

The Study on the Current Situations, Problems and Countermeasures in Economic and Trade Exchanges Between China and Lancang-Mekong Countries

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Abstract—Through the operation of Lancang-Mekong Cooperation Mechanism for several years, China's economic and trade exchanges with Lancang-Mekong countries have reached an unprecedented height, and China has become the most important importer and exporter for these countries. However, comparing with America or Japan, the economic and trade exchanges between China these countries still have a lot of upside potential to raise. The purpose of this article is to briefly describe the current situation of trade, and analyze the main problem that Chinese enterprises are confronting when they trade and invest in the China-Indo Peninsula countries. Based on this, this article also tries to explore how to strengthen the economic and trade cooperation with these countries from two different perspectives of Chinese government and enterprises.

Keywords: *Lancang-Mekong Cooperation Mechanism, trade exchange, foreign direct investment, global production capacity cooperation*

I.LANCANG-MEKONG COOPERATION MECHANISM

At the 17th China-ASEAN Summit held in November 2014, Chinese Premier Li Keqiang proposed the establishment of the Lancang-Mekong Cooperation Framework, which was warmly welcomed by the five Mekong River countries. On the 23rd March 2016, the First LMC Leaders' Meeting was successfully held in Sanya,

Hainan Province. The meeting, released the Joint Statement on Production Capacity Cooperation Among Lancang-Mekong Countries, and the Sanya Declaration of the First Lancang-Mekong Cooperation (LMC) Leaders' Meeting -- officially launched the LMC mechanism. With "Shared river, Shared future" as its theme, the LMC aims at bolstering the economic and social development of the sub-regional countries, enhancing the wellbeing of their people, narrowing the development gap among regional countries and supporting a Community of Shared Future of Peace and Prosperity Among Lancang-Mekong Countries.

The LMC have identified three cooperation pillars of political and security issues, economic and sustainable development, and social, cultural and people-to-people exchanges as well as five key priority areas, connectivity, production capacity, cross-border economic cooperation, water resources, agriculture and poverty reduction. By synergizing China's Belt and Road Initiative and the ASEAN Community Vision 2025 as well as the Master Plan on ASEAN Connectivity 2025 and visions of other Mekong sub-regional cooperation mechanisms, the LMC is moving towards a new sub-regional cooperation mechanism with unique features driven by internal strength and inspired by South-South cooperation, which will support the ASEAN Community building and regional integration process, as well as promote the implementation of the UN 2030 Agenda for

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Sustainable Development.

The Lancang-Mekong Cooperation mechanism does not conflict with the existing Great Mekong Subregion Cooperation (GMS), ASEAN-Mekong Basin Development Cooperation (AMBDC) and the Mekong River Commission (MRC), but also promotes and complements these cooperation mechanisms. The greatest superiority of LMC is the direct promotion of national governments, which will give full play to the advantages of national talent policies and infrastructure, as well as better coordinate and realize the comprehensive development and management of the entire basin.

II. THE CURRENT SITUATIONS OF ECONOMIC AND TRADE COOPERATION BETWEEN CHINA AND LANCANG- MEKONG COUNTRIES

A. The current situation of trade

Since the establishment of China- ASEAN Free Trade Area, China and Langcan-Mekong Countries opened a new era of zero tariff to grow the total trade volume between each country continuously, and China has become the largest trade partner of Lancang-Mekong countries. By 2017, the volume of import and export trade reached a high record of 399.83 billion US dollars. Meanwhile, China's exports to ASEAN rapidly increased by 9.6% year-on-year, while imports from other countries increased by 19.4% year-on-year. Besides, the export share of Lancang-Mekong countries to the market in China also has increased.

From the view of export, Vietnam is the biggest export trade partner with China among Lancang-Mekong countries. Although the exports to Laos and Cambodia are in a small amount, there is still a year-on-year growth in exports to all countries. From the view of import, China's imports to Laos, Cambodia and Myanmar are relatively low, and imports from all countries in China-Indo Peninsula have increased year on year. According to the product classification in the fourth edition of The Standard International Trade Classification from Statistical Commission in UN, China has a larger import and export scale with Lancang-Mekong countries in four different industries which is SITC5, SITC6, SITC7 and SITC8, and the growth rate of trade scale also is relatively fast. Based

on this trade phenomenon, it proves that countries in the China-Indo Peninsula Economic Corridor (CIPEC) have initially established the foundation for global cooperation on production capacity.

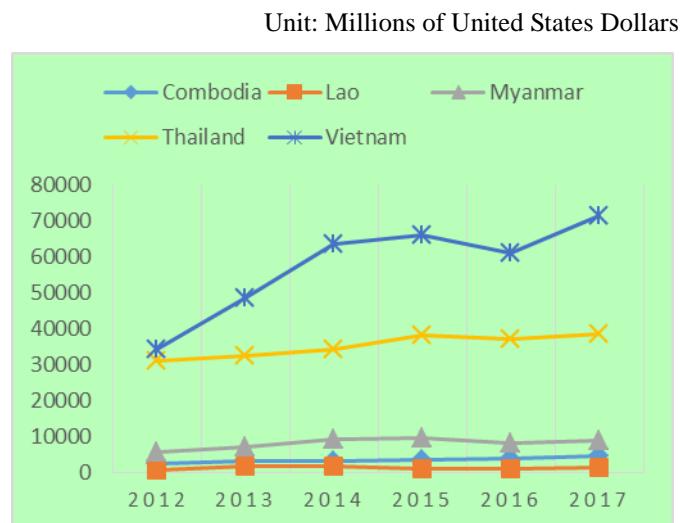


Fig.1. Export volume of China and other countries from 2011 to 2017

Source: UNCTADstat database

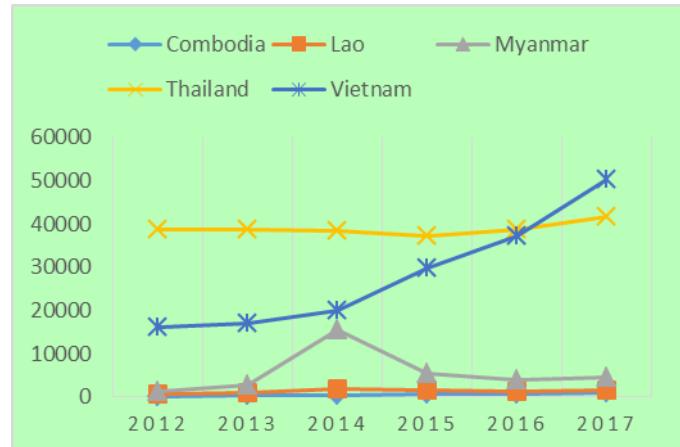


Fig.2. Export volume of China and other countries from 2011 to 2017

Source: UNCTADstat database

Through observation the above charts which lists the import and export volume between China and other countries, it can be obviously concluded that the trade volume demonstrates an overall increasing trend.

B. The current situation of investment

China's investment boom in Lancang-Mekong countries has lasted for several years, and China also holds a big

investment flow and stock in these countries. By 2017, the total investment flow in ASEAN reached 12.26 billion US dollars, and the total investment stock reached 77.43 billion, of which 51.56% of total investment flow and 57.56% of total stock was used in Singapore, with an increase of 92.76% and 92.85% year on year respectively.

From January to October in 2018, Chinese enterprises had already invested more than 11.9 billion US dollars in the non-financial sectors along the “One Belt and One road” countries, such as Singapore, Malaysia, Laos and etc. 1)At present, the investment in Laos from China is aimed at hydropower industry, mining industry, timber processing industry and infrastructure construction. In 2018, Laos was offered 990 million US dollars non-financial investment from China and the total volume of investment from China exceeded 10 billion US dollars. 2)The investment in Myanmar is mainly concentrated in petroleum and natural gas industry, hydropower industry, mining industry and infrastructure construction. In 2018, China’s investment in Myanmar reached 1.4billion US dollars, accounting for 24.4% of Myanmar’s total foreign direct investment increasing from 7.26% in last year. 3)In Thailand, the investment primarily focuses on metal processing industry, mechanical manufacturing industry, agricultural industry, chemical industry and electronics equipment manufacture industry. In 2018, the growth rate of China’s investment in Thailand doubled year on year than before, making China to be the third largest investor in Thailand (the first largest investor is America and the second largest is Japan). 4)The capital from China invested in Vietnam is prevailingly used to promote hardware industry, motorcycles and vehicle parts manufacturing industry, mechanical manufacturing industry and textile and clothing industry. Meanwhile, China also became the largest source of FDI in Vietnam in the first half of 2019. 5) In Cambodia, China's investment fields are electric power industry, textile and clothing industry, infrastructure construction and agriculture by large. China's investment in Cambodia has accounted for 53% of the total FDI, an increase of 54% over the previous year.

UNIT: Millions of United States Dollars

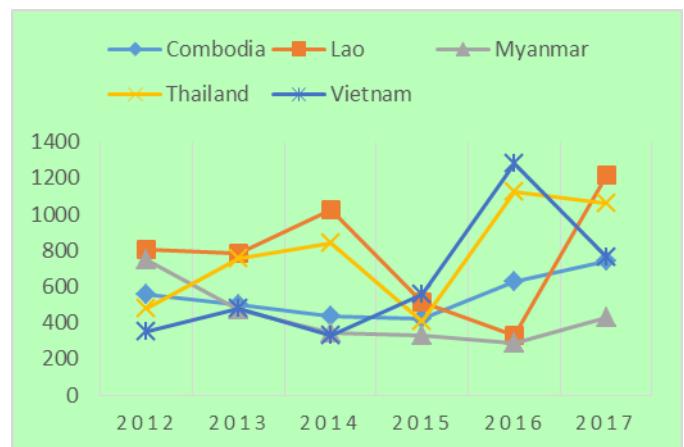


Fig.3. China's investment flow in Lancang-Mekong countries

Source from 2017 Statistical Bulletin of China's Outward Foreign Direct Investment by Ministry of Commerce

UNIT: Million of United States Dollars

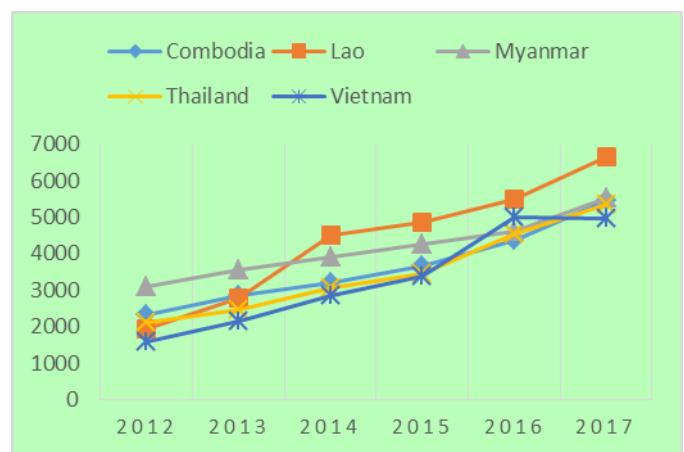


Fig.4. China's investment stock in Lancang-Mekong countries

Source: Source from 2017 Statistical Bulletin of China's Outward Foreign Direct Investment by Ministry of Commerce

The above table lists the investment flow and investment stock to each country. On the one hand, the volume of stock between China and China- Indo Peninsula Countries have maintained an overall growth trend; on the other hand, except for the decreasing trend of Laos and Myanmar, the investment flow has shown a fluctuating growth trend.

III. EXISTING PROBLEMS

A. Imbalanced trade development

Imbalanced trade development and growing trade deficit are the main problems in current trade between China

and Lancang-Mekong countries. China's trade with Lancang-Mekong countries has become more frequent. But due to the weak economic base of Lancang-Mekong countries, the economic development of the region is still lagging behind. It only makes up a small proportion of China's overall trade volumes. Entrepot trade is the main mode among all kinds of trade modes between China and Lancang-Mekong countries, which accounts for a large scale, but the development of a single trade mode can not improve the overall trade level.

B. Similar structure of trade products

There are great similarities between China and Lancang-Mekong countries in terms of natural environment, geographical location, production conditions and technical level. China's exports are mainly resource-intensive and labor-intensive, and Lancang-Mekong countries are also mainly dependent on export resource-intensive, labor-intensive products, which means that China and the countries of Lancang-Mekong basin have high substitutability for each other's export products. From the perspective of international labor division, China and Lancang-Mekong Countries have a high degree of similarity in different segments of many field, and the products exported to the international market are largely identical, as well as the export products are overlapping. Both China and the Indochina Peninsula countries have the same main export target countries.

C. Investment environment and policy issues

In parts of Indochina Peninsula countries, political turmoil, unstable foreign investment policy environment and inadequate implementation of foreign investment policies appeared. There are still problems such as government corruption, official corruption and bribery, which damage the interests of investors and bring risks to investment projects in some of these countries. Besides, the low level of economic development, insufficient infrastructure, weak industrial system, backward education and low quality of labor force in the countries of Lancang-Mekong basin also lead to low production efficiency and increase the production cost of investment, thus affecting the inflow of foreign capital.

D. Manufacturing accounts for a low proportion of oversea

investment by China

Chinese enterprises mainly adopt the form of product export and project contracting, and the proportion of foreign investment of production enterprises is usually low. In addition, the investment field is too concentrated. In the direct investment to Lancang Mekong countries, China's direct investment mainly focuses on labor-intensive industries and resource development projects. A large part of overseas investment projects are natural resources, accounting for more than half of all investment, while investment in high-tech and capital-intensive industries is relatively small. Compared with Japan and the United States, there is still a certain gap in China's investment capacity, and the level of direct investment is relatively low.

State-owned enterprises dominate in China's foreign investment. Meanwhile, China's enterprises have less ability to operate transnational business, and they are insufficient in localization development and integrating cultural differences. In addition, there are still some problems in China's overseas investment projects, such as loan difficulties. At the same time, the implementation of the export tax rebate system is not in place; the approval process of overseas investment projects is complex and time-consuming, which delays the progress of overseas projects; the foreign exchange management policies of overseas investment do not meet the actual needs. The capital pressure brought by these problems has dampened the enthusiasm of overseas investment.

IV.SUGGESTIONS FOR THE COOPERATION BETWEEN CHINA AND LANCANG-MEKONG COUNTRIES

A. Government Perspective

1) Improve the top-level design, and establish a service system

The government should devote more energy to top-level design, formulate corresponding policies, simplify the administrative examination and approval procedures, eliminate unnecessary charges and remove unreasonable against restricting cooperation. By means of macro guidance, the disordered overseas competition among enterprises caused by the over concentration of investment fields can be avoided.

At the same time, the government should assist the media to carry out public opinion response and positive publicity, ensure the implementation of international production capacity cooperation through multiple channels, and try to prevent and deal with external security risks.

In addition, relevant departments should optimize information services, guarantee the abutment of cross-border enterprises, further intensify overseas investment supervision, and ensure investment safety through legal or other professional services. As the main sponsor country, the Chinese government should also actively mobilize the governments of all countries in the Lancang Mekong cooperation mechanism, encourage the establishment of third-party consultation institutions, provide financial, scientific research, foreign affairs and other services, strengthen assistance, and attach importance to the role of intermediary institutions in international production capacity cooperation.

2) Reinforce financial cooperation and expand financing support

The government ought to strive for the voice of the international financial order and improve the overall environment for China's international production capacity cooperation. In addition, it should improve the service capacity of the financial sector to provide guarantee for project financing. The economic sector should pay attention to innovating and developing financing channels according to the current financial market conditions of the Lancang-Mekong countries, encourage financial institutions to expand business in the partner countries, or cooperate with their local financial institutions, and focus on the cooperative industries. In particular, by the means of the existing cooperation mechanism, it should provide financial support on the existing cooperation platform, so as to diversify the use channels of foreign exchange reserves and solve financing problems.

3) Promote the formation of industrial chain in Lancang-Mekong region

Government officials and experts should correctly analyze the strengths and weaknesses of China's industries, find out and strengthen the complementary industries with

cooperative countries, improve comparative advantage industries, reasonably arrange industries, orderly promote interregional cooperation, strive to establish cooperation models covering all aspects of the value chain, and form the integration of cooperative industries. When confronting key areas with high degree of coupling and strong willingness of partner countries, the government should formulate policies to encourage Chinese enterprises to "go global" and actively carry out and gradually expand in-depth cooperation.

4) Using industrial park to set up a model of global production capacity cooperation

Overseas industrial park is a general platform for Chinese enterprises to implement "Go Global" policy, which can expand the field of overseas businesses, cooperate with other countries' resources, realize benefits sharing with local society, and complete risk sharing system. Therefore, China should further promote the development of industrial park, and actively establish industrial park platforms in areas with which partners are concerned. Meanwhile, government of all Lancang-Mekong countries should strengthen guidance and coordination to achieve the establishment of a model for global production capacity cooperation.

B. Enterprises perspective

1) The strategy of adopting cluster investment

Considering that the business environment in Lancang-Mekong countries is generally insufficient, China's enterprises have to confront with a dilemma that the law enforcement capacity of local government in some countries is defective, the relevant department administrative effectiveness is low, the corruption of officer is difficult to prohibit and so on. Chinese enterprises, especially those going global for the first time, need to constantly accumulate experience, actively adjust their mentality and strive to adapt to the local business environment. Thus, adopting the way of cluster foreign direct investment is able to better realize its own value in the investment destination and give full play to the advantages of SMEs.

2) The strategy of integration into local community

In addition to negotiate with investment destination government, Chinese enterprises should also pay special

attention to strengthening the relationship with local community, considering the social and cultural development needs which contrapose differences of each country, as well as the political and economic trends, institutional reform and medium-term or long-term development strategies of Lancang-Mekong countries. China's enterprises should take the integration as one of the most important basis for formulation of foreign direct investment and financing strategy to be responsible enterprises for the welfare and promotion in local community, and to reduce the resistance of project construction from local citizens. Currently, industrial parks invested by China's enterprises have been established in every Lancang-Mekong country, and some of them have been certified by the Ministry of Commerce in investment destination government that just provides great convenience for enterprises to strive for preferential policies. In the way of investment and financing, enterprises should also break the situation of sole investment by the capital only from China and let the Lancang-Mekong countries join into the projects and share the interests from investment.

3) *The strategy of establishing a positive enterprise image*

Some enterprises which invested in Lancang-Mekong countries are still in the initial stage of "Go Global" policy, thus the decision makers in enterprises do not grasp the knowledge of local laws and regulations, and they have weak awareness of public opinion risk prevention. In addition to this, China's enterprises are not able to cope with the situation that Mekong countries are in line with western countries in terms of social responsibility which require the foreign enterprises to be responsible for the local society promotion with high standards and strict requirements. Chinese enterprises which investe overseas should strengthen cultural construction about the traditions in the investment destination and training of relevant personnel in accordance with local social conditions and people's conditions, standardize enterprise behavior to abide by the local laws, and incorporate the construction of overseas image into the overall development strategy.

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