

Mekong Subregion-RoK Cooperation to Build Stable Supply Chains in Southeast Asia

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I. Introduction

The Mekong subregion has emerged as a key hub in the global value chain (GVC), driven by a surge in foreign direct investment (FDI). This development is rooted in the Mekong subregion's robust economic growth, positioning it strategically amid the ongoing competition between the United States and China for global hegemony. The RoK recognizes the strategic significance of the Mekong subregion and has embarked on cooperative efforts in this context. We delve into the potential of harnessing the Mekong subregion to enhance RoK's supply chain diversity. While it may pose challenges for the Mekong subregion to promptly function as a target for RoK's supply chain diversification due to its developmental and infrastructural status, we proactively explore potential avenues of RoK-Mekong cooperation to determine feasibility.

II. Global Supply Chain Cooperation in the Mekong Subregion with Major Developed Countries

We examine the GVC policies promoted by major developed countries, including the U.S., China, and Japan, alongside the Mekong countries' own GVC strategies. The United States, for instance, champions the "Mekong-U.S. Partnership," concentrating on economic integration, human resource development, and non-traditional security mechanisms within the Mekong subregion. China pursues cooperation with the Mekong primarily to establish a connection between the Mekong subregion and the southwestern region of mainland China via the Lancang-Mekong Cooperation (LMC) initiative. Notably, China has also bolstered its presence through revisions to the ASEAN Free Trade Agreement (FTA) in 2016 and its active involvement in the Regional

Comprehensive Economic Partnership (RCEP). Japan, in the aftermath of the global financial crisis, formulated the Comprehensive Asian Development Plan (CADP) which encompasses the Mekong subregion and India and aims to weave global networks across these regions by fostering extensive-area infrastructure and developing industrial complexes. Japan's strategic shift to expand production bases across Asia and the initiation of the "China+1" strategy in 2012 are further examples of its proactive approach. Moreover, the ASIA-Japan Investing for the Future (AJIF) initiative launched in 2022 underscores Japan's commitment to fostering ASEAN, including the Mekong subregion, as a central hub within the global supply chain. Concurrently, Japan is augmenting support for its corporations to diversify their overseas supply chains.

The five Mekong countries have demonstrated that engagement in both the GVC and the ASEAN regional value chain (RVC) is a key strategy for their economic growth. Each Mekong country has adopted different approaches and methods for participation within the global and regional value chains. Broadly speaking, the Mekong countries' GVC strategies involve fostering direct GVC participation while simultaneously upgrading their industrial framework. Notably, in cases such as Vietnam and Thailand, policies that encourage GVC participation seem to exert pressure on (FDI entities to increase transactions with local firms. The strategy of indirect GVC participation revolves around extending the length

of GVC production through product innovation and broadening the international division of labor within production processes. At the same time these countries are implementing industrial policies to improve their economic framework.

III. The Current Status of GVC Participation and Structural Change in Mekong Subregion

We delve into the influx of Foreign Direct Investment (FDI) into the Mekong subregion's five countries. Japan, RoK, the United States, and China have emerged as major investors in this region, particularly in sectors such as energy, construction, information and communications, and electronics. While Cambodia attracted RoK's FDI mainly in the finance and insurance sectors, Laos focused on electricity, gas, steam, and air conditioning supplies. In Myanmar, the mining sector was the main recipient of FDI from RoK, while Thailand and Vietnam received FDI mainly in the manufacturing domain. The analysis of the impact of FDI on export value-added, based on the gravity model originally proposed by Tinbergen in 1962, indicated a notable positive correlation between FDI inflows and export value-added. Additionally, the coefficient of Free Trade Agreements (FTA) on export value added was mostly estimated to be negative, while Preferential Trade Agreements (PTA), extended by relatively developed countries to their developing counterparts, were generally found to have a positive impact.

Vietnam demonstrated swift participation in the GVC but exhibited slower progress within the ASEAN RVC. Thailand, on the other hand, showcased measured participation in both GVC and RVC. Cambodia, by 2020, had already made significant strides in GVC participation, while Laos demonstrated more active engagement in RVC than GVC. Notably, the 2021 data showed a notable upswing in RVC participation in all four Mekong countries. This trend is attributed to ASEAN firms' growing recognition of the importance of supply chain stability and diversification of sourcing sources. In addition, the share of domestic value added in total exports varied across the Mekong subregion countries. Laos boasted the highest utilization of domestic value added among Mekong nations in value-added exports. Conversely, Vietnam's share of domestic value added in total exports showed a gradual decline. Among the Mekong countries, there was a lower utilization rate of domestic intermediate goods in low- and medium-high technology manufacturing. This suggests a potential increase in the demand for technology transfer in the manufacturing sector of the Mekong countries in the near future.

IV. Current Status and Prospects of RoK Firms' Value Chain Utilization in the Mekong Subregion

We surveyed RoK firms that have ventured into the Mekong subregion on their supply

chain diversification strategy. The survey assessed the current status and changes in sourcing and production structures while investigating the need for supportive policies for RoK firms operating in the Mekong subregion. Among the difficulties identified in establishing value chains between local and RoK firms, issues of quality and technological competitiveness issues, suboptimal logistics infrastructure within the Mekong subregion, and lack of local raw materials and parts stood out. Over 40% of respondents cited the competition between the United States and China, along with escalating protectionism, as having a negative impact on RoK firms' value chains within the Mekong subregion. Importantly, respondents projected a further escalation of these challenges over the next two to three years. Moreover, only 62% of respondents were aware of the establishment of the RCEP, underscoring the need for heightened awareness campaigns regarding the agreement among businesses. Additionally, firms emphasized the need for enhanced support, including non-face-to-face consultation on FTA concerns, issuance of certificate of origin, resolution of overseas customs challenges, and addressing non-tariff measures.

The survey also assessed the effectiveness of the RoK government's support measures. An interesting observation emerged, indicating a weaker correlation between awareness and use of these measures. This suggests that some firms were unaware of the existence of such measures before availing them, or others took advantage of these measures opportunistically

when needed. Notably, many firms selected multiple support measures simultaneously. Consequently, the packaging of these measures into cohesive bundles could potentially enhance policy effectiveness.

Respondents were also asked to rate the importance and immediacy of support measures from the RoK government. Expanding logistics infrastructure through Official Development Assistance (ODA) emerged as the most critical and urgent facet of expanding value chains in the Mekong subregion. This indicates that RoK firms, when considering extending their value chains to the Mekong subregion, consider local firms' capabilities in addition to the region's socio-economic infrastructure

V. Direction of RoK-Mekong Cooperation for Establishing Stable Supply Chains

Based on the culmination of research findings, we propose several directions for RoK-Mekong subregion cooperation aimed at stabilizing the RoK-ASEAN value chain. First and foremost, there is a paramount need to consistently promote cooperative policies to build trust. The Han River-Mekong River Declaration of 2019 and the 'Korea-ASEAN Solidarity Initiative (KASI)' of 2022 underline the principles of inclusivity, shared prosperity, and peace. Secondly, comprehensive cooperation beyond the economic sector alone should be reinforced. In a market-driven environment,

fostering common interests by promoting regional order and seeking solutions to both traditional and non-traditional security challenges is crucial. In addition, expanding socio-cultural exchanges is essential for enhancing mutual understanding between the two regions. Thirdly, a cooperation plan aligned with the Mekong subregion's demands needs to be formulated. Fourthly, the establishment of economic and social infrastructure support within the Mekong subregion should be expanded.

In addition, we propose seven strategies for fostering cooperation between the RoK and the Mekong subregion, anchored in directions of cooperation suggested above. As we have observed, with the exception of Vietnam and Thailand, the Mekong countries lack the industrial capacity to build stable value chains. Consequently, in order for the Mekong subregion to evolve into a dependable partner within a stable supply chain, the RoK must seek measures to enhance their industrial capacity. By doing so, RoK firms can increase their trade volume with both multinational and local firms in the Mekong subregion.

Primarily, the establishment of a 'Risk Response' Manual for each Mekong subregion country, utilizing Official Development Assistance (ODA) funds, is a key measure. This manual would provide a reference point for RoK businesses in the event of sudden crises such as infectious diseases, climatic disasters, or economic downturns. It is crucial to recognize that the Mekong countries and a significant portion of RoK firms that have recently

ventured into the region are particularly vulnerable to crises.

The establishment of a dedicated RoK-led think tank within the Mekong subregion is another avenue worth exploring. Existing information about the Mekong subregion predominantly is largely based on data from countries spearheading regional cooperation, such as Japan, the United States, and China. The limited accessibility to Mekong-related data posed a challenge to effectively link the value chain between the RoK and the Mekong subregion. Consequently, the creation of a RoK-led think tank within the Mekong subregion could bridge this information gap.

Consideration could also be given to setting up a 'Mekong-RoK Society,' designed as an international organization similar to the RoK-ASEAN Center, in cooperation with the RoK and the Mekong subregion. This initiative could harness the synergy of cooperation by involving all stakeholders, including the governments of both regions, private entities, representative offices of public institutions, and local administrations. This society could effectively serve as a comprehensive cooperation platform, encompassing economic, industrial, social, and cultural exchanges, as well as educational and technological collaboration between the two regions.

The strategic use of free trade agreements (FTAs) between the RoK and the Mekong subregion and the Regional Comprehensive

Economic Partnership (RCEP) can significantly increase trade. We find evidence that the establishment of FTAs and FDI inflows have significantly affected GVC participation. Notably, preferential trade agreements (PTA) played a crucial role in boosting trade, especially given the presence of underdeveloped countries such as Cambodia and Laos within the Mekong subregion.

Supporting the establishment of institutional infrastructure to meet technology transfer needs is another vital measure. As noted above, Mekong subregion countries are increasingly seeking technology transfer through obligatory policies aimed at GVC participation. Additionally, countries in the region have low utilization of domestic value added in the manufacturing sector. In response to the region's technology transfer needs, it is essential to focus on measures to improve intellectual property rights and technology security systems.

Enhancing the effectiveness of support through packaging and strategic delivery is crucial to stabilizing the value chain. According to our survey, firms' use of government support measures is driven more by necessity, than by prior awareness. Conversely, when using these measures, firms often opt for several specific support measures concurrently. This highlights the potential for packaging these measures into holistic offerings to improve efficiency.

Finally, promoting the use of strategic ODA and infrastructural development within the

Mekong region through solidarity with key Mekong stakeholders such as the United States, Japan, and China, holds great promise. Working with these nations that have significant commitments to the Mekong subregion can effectively promote connectivity and infrastructure development within the region. The results of the survey we conducted indi-

cate that RoK companies are eager to see infrastructural improvements within the Mekong subregion. With its strengths, such as its robust infrastructure technology and the capabilities of its world-class e-government infrastructure and services, the RoK is well positioned to cooperate with the United States, Japan, and China. **KIEP**