2010 and 2011, respectively, following growth rates of 7.5% in 2008 and 7.6% in 2009. Despite a 2012 growth rate of only 7.9%, this was still the highest growth rate among the five countries of the Mekong.

Major Industries: Mining and Hydroelectric Power

Abundant mineral resources lie in Laos, a country 80% of whose land is comprised of mountains. Resources, including gold, copper, iron ore, mine salt, tin, coal, and plaster, have already been developed, while bauxite, lignite, limestone, and potassium have yet to be tapped. Laos holds an extremely high concentration of iron ore, 1 billion tons of which are estimated to lie under its soil. The concentration is so high that a US fighter-bomber once experienced an instrument malfunction while flying over Laos' mountainous land during the Vietnam War. Gold and copper make up 50% of Laos's exports, or more than 60% if nonferrous metals are added.

Hydroelectric power generation is another of Laos's resources. Laos was nicknamed "the battery of Indochina," due to its plentiful water resources. Koichi Takei, chief representative of the JICA Laos Office, said, "The high potential for hydroelectric power generation in Laos is attracting many foreign investors to the nation." The electricity generation in Laos rose to 3,890 MW in August of 2011, a 188% year-on-year increase when compared to September of 2010. Of the electricity produced, 3,400 MW was exported to Thailand and Vietnam, earning Laos USD164 million, a dollar values equivalent to a USD 250 increase in Laos's per capital income, or 25% of its GNI.

Laos, a Young Market

There are mixed opinions regarding investment prospects in Laos, even among the companies entering the country. Most firms recognize the country's potential, as Laos is a young market having only recently begun rapid growth. The average age in Laos is 19, making the nation one of "teenagers." Furthermore, Laos is also politically stable: "The political stability in Laos is very high, as it is a Buddhist nation that accepts a variety of cultures," said Han Myeong-gyu, the vice chairman of Kolao Group, a Korean company the perates in Savannakhet.

In this sense, Han said Korean companies can succeed in Laos if they target a niche market in the country even if the market size is small. "You can make money if you dominate 30% of niche markets in Laos," said An Yu-seok, a trade manager at KOTRA (Korea Trade-Investment Promotion Agency), Vientiane. To this An added, "I can say for sure that there are people in Laos who are ready to spend money." Jeong Wang-chan, the vice president of Kolao Group, also emphasized the importance of beginning a business in a market in which other companies have not yet entered.

On the other hand, Hand Sang-mun, the head of Korea Western Power Co., Ltd., said, "It's not easy to get a license in Laos, and the development process in the country is complicated due to environmental issues." He added, "Lack of infrastructure is a particularly serious problem."

BRIEF INTERVIEW

Philaprachifh Prachitiham , owner of Happy Baby Shop

Not only did she speak her native Laotian, she was also fluent in Thai, English, and French, providing a glimpse of the "land-linked" future of Laos.

The ATR 72, a twin-engine turboprop airliner flew up into the sky, cutting through the morning air. When the airplane achieved balance, reddish light began to fill the plane; beyond the windows, the sun was rising above the horizon. As the plane began to cruise, I, having boarded a propeller plane for the first time, was finally able to find relief. At 6:00 am, April 26, 2013, I departed from Wattay International Airport, Vientiane, and watched the dawn break from onboard.

The in-flight meal, which was served soon after takeoff, consisted of round bread with ham and snacks. On the outside of the box was written, "LAO Airlines: We are ready to be a Lao National Airline of international standards." The words, "international standards," seemingly there to appeal to foreign passengers, drew my attention. Laos, although landlocked, had its gaze set on the world.

A Laotian woman sitting next to me was listening to music and playing games on her smartphone. The scene did not seem to match a country per capital income of which is only USD 1,300. Out of curiosity, I asked her for an interview, and she willingly accepted my offer. The woman, with the long name of Philaprachifh Prachitiham, said she owned two baby shops called "Happy Baby," in Vientiane. She said she imports baby bottles, beds, and clothing from Thailand, China, and India. I asked her how business was. She answered, "Monthly sales are about USD 9000 to 10,000." She said she usually earns about 70% of the sales after paying rent and wages to 5 employees. Her main customers were foreigners living in Vientiane and wealthy Laotians. She is one example of someone who found success by entering a niche market.

Prachitiham was a cosmopolitan who already knew the meaning of "international standards," now being promoted by Lao National Airline. She spoke not only Laotian, her native language, but Thai, English, and French with fluency. She also said she often watches Korean movies and soap operas on Thai TV, a channel she is able to access in Laos. I thanked her for the interview and added, "I like your Jimmy Choo handbag." To this she replied nonchalantly, "It's a fake." Apparently the counterfeit market has already been conquered.

Still a Young Bride Courting Myanmar

Shim, Sang-hyung _ Senior Principal Researcher, POSCO Research Institute

Construction of a gas pipeline linking Myanmar and Kunming, China. The pipeline was completed in May.

With flights operating only four times a week, it was almost impossible to get a ticket for a direct flight from Seoul to Myanmar. This was not only the case in Korea. Masaki Takahara, Executive Managing Director of JETRO (Japan External Trade Organization) Yangon said that every month he had to offer consulting services to as many as 4,000 Japanese entrepreneurs who visit his office in Myanmar. These changes have been felt since President Thein Sein, considered a moderate in the post-junta government, took office in early 2011, leading Myanmar to implement a series of open-door policies and reforms.

East and West Struggle for Influence

Myanmar, a country shaped like a stingray and located at the westernmost end of the Indochinese Peninsula, is drawing the world's attention. Bordered by five countries–Laos and Thailand to the east, China to the north, and India and Bangladesh to the west, Myanmar is a country where East and West struggle for influence.

The Southeast Asian country is an indispensable partner for both the United States, which has been implementing a foreign policy known as the "Pivot to Asia," and China, which has been seeking to use Myanmar as a land route to the Indian Ocean. In the meantime, India has adopted its "Look East" policy in an effort to cooperate with Indochinese countries after feeling threatened by Japan and China. Japan, for its part, has provided support for the U.S. "Pivot to Asia" while China has expanded its own "String of Pearls" strategy. In other words, rising tensions among Asian countries are now hanging over Myanmar.

Since Myanmar emerged at the center of a sudden shift in international relations, global companies have flocked to the country, which had isolated itself from the international community following a military coup in 1962. As a result of its previous isolation, Myanmar has remained one of the world's poorest nations, depending solely on China, which had been providing it extensive aid. China is Myanmar's second largest export destination, and the majority of its foreign capital flows in from China.

China, Japan, and the U.S. Vie for Myanmar

China's economic approach to Myanmar is multi-dimensional. Over the past 20 years, the Chinese government has provided Myanmar with large amounts of Official Development Assistance (ODA) as well as social overhead capital (SOC) including a new airport in the capital Naypyidaw and dams on the upper Mekong. Private companies as well as state-owned enterprises are actively involved in trade and investment through Chinese nationals living in Myanmar. Yan Tao, the director of Yunnan Nan Lin, a leading private mineral resource development company in China's Yunnan Province said, "Our trade with Myanmar has risen 20% in recent years." This indicates the growing influence of China on Myanmar's real economy.

As for the United States, through an exchange of visits and summit talks late last year and earlier this year, it seems to have ended almost 60 years of hostile relations with Myanmar; however, the U.S. government still imposes economic sanctions on the Southeast Asian country. To fully lift the sanctions, the U.S. has to go through certain procedures and achieve international consensus and cooperation. Analysts forecast that Washington will soon pave the way for American companies to advance into Myanmar before international capital rushes in.

Meanwhile, Japan is aggressively investing in Myanmar. When the president of Myanmar visited Japan in April last year, the Japanese government promised that it would forgive JPY 300 billion of Myanmar's total debt of JPY 500 billion and allow Myanmar to pay back the remainder at low interest. In return, Japanese companies won contracts to develop the Thilawa Special Economic Zone (SEZ), 25 km south of Yangon. Of the 85 Japanese companies now operating in Myanmar, 32 entered the country last year. As Japan seeks to maintain its manufacturing competitiveness through overseas production, it considers Myanmar to be "the next China." Already Myanmar is well linked to Japanese companies' production bases in Southeast Asia, most of which are located in Thailand, and it is expected to become a developing country by 2030 with a population of 70 million.

However, the efforts of global companies to win over Myanmar seem premature given current conditions in the country. Myanmar's household electrification rate is only 16%, the lowest among Indochinese countries, and its infrastructure has much room for improvement. Electricity is interrupted for three to four hours a day because the country meets 87% of its electricity demand through hydropower, which is not generated sufficiently during the dry season. Against this backdrop, American banks and consumer products companies like Coca-Cola are planning to enter the Myanmarese market. Meanwhile, Japan is waiting for the completion of the Thilawa Special Economic Zone to make inroads into the manufacturing sector in Myanmar. "Myanmar is only a young bride. A number of suitors flock to her with dowries, only to be disappointed," said an expert in China, a country somewhat bewildered by the change of heart in Myanmar over the past two or three years. While the United States strives to earn economic gains, and Japan plans to have its companies move en masse to Myanmar's manufacturing sector, China believes that Myanmar still has a long way to go before becoming a developing country.

BRIEF INTERVIEW

K.K. Hlaing, Chairman of the SMART Business Group

Old-fashioned Ways of Doing Business Could Backfire

About the SMART Group

The SMART Group was established 19 years ago as an engineering services company. It offers equipment leasing services to oil and gas providers as well as material supply and catering services. Daewoo International, Korea's largest trading company, is one of its customers. The company has about 100 employees at headquarters or 350 including those employed by its subcontractors.

Please tell us about your experience with Korean and Chinese companies.

Korean companies have achieved excellent results with a positive, forward-looking attitude. However, they don't seem to be fully open to Myanmarese employees. In a broad sense, I think Korean companies need to improve communication with local communities. When we trade with Chinese companies, we try to be very careful. First of all, it is hard to understand the intentions of Chinese people in meetings because of the language barrier. Sometimes, Chinese firms suddenly change contract terms or lower the agreed price.

Can you give us some advice about doing business in Myanmar?

First, Myanmar is changing at a rapid pace. Do not place too much trust in your personal connections. Some foreigners boast that they know high-ranking Myanmarese officials. But that could backfire because Myanmar is changing so fast. Maintain transparency in your business. Second, find the right local partner. Some firms borrow the names of local residents to conduct business without a local partner, only to be swindled and forced to pull out. Third, take time to do market research. Do not trust all Myanmar people, and learn from the Japanese who conduct thorough market research.

Which businesses do you think will prosper?

First, resource exploitation businesses such as oil and mining development are expected to prosper. Second, the furniture industry is likely to thrive based on Myanmar's plentiful lumber. While the prospects for the labor-intensive textile industry and material processing are bright in the short term, the prospects for the knowledge-based software and ICT businesses are promising in the long-term.