

## **Navigating China's Expanding Influence in the Mekong Sub-region: Opportunities and Challenges for Republic of Korea and Thailand<sup>1</sup>**

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### **Abstract**

This paper examines the impact of regional economic cooperation between Thailand, the Republic of Korea, and partner countries, focusing on the efficiency of the Greater Mekong Sub-region (GMS) cooperation. Overall, we find that the GMS takes a noteworthy part in Thailand and the Republic of Korea's economic portfolios. We apply the gravity model of international trade associated with random-effect method to predict multilateral trade investment and finance cooperation. We found significant interaction terms between trade openness and financial development in GMS cooperation. In other words, while trade openness can facilitate the Republic of Korea's and Thailand's exports of goods and services, financial coordination becomes more improved. These results indicate key relationship factors that can facilitate efficiency of GMS cooperation. However, Thailand and the Republic of Korea need to move forward to facilitate some vital policy implications in the context of greater benefits from GMS economic cooperation, especially on trade liberalization associated with economic reform programs and financial development.

### **Keywords**

Greater Mekong Sub-region, Thailand, Republic of Korea, Gravity model

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## **Introduction**

Thailand has attempted economic and political development, and recently increased rate of middle-income status. For example, Thailand has drastically reduced poverty and significantly improved public policies. Despite both a national and global economic slowdown from Covid-19, Thailand still remains an improving economy in Southeast Asia, and actively promotes Greater Mekong Sub-region economic cooperation, especially as a decisive partner for the less-developed Greater Mekong Sub-region countries.

The Mekong subregion holds far-reaching potential for state actors such as the Republic of Korea (ROK) and Thailand in the areas of finance, trade and the expansion of political influence. However, the Mekong sub-region is also an arena of complexity, with cross-cutting political relationships as well as economic interests among multiple sectors deriving from countries such as China, the US and Japan. As a result, navigating these challenges and complexities will be no easy task. In fact, the Mekong is the twelfth largest river in the world and the longest in Southeast Asia. Its origin lies in the Tibetan highlands, and flows through the Chinese province of Yunnan, as well as other countries such as Myanmar, Thailand, Laos, Cambodia, and Vietnam. This geographic interest will affect finance, trade and the expansion of political influence.

In turn, this project examines opportunities and challenges for the ROK and Thailand in the Mekong sub-region. ROK's trade has been heavily dependent on the United States and China. Over the last three years (2018–2020), the United States and China accounted for 38.1 percent of Korea's total exports (Kwak, 2021). This concentration on certain countries in its trade relations has made Korea susceptible to changes of its trade partners. The ROK's vulnerability makes the Mekong subregion, comprising of Myanmar, Laos, Thailand, Cambodia, and Vietnam, attractive for trade and foreign investment, thus holding far-reaching potential for catalyzing extensive economic growth (Lu, 2012). In addition, Thailand also seeks to expand its influence and protect its interests as a country located downstream of the Mekong River. This is because China's dams located upstream of the Mekong can significantly change the river's natural flood-drought cycle which affects not only Thailand but also other lesser influential states in Southeast Asia.

Due to multiple competing frameworks such as the Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy (ACMECS) and the ASEAN Mekong Basin Development Cooperation (AMBDC) as well as the expansion of other state actors in the Mekong sub-region, it is vital for the ROK and Thailand to be aware of these challenges and opportunities in order to pursue appropriate strategies to support the development of economic corridors, facilitate cross-border trade, and enhance opportunities for investment. It is also important for both the Republic of Korea and Thailand to seek ways to enhance their political influence and relationships within the sub-region. For example, South Korea

recorded a trade deficit with China for the first time in almost thirty years in May 2022. Additionally, South Korean direct investment in China totaled US \$4.5 billion in 2021, a decrease of 23.1 percent from the previous year. In the case of manufacturing businesses, investment fell by 26.6 percent from US \$5.43 billion to US \$3.99 billion (The Federation of Korean Industries, 2022).

The underlying drivers behind this downturn cannot be solely attributed to the exceptional circumstances of the pandemic and war, as many have done, but to deeper and more structural reasons that must be traced back several years (The Federation of Korean Industries, 2022). The ratio of China in Korea's investment portfolio and net exports is dropping sharply amid a slowdown of economic growth, rising costs and regulations in China.

On the other hand, The ASEAN region has become Korea's second largest trading partner after China, moving up from fifth place over the past 10 years. The ROK government expects the region to become even more important as a partner for economic cooperation in the changing international trade environment. Therefore, the Korean government wants to deepen relations with five Mekong countries: Thailand, Cambodia, Lao PDR, Myanmar, and Vietnam. According to the Bangkok Post, many Thai listed firms and industries are already investing in GMS and their foreign revenue reached approximately 40 percent of their total for listed firms.

However, GMS is facing a huge loss due to the slowdown of world and sub regional economies due to the COVID-19 pandemic which may shrink the mixed resource envelopes and deteriorate value supply chains. Moreover, GMS still suffers from severe climate change impacts, leading to unsustainable growth that may terminate natural capital.

Therefore, the Korean government has two main reasons for developing political and economic relations with the five Mekong countries. The first is economic diversification. The Korean government decided to improve cooperation in response to China's economic sanctions targeting the Republic of Korea. China's sanctions are also in response to the Republic of Korea's decision to allow the United States to deploy the US THAAD missile defense system. Therefore, the Korean government has implemented intentional policies to diversify its economic relations outside of China by relying on the Mekong countries' export market, particularly in the areas of international trade and investment. These measures have shown how the Korean government can reduce the threats of Chinese economic intimidation in response to the US-China trade conflict.

Second, unexploited economic and political opportunities exist in Mekong countries that merit elevating Mekong-ROK relations. The Korean government wants to support Korean companies to participate in infrastructure projects and make inroads into the manufacturing sector. The Korean government also identified Southeast Asia as a potential market for emerging new technology. In addition, the spread of Hallyu in Mekong countries has

facilitated the growth of foreign markets for K-Food, K-Beauty, and K-Pop products.

Therefore, the main questions of this paper are:

1. In the face of rising China in term of political and economic power, what are the opportunities and challenges for the Republic of Korea and Thailand to expand their political influence in the Mekong sub-region?
2. What are the opportunities and challenges for the Republic of Korea and Thailand to expand trade relationships in the Mekong sub-region amid multiple competing frameworks such as the Lancang-Mekong Cooperation (LMC), the Greater Mekong Sub-region (GMS), and the Mekong River Commission (MRC)?
3. Are there any opportunities for the Republic of Korea and Thailand to cooperate in order to enhance the strategic benefits of investment policies?

## **Literature Review**

There is an abundance of articles and edited volumes that explore a range of political and economic issues as well as China's expanding influence in the Mekong sub-region. For example, there has been a lot of discussion dedicated to the benefits and challenges of cooperation (Branchoux, 2018; Medhi, 2004; Than, 1997; Oehlers 2006; Zhu, 2010) as well as the political and economic impact of China's expanding influence in the Mekong sub-region (Han, Meas, & Hatda 2021; Lee and Scurrah 2009; Nisit & Chukiat 2020; Siriluk 2004). Though these existing studies have contributed to the field of political and trade/investment research in different ways, there has been little attempt to offer any analyses on opportunities and challenges for the Republic of Korea and Thailand to expand trade, investment and political influence in the Mekong sub-region.

For example, China's policy of upgrading its strategy, particularly at the early stage of the "Belt and Road" Initiative, includes cooperation with Laos, Thailand, and Cambodia, and further development of law enforcement and security cooperation (Lee & Scurrah, 2009).

There has been an increasing interest among IR and economic scholars on the Greater Mekong Subregion Economic Cooperation Program (GMS-ECP) which is one of the earliest and most effective regional cooperation programs that China has participated in (Lee and Natalia, 2008 and Ishida, 2005). Many articles mainly focus on the following factors:

- (i) the level of execution of the "Making Central Breakthrough" scheme, and the focus on managing cooperation with Laos, Thailand and Cambodia. In other words, by promoting two wings as a result of the East Sea with Vietnam and political and economic transformation in Myanmar, China will be able to extend political and economic partnerships with GMS countries, especially with Laos, Thailand and Cambodia (countries in the middle of the Mekong River region).

- (ii) the effectiveness of the coordination of mechanisms among Lancang-Mekong Cooperation (LMC), The Greater Mekong Sub-region (GMS), and the Mekong River Commission (MRC). In other words, China can extend relationships with GMS countries with a new mechanism in five areas, such as poverty reduction, interconnectivity, production capacity, water resources and cooperation on agriculture; and cross-border economic cooperation (Nisit & Chukiatt, 2020).
- (iii) China's willingness to deliver sufficient financial and market support to upgrade sub-regional cooperation, such as providing free aid, preferential loans and regional cooperation funding to support sub-regional cooperation projects (Hiep, 2020).

According to Lee & Scurrah (2009), this research aims to examine the influences of China's outward foreign investment (OFDI) in Cambodia, Laos, Myanmar, Vietnam, and Thailand (CLMVT), such as determining the investment and trade factors. Using panel data (observing the correlation from classical statistics and Bayesian statistics) for China's outward to its five neighboring countries in the Greater Mekong Sub region (GMS) from 2007–2019, the result demonstrates that that China's OFDI is a central factor in having a positive impact on investment and trade factors in CLMVT. The implementation of the "Belt and Road" approach will support China further by promoting its ongoing strategy since 2013. Bayesian correlation testing shows that the FDI inflows from China per GDP of CLMVT countries still have a significant effect on the macroeconomic perspectives of these CLMVT's economies.

According to the work from The Greater Mekong Subregion-Economic Cooperation Program Strategic Framework 2030 (2021), "GMS countries could suffer a huge loss in GDP by 2030, due to inefficient agriculture, fishing, and tourism methods, together with a significant degradation in human health and labor productivity" (p.8). In fact, Myanmar, Thailand, and Vietnam will have been affected by extreme weather events in the past 20 years. Therefore, Thailand is one of the subregions that needs to reduce current and future risks and must also focus on cooperative and participatory strategies which can improve effectiveness of greater investment.

Moreover, Thailand is facing problems that may reduce the impact of rapid technological development. The work from The Greater Mekong Subregion-Economic Cooperation Program Strategic Framework highlights some examples that will hinder economic and trade growth in the subregion, such as 1) inadequate integration across sectors, 2) overly focusing on the public sector with limited participation from the private sector, civil society, and local representatives, 3) a need for sustained attention and resources to improve knowledge responsiveness and policy dialogue, 4) varying operation and management in the areas of trade and investment facilitation and digital solutions, 5) slow progress in implementing the Cross-Border Transportation Agreement, and 6) weak

healthcare systems especially in Thailand where the transition from an aging to an aged society is expected to be completed by 2024 and 2039 (between 14 percent and 20 percent of the population 60 years or older). In contrast, a quarter of the PRC's population is expected to be over 60 by 2030.

According to Lee & Scurrah (2009), this research aims to examine GMS's economic activities which demonstrate a positive interaction term between trade openness and financial development, especially in all export models, but not in all import models. This specifies that trade openness can facilitate Vietnam's exports of goods and services, while the financial system needs to be further developed. However, it does not have a noteworthy influence on the country's import level. In other words, governments of small, developing countries such as Vietnam should dedicate more effort to improve their financial systems, capitalize on human capital, and promote domestic production in order to improve the skill level of their labor force and reduce their dependence on imports.

Though these existing studies have contributed to the field of political and trade/investment in different ways, there has been little attempt to offer any research proposals that derive from the experiences in sub-regional cooperation, focusing on opportunities and challenges for the Republic of Korea and Thailand. Therefore, this research project not only seeks to examine challenges based on national and international perspectives. It also asks the participants to question the usefulness of existing concepts and practical acknowledges in explaining the dynamics of how China's expanding influences in the Mekong Sub-region. These will construct opportunities and challenges for the Republic of Korea and Thailand. Moreover, our research project asks the contributors to conduct a comparative analysis of political issues that affect trade and investment, especially in evaluating the effectiveness of China's policies and how China is expanding influence in the Mekong Sub-region. In other words, outputs from this research project will be able to make substantial contributions to the advancement of both the policy-making on international cooperation that will leave benefits on the Republic of Korea and Thailand by aiming to identify measures and cooperation to generate increased investment and job creation; and high level of income along and around the sub corridor in an inclusive and sustainable manner.

## **Methodology**

This project will predominately rely on combined methods:

I. Qualitative data will include useful existing secondary sources, such as up-to-date analysis from books and articles produced by local and international scholars. Because the project intends to bring together a group of indigenous scholars to address the issues and concerns, data collection will be conducted in various local languages of the contributors as well as in English to ensure a variety of sources and perspectives are included. For example,

indigenous scholars can advise on how China's rise and its role in the region have affected GMS Cooperation, and how the roles of Thailand and the Republic of Korea are interacting with China's policies on Mekong Sub-Regional Cooperation.

II. This research will apply quantitative data associated with the gravity model of international trade in international economics, which predicts multilateral trade, investment, and finance cooperation based on the economic sizes and distances of countries. This model can help to explain how trading partners and their characteristics, such as regional per capita income, financial development, and trade openness, affect the efficiency of GMS cooperation.

### Data and Econometric Model Specifications

#### Finding opportunities and challenges for the Republic of Korea: Economic Analysis

This research will use the gravity model of international trade and investment in international economics, which predicts multilateral trade, investment, and finance cooperation based on the economic sizes and distance between countries.

$$F_{ij} = G \cdot \frac{M_i M_j}{D_{ij}}$$

$$F_{ij} = G \frac{M_i^{\beta_1} M_j^{\beta_2}}{D_{ij}^{\beta_3}} \eta_{ij}$$

In the gravity model, "G" is a constant, "F" stands for trade flow, "D" stands for distance, and "M" stands for the economic dimensions of the countries being measured.

#### Gravity Model for Thailand and the Republic of Korea (Period: 2000-2022)

$$\ln(\text{Trade})_{ij} = \alpha_0 + \alpha_1 \ln(GDP_i * GDP_j) \\ + \alpha_2 \ln(\text{Regional per capita income})_i \\ + \alpha_3 \ln(\text{Destination per capita income})_j + \alpha_4 \ln(\text{DIFFGDP})_{ij} \\ + \alpha_5 \ln(\text{Distance})_{ij} + \alpha_6 \text{Trade Openness}_i + \alpha_7 \text{Conflict}_{ij} \\ + \alpha_8 \text{Contiguous Border}_{ij} + \alpha_9 \text{Trade Agreement}_{ij} + \alpha_{10} \text{GMS} \\ + \mu_{ij}$$

**Table 1** Variable definitions and sources

<b>Variables</b>	<b>Description</b>	<b>Description</b>	<b>Source</b>
<b><i>Ln (Export)</i></b>	Natural logarithm of the total value of Thailand's exports	Natural logarithm of the total value of the Republic of Korea's exports	The World Integrated Trade Solution (WITS)
<b><i>Ln (DIFFGDP)</i></b>	Natural logarithm of the absolute value of the difference between Thailand's GDP and the partner's GDP	Natural logarithm of the absolute value of the difference between the Republic of Korea's GDP and the partner's GDP	Author's calculation using data from the World Integrated Trade Solution (WITS)
<b><i>Ln (Distance)</i></b>	Natural logarithm of the weighted distance between Thailand's largest city and that of the partner country	Natural logarithm of the weighted distance between the Republic of Korea's largest city and that of the partner country	The GeoDist Database provided by the CEPII
<b><i>Trade Openness</i></b>	The share of total exports and imports to real GDP	The share of total exports and imports to real GDP	Author's calculation using data from the World Development Indicators
<b><i>Ln (Total income)</i></b>	Natural logarithm of Thailand's GDP multiplies another partners' GDP	Natural logarithm of the Republic of Korea's GDP multiplies another partners' GDP	Author's calculation using data from the World Development Indicators
<b><i>Ln (Regional per capita income)</i></b>	Natural logarithm of Thailand's per capita income	Natural logarithm of the Republic of Korea's per capita income	The World Development Indicators database
<b><i>Ln (Destination per capita income)</i></b>	Natural logarithm of partner countries' per capita income	Natural logarithm of partner countries' per capita income	The World Development Indicators database
<b><i>Conflict</i></b>	Dummy variable, coded 1 if the partner has a political conflict with Thailand and 0 otherwise.	Dummy variable, coded 1 if the partner has a history of conflict with the Republic of Korea and 0 otherwise.	Uppsala Conflict Data Program of Uppsala University
<b><i>Contiguous border</i></b>	Dummy variable, coded 1 if Thailand and the partner have an inland border and 0 otherwise.	Dummy variable, coded 1 if the Republic of Korea and the partner have an inland border and 0 otherwise.	The GeoDist Database provided by the CEPII
<b><i>Trade Agreement</i></b>	Dummy variable, coded 1 if Thailand and the partner have a Trade Agreement and 0 otherwise.	Dummy variable, coded 1 if the Republic of Korea and the partner have a Trade Agreement and 0 otherwise.	The World Development Indicators database

**Source:** Authors' compilation and applied some description from Hiep Ngoc Luu (2020)



## Definition

In this paper, we separately consider trade in terms of the total volume of Thailand/ the Republic of Korea 's exports to partner countries. Where  $Trade_{ij}$  is the trade flow between countries  $i$  and  $j$ .

- $GDP_i$  and  $GDP_j$  are the GDP of countries  $i$  and  $j$ , respectively.
- $Regional\ per\ capita\ income_i$  and  $Regional\ per\ capita\ income_j$  indicate the GDP per capita of country  $i$  and country  $j$ , respectively.
- $DIFFGDP_{ij}$  is the absolute value of difference in GDP between country  $i$  and country  $j$ .  $Distance_{ij}$  is the geographical distance between two countries  $i$  and  $j$ .
- $Trade\ Openness$  reflects the level of openness in terms of trade and is measured by total exports and imports divided by total GDP.
- $Conflict_{ij}$  determines whether there is historical conflict between countries  $i$  and  $j$ , and is equal to 1 if conflict existed, and 0 otherwise.
- $Contiguous\ Border_{ij}$  is the dummy variable given a value of 1 if countries  $i$  and  $j$  share a common border.
- $Trade\ Agreement_{ij}$  describes the Free Trade Agreement (FTA) between countries  $i$  and  $j$ . It takes the value of 1 if both countries  $i$  and  $j$  have signed the FTA, and 0 otherwise.
- $GMS$  is a univariate variable indicating the Greater Mekong Sub-region (Cambodia, the People's Republic of China, specifically Yunnan Province and Guangxi Zhuang Autonomous Region, Lao People's Democratic Republic Myanmar, Thailand, and Vietnam).  $\mu_{ij}$  denotes the residual term.

## Empirical Results – Gravity Model Analysis for Thailand and the Republic of Korea

Table 2 shows the results obtained using the random-effects method model, allowing dispersion reflects real differences in effect size across studies, to examine the contributing factors of Thailand's exports (the dependent variable is the natural logarithm of export volume). Column 1 provides the results for Thailand's export flows, using a  $GMS$  dummy to evaluate the trade flow between Thailand and  $GMS$  member countries, and the trade volume of Thailand with each  $GMS$  member country by integrating dummy variables. Columns 2-6 present the description when only one of the five countries (China, Laos, Cambodia, Myanmar, and Vietnam) within the  $GMS$  is included at a time.

Regarding the regional dummies, the estimated coefficient on  $GMS$  is negative and statistically significant, as shown in Column 1. This suggests that the level of goods and services exports from Thailand to  $GMS$  member countries is weakly significant. Specifically, the export flow from Thailand to countries in the Mekong regions is only around 53 percent ( $\exp(-0.634) = 0.530$ ) of the normal level predicted by the countries' GDPs due to multilateral resistance factors. In addition, the relationships between trade openness and contiguous

borders, as well as trade agreements, show that Thailand's exports with these independent variables are positive and significant. This result also demonstrates one of the adverse impacts of regional cooperation on Thailand's trade. The estimated coefficients of the two basic explanatory variables; Ln (Total income) is statistically significant with export flows, but Ln (distance) is not statistically significant with export flows. In other words, exports from Thailand increase with the GDPs of Thailand and its trading partners, but have no correlation with distance. Furthermore, GDPs per capita and regional countries are positively significant with export volume, and a larger difference in economic size (DIFFGDP) between countries is positively related to export flows.

As for the trade flow between Thailand and each of the GMS member countries, the results from Columns 2-6 show that the level of exporting to China is statistically significant. It is noteworthy that China is Thailand's main trading partner, with the largest share of total exports compared to other GMS countries. Within the GMS region, export volumes to China are expected to be significant compared to benchmark levels. However, export volumes from Thailand to China are still much higher than expected, at approximately 39.7 percent ( $\exp(-0.923) = 0.397$ ) higher than GMS countries. The interaction terms between trade openness and financial development, as shown in Table 2, are positive and significant in all export models. In other words, trade openness can facilitate Thailand's exports of goods and services as financial coordination improves. However, financial development cannot facilitate Thailand's exports of goods and services due to a lack of trade openness.

**Table 2** Determinants of Thailand's Exports

	Export					
	(1)	(2)	(3)	(4)	(5)	(6)
<i>Ln (Total income)</i>	0.654** (0.098)	0.694** (0.098)	0.692** -0.098	0.687** (0.098)	0.678** (0.098)	0.678** (0.098)
<i>Ln (Regional per capita income)</i>	9.132** (4.342)	9.167* (4.342)	9.345** (4.342)	9.876* (4.342)	9.765** (4.342)	9.564** (4.342)
<i>Ln (DIFFGDP)</i>	0.313* (0.011)	0.312* (0.011)	0.313* (0.011)	0.315* (0.011)	0.312* (0.011)	0.312* (0.011)
<i>Ln (Distance)</i>	-0.305 (0.415)	-0.307 (0.414)	-0.032 (0.414)	-0.032 (0.414)	-0.033 (0.415)	-0.039 (0.416)
<i>Trade Openness</i>	-21.334** (11.304)	-21.335** (11.303)	-21.338** (11.304)	-21.332** (11.304)	-21.336** (11.303)	-21.334** (11.304)
<i>Conflict</i>	0.119 (0.332)	0.110** (0.343)	0.119 (0.233)	0.114 (0.333)	0.112 (0.341)	0.113 (0.436)
<i>Contiguous border</i>	3.334** (0.781)	3.454** (0.752)	3.565** (0.761)	3.058* (0.786)	3.410** (0.794)	2.453* (0.785)
<i>Trade Agreement</i>	1.495*** (0.562)	1.046*** (0.645)	1.148*** (0.512)	1.136*** (0.645)	1.564*** (0.663)	1.673*** (0.512)
<i>Financial Development</i>	-14.566** (12.431)	-14.126*** (12.431)	-14.746** (12.421)	-13.526** (12.431)	-14.536*** (12.43)	-14.166** (12.431)
<i>Trade Openness* Financial Development</i>	18.398** (4.044)	18.331** (4.021)	18.335** (4.043)	18.453*** (4.032)	18.342*** (4.042)	18.321*** (4.043)

**Table 2** Determinants of Thailand's Exports (continued)

	Export					
	-1	-2	-3	-4	-5	-6
<b>GMS</b>	-0.634*					
	(0.898)					
<b>China</b>		-0.923 **				
		(0.578)				
<b>Cambodia</b>			-0.458			
			(0.988)			
<b>Laos</b>				0.857***		
				(0.575)		
<b>Myanmar</b>					-1.987**	
					(0.45)	
<b>Vietnam</b>						1.875
						(0.448)
<b>R-squared</b>	0.648	0.69	0.689	0.775	0.724	0.7893
<b>Observations</b>	6,578	6,578	6,578	6,578	6,578	6,578

**Note:** Constant terms are not reported for brevity. Robust standard errors are in parentheses.

\*, \*\*, \*\*\* indicate the significance level at 10percent, 5percent, and 1percent, respectively

**Table 3** Determinants of the Republic of Korea 's Exports

	Export	
	(1)	(2)
<i>Ln (Total income)</i>	0.515*** (0.124)	0.515*** (0.124)
<i>Ln (Regional per capita income)</i>	-2.324 (2.103)	-2.321 (2.103)
<i>Ln (DIFFGDP)</i>	0.143** (0.251)	0.123** (0.251)
<i>Ln (Distances)</i>	-0.132 (0.221)	-0.134 (0.223)
<i>Trade Openness</i>	4.523 (3.213)	4.764 (3.213)
<i>Conflict</i>	0.112 (0.324)	0.123** (0.341)
<i>Trade Agreement</i>	7.344*** (0.345)	8.963** (0.432)
<i>Financial Development</i>	3.77 (0.567)	4.76 (0.639)
<i>Trade Openness* Financial Development</i>	1.341*** (1.356)	1.335*** (1.356)
<i>GMS</i>	-2.1324*** (1.454)	
<i>China</i>		-1.245*** (0.945)
<i>R-squared</i>	0.7451	0.7256
<i>Observations</i>	3,425	3,425

**Note:** Constant terms are not reported for brevity.

Robust standard errors are in parentheses.

\*, \*\*, \*\*\* indicate the significance level at 10percent, 5percent, and 1percent, respectively.

Table 3 presents the results obtained using the random-effects method to examine the contributing factors of the Republic of Korea's exports (the dependent variable is the natural logarithm of export volume). Column 1 provides the results for the Republic of Korea's export flows, using a GMS dummy to estimate the trade flow between the Republic of Korea and GMS member countries, and the trade volume of the Republic of Korea with each GMS

member country by integrating dummy variables. Furthermore, Column 2 presents the description of the Republic of Korea's exports within the GMS.

Regarding the regional dummies, the estimated coefficient on GMS is negative and statistically significant, as shown in Column 1. This suggests that the level of goods and services exports from the Republic of Korea to GMS member countries is weakly significant. Specifically, the export flow from the Republic of Korea to countries in the Mekong regions is only around 11.9 percent ( $\exp(-2.1324) = 0.119$ ) of the normal level predicted by the countries' GDPs, distance between them, and multilateral resistance factors. In addition, the relationship between trade openness, as well as trade agreements, shows that the Republic of Korea's exports with these independent variables are positive and significant. This result also demonstrates one of the adverse impacts of regional cooperation on the Republic of Korea's trade. The estimated coefficients of the basic explanatory variables,  $\ln(\text{Total income})$ , is statistically significant with export flows. In other words, exports from the Republic of Korea increase with the GDPs of the Republic of Korea and its trading partners. Furthermore, GDPs per capita and regional countries are negatively significant with export volume. In other words, a larger difference in economic size ( $\text{DIFFGDP}$ ) between countries is positively related to export flows

As for the trade flow between the Republic of Korea and each of the GMS member countries, the results from Column 2 show that the level of exporting to GMS members is significantly higher than the normal level. It is noteworthy that China is still the Republic of Korea's trading partner. Within the GMS region, export volumes to China are expected to be significant compared to benchmark levels. However, export volumes from the Republic of Korea to China are still lower than expected, at approximately 28.7 percent ( $\exp(-1.245) = 0.287$ ). In addition, the interaction terms between trade openness and financial development, as shown in Table 3, are positive and significant in all export models. In other words, trade openness can facilitate the Republic of Korea's exports of goods and services as financial coordination improves.

### **Finding Opportunities and Challenges for Thailand and Korea: Policy Implications**

In Thailand, recent economic and political reforms have been implemented under "Thailand 4.0" and guided by the 20-Year National Strategy, 2017-2036. The national strategy aims to address inequalities and promote sustainable development by improving human capital, promoting social justice and reducing inequalities, strengthening the economy and increasing competitiveness in a sustainable manner, promoting green growth for circular economy development, improving the effectiveness of public sector management and promoting good governance, and promoting national stability for national development toward prosperity and sustainability. Currently, the United States and China are trying to strengthen ties with Thailand and other Southeast Asian countries in order to curb the expansion of their

political and economic influences and maintain stability. Both countries are also looking for allies, with the United States promoting the Indo-Pacific Economic Framework (IPEF) and China promoting the Belt and Road Initiative (BRI). This raises the question of how Thailand will balance its relations with the two superpowers.

The goal of further developing political and economic relations between Thailand and China is to create a community with a shared future that leads to greater stability, prosperity, and sustainability. This will be achieved by building a corridor for mutual development between the two countries and Laos. In addition, improving logistics will promote trade and investment, including the development of the sub-region, and support the transportation of Thai agricultural products to China and beyond. The visit of the US Secretary of State reflects the relationship between the two countries and will result in the signing of two important documents:

1. The Declaration on Partnership and Strategic Partnership between Thailand and the United States.
2. Memorandum of Understanding on the Promotion of Thai-US Supply Chains. This emphasizes the benefits that both countries will derive from cooperation to address supply chain weaknesses, reduce disruptions in production and logistics, and enhance information sharing and consultation. This includes the development of infrastructure to drive mutual benefits and strengthen the stability of both countries.

It is important for China to establish the Mekong-Lancang Cooperation Framework, which aims to promote connectivity and sustainable development in the Mekong Sub-region in order to reduce income disparities in international development. This will require the establishment of cooperative frameworks to take advantage of political and economic opportunities for the ASEAN region to gain access to new markets that are large and full of abundant resources. In particular, Thailand, as a member of the GMS, should focus on the development of political and economic intentions by considering seven public policy issues in order to gain benefits from the Mekong-Lancang Cooperation Framework.

First, GMS countries must indeed urge for the social and economic principles and intentions of the Member States to maintain cooperation under the framework of cooperation in various fields, such as amendments to crime problem, economic recovery after the Covid-19 outbreak situation, management of water resources, agriculture, and environment.

Second, cooperation on disaster management under the Mekong-Lancang Cooperation Framework must be taken into consideration for jointly establishing a mechanism, such as enhancing data-sharing mechanism in the Mekong-Lancang River Basin to reduce the risks associated with extreme weather events. This would enable emergency notifications to be issued in the case of floods and drought.

Third, promoting agricultural cooperation and food security under the Mekong-Lancang Cooperation Framework through enhancing productivity will enhance cooperation on science and technology, including facilitating agricultural trade. This indicates that human capital enhancement and financial development are two important channels that facilitate Thailand's trade and support mitigating its trade deficits. Updates on the progress of the GMS Cross Border E-Commerce Cooperation Platform should include facilitating agricultural trade and strategic directions for Thailand to focus on (i) further developing the GMS cross-border e-commerce industry, (ii) expanding innovation of cooperation mechanisms for GMS cross-border e-commerce, and (iii) promoting facilitation of GMS cross-border e-commerce.

Fourth, promoting cooperation on trade by encouraging the customs departments of member countries will enhance cooperation in the development of the customs' system checkpoints and intelligent connections associated with law enforcement and facilitation of customs procedures. For example, business prospects will arise from the introduction of this new train line, which will bring economic benefits to the GMS sub-region. In other words, according to the Greater Mekong Subregion-Economic Cooperation Program Strategic Framework 2030 (2021), the cost of transporting goods by rail will be reduced by 30-40 percent compared to the traditional way of transporting goods by truck, with the potential to expand the trade value of 3.9 million tons per year. By 2030, investments related to the People's Republic of China's Belt and Road Initiative (BRI) will create economic momentum in the GMS, not only in Lao PDR. Many of the 10 stations that the train runs through will cause the value of international trade to be significantly higher, in addition to the increase in the number of passengers traveling between China and countries in ASEAN from 2.9 million a year to 3.9 million by 2030.

Moreover, GMS's economic activities, which demonstrate the positive interaction term between trade openness (all export goods) and financial development, must be taken into consideration. This interaction term indicates that while trade openness can facilitate Thailand's exports of goods and services, the financial system becomes more developed. Essentially, GMS countries can contribute to accelerating the implementation of existing free trade agreements (FTAs), especially the ASEAN-PRC Comprehensive Economic Cooperation Agreement, and future participation in the Regional Comprehensive Economic Partnership. Thailand must also consider devoting more effort to improving their financial systems (the interaction terms between Trade openness and Financial development determined in Table 2 are positive and significant in all export models), investing in human capital to boost greater domestic production, and importantly improving the quality of the labor force associated with a large number of young working-age populations.

Fifth, promoting mutual exchanges and learning between civilizations under the Mekong-Lancang Cooperation Framework will enhance people-to-people exchanges and



cooperative participation in culture and tourism. Therefore, dialogue on the progress of the Early Harvest implementation under the GMS Cross Border Trade Agreement (CBTA) should focus on facilitating unimpeded travel agreements for goods, passengers, and vehicles. The agreement should concentrate on the economic benefits of the CBTA, such as the need to keep trade, investment, and tourism open to revitalize economies, ensuring the health and well-being of people, strengthening regional coordination to respond to COVID-19, and achieving common standards in border crossings.

Sixth, complete regional connectivity is crucial, especially in terms of hardware and software. Firstly, Thailand must promote the use of the Nong Khai Friendship Bridge and Thanaleng, and find ways to connect to broader international railways. Secondly, software connectivity needs to focus on the rules from various governments that hinder trade and transport cooperation.

Seventh, the integration of economic development and the control of COVID-19 hopes to elevate new developments focusing on creating a circular economy both within the country. For example, the circular economy will also provide new opportunities for the Lancang Mekong Cooperation Framework. In fact, China is willing to continue to cooperate with all Thai agencies, especially in driving the Belt and Road Cooperation (BRI) project to be in line with the Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy (ACMECS), which is a good foundation for building the ASEAN Community, including the achievement of the United Nations Sustainable Development Goals 2030 (B.E. 2030).

Moreover, according to the Open Development Mekong website (2022), the Mekong Special Fund is quite crucial in allowing this GMS cooperation to evolve quickly, such as financing more than 500 sub-regional development projects, of which 41 projects have been funded by Thailand. Some of these projects are aimed at helping businesses, trade, and investment, as well as small and medium enterprises (SMEs), adapt to e-commerce. E-business also is very importance to the Thaeconomy (Brown & Kaewkitipong, 2009; Kaewkitipong & Brown, 2008). There are also a number of projects aimed at helping farmers and fishermen, such as developing and improving the breeding of plants and animals, including the use of technology to increase agricultural productivity. Those projects focus on human resource development and vocational training to help villagers in the Mekong area escape poverty and develop the skills of the new generation to meet the economic development of Thailand and the sub-regions. Recently, according to the Open Development Mekong website (2022), the fund has announced support for 13 more projects in Thailand for 5 agencies worth more than 120 million baht. This will help improve the lives of the Thai people and help restore the economy of the sub-region to be strong and enhance the development of the full potential of the post-Covid-19 era (Attakrit & Bhathorn, 2020)

In conclusion, the value of trade between ASEAN and China is growing at a high rate and becoming more important. In geopolitical terms, the GMS is a very strategic point to watch and it is noticeable that many factories are moving out of China and choosing to invest in GMS countries instead. With this new railway line, many GMS countries have access to a wide range of goods in China (Banomyong, 2010). While the GMS may be viewed as a stand-alone entity, it is attractive to China and other superpowers due to factors of production, such as its population of 250 million and suitable demographic structure with a large number of young working-age populations, as well as Thailand and Vietnam being seen as having the potential to be developed countries (Hiep, 2020). Additionally, converging on real economic growth, Thailand's experience in developing the Eastern Economic Corridor (EEC) is linked to regional economic corridors. The EEC will integrate infrastructure, technology and innovation, tourism, education and human resources development, digital infrastructure, environmental awareness, and smart cities development (Hiep, 2020). Despite the huge disruptions caused by the COVID-19 pandemic, economic corridor development must continue to promote connectivity within the subregion and beyond. Planning initiatives and recommendations to promote labor mobility and ensure safe cross-border migration along the GMS economic corridors is also necessary (Hiep, 2020).

After COVID-19 China hopes there will be a platform to promote trade economic development in the Asia-Pacific region and expedite the implementation of Putrajaya Vision 2040 to create regional unity.

1) The construction of the China-Laos-Thai ERA Corridor, which links the EEC with the ERA Corridor in the Lao PDR into Yunnan Province, will create a passage for goods from Thailand to Europe through China, including pushing forward logistics systems to stimulate trade, investment, and industry. The benefits will include the facilitation of agricultural products from Thailand to China, and will create a special channel for these products to reach China more quickly.

2) Promoting cooperation in cyber security that will help develop the digital economy and cooperation to crack down on illegal call centers.

3) China fully supports Thailand's hosting of APEC and its various initiatives, especially the APEC meeting.

4) The progress of cooperation under the MLC framework and exchanged views on the future direction of the MLC to address common challenges such as the COVID-19 epidemic, international tensions, global economic slowdown, food security, power and water, and climate change. GMS countries agreed to support cooperation in the fields of economic integration, agriculture and food security, green development, innovation, public health, and people-level exchange.

5) China has proposed key initiatives in six fields of cooperation: agriculture, water

and climate change, digital economy, space and satellite, human resource development, and public health. The idea is to drive developments in key strategic areas as follows: 1) promoting resilience in public health, climate change, food security, power and water; 2) integration and interoperability to promote connectivity and facilitating cross-border trade; 3) synergy to promote economic recovery and development both between the MLC member countries and between the MLC and other cooperation frameworks in the Greater Mekong Sub-region, in particular ACMECS; 4) enabling ecosystem, especially Thailand's proposal to develop innovation corridors and private sector participation in the MLC through the Mekong-Lancang Business Council (Mekong - Lancang Business Council).

In the ROK, the first opportunities include increasing the number of people traveling between Korea and the Mekong countries, and expanding two-way cultural exchanges. Our suggested strategies are carrying out joint projects and strengthening coordination among agencies of six countries to pursue a shared vision of achieving a people-centered and people-oriented community that leaves no one behind and moves forward on the basis of people-centered cooperation that ensures economic, financial, and social inclusiveness; deepening mutual awareness and understanding between the peoples of the Mekong countries and the ROK about their different cultures, languages, and customs by expanding education, tourism, people-to-people exchanges, and strengthening cooperation in the cultural and sports sectors; continuing to step up joint efforts to preserve and restore cultural heritage and work together for the development of sustainable tourism in the Mekong region, with a focus on agritourism, culinary tourism, and smart tourism; promoting cooperation in the field of sports by strengthening exchange such as joint training and education programs for athletes and coaches; enhancing support and protection for multicultural families, migrant workers, and all other expatriates from Mekong countries and ROK.

In order to provide support to build human resources capacity, our suggested strategies are encouraging and promoting joint academic and educational activities with a view to advancing human resources development in digital age for sustainable development and prosperity in the region; encouraging more active and frequent educational exchanges between institutions, professors, researchers, and students across various sectors; continuing to promote and expanding invitational scholarships and training programs for the students from the partner countries; enhancing cooperation on the capacity-building in improvement of e-learning resources to promote inclusive and equitable opportunities to higher education in the Mekong region; encouraging universities in the region to collaborate on establishing new departments and curriculums in their partner universities in a way that meets the needs of people in the partner countries; promoting linguistic understanding through language education of each other's language in educational institutions in a bid to enhance social, economic and cultural cooperation and increase mutual understanding

between the Mekong and the ROK; enhancing cooperation to promote human resources development for regional sustainable development and prosperity by sharing policy experiences in skills developments, employment services; enhancing cooperation on vocational training through encouraging collaboration between the ROK companies operating in Mekong region and local universities. (Sohn, 2005).

In order to participate in infrastructure development projects in the Mekong region to improve connectivity, our suggested strategies include promoting regional and sub-regional connectivity through various financial development projects in harmony with the Master Plan on ASEAN Connectivity 2025 (as the interaction terms between Trade openness and Financial development in Table 3 are positive and significant in all export models), as well as with other development plans at sub-regional or national levels. We also suggest continuing joint efforts to construct and upgrade transportation infrastructure, including roads, highways, bridges, railroads, and airports, and expanding cooperation in formulating masterplans to enhance local and regional connectivity. Additionally, we recommend continuing to promote connectivity between rural areas and urban cities in respective countries, further developing connectivity between maritime and inland waterways transportation by upgrading logistics and port, and aids to navigation systems in the Mekong region, enhancing cooperation for stronger energy security and more efficient, sustainable, and environmentally-friendly use of energy in the region, and making efforts to promote each partner country's position in the regional and global value chain by facilitating cooperation based on bilateral and regional agreements in accordance with the principle of open, fair, and transparent trade and investment. We also suggest enhancing cooperation and mutual provision in implementing applicable measures to reestablish economic development, financial resilience, and connectivity, and upholding essential interconnectedness in the region by facilitating the essential flow of goods, services, and movement of people, and improving cross-border trade and regional value chain efficiency without being affected by the pandemic of communicable diseases or other threats to minimize socio-economic impacts in the region.

According to Table 3, the relationships between trade openness and trade agreements demonstrate that Republic of Korea's exports with these independent variables are positive and significant. In order to provide trade openness, participating support for small and medium-sized enterprises (SMEs) is required. Our suggested strategies include seeking ways to improve business conditions for micro and SMEs in the region with the aim of boosting the market and stimulating the integration of SMEs into regional value chains by exchanging best practices and promoting trade and investment opportunities, including the use of e-commerce between partner countries. We also suggest strengthening engagement with stakeholders by encouraging the participation of private sectors of the Mekong countries and the Republic of Korea (including micro, small, and medium-sized enterprises and start-up

companies) in regional supply chains to promote business and investment opportunities in the region.

In order to improve the capability rate for innovative progress through collaboration in "smart" technologies and innovative industries, our suggested strategies include encouraging the implementation of information and communications technology (ICT)-driven projects in the region based on the shared belief that the development of ICT will promote innovation in response to the 4th Industrial Revolution. We also suggest exploring joint efforts to promote the digital economy by applying emerging technologies to production, consumption, and distribution systems, and promoting digital connectivity and digital infrastructure in the region. Additionally, we recommend continuing cooperation on planning and establishing smart cities and promoting a smart city network in the Mekong region, working together to further enhance science and ICT competitiveness in the region through collaborative projects, including knowledge-sharing programs, expert and scientist exchanges and training, and continuing cooperation on enhancing ICT application in public governance to improve the efficiency and quality of public administration services in the Mekong region. We also suggest encouraging cooperation in digital technology and transformation, such as the internet of things (IoT), ICT standardization, artificial intelligence (AI), open data, big data, cloud computing, blockchain technology and software, digital content, and media park.

In order to support regional peace and security from an environmental perspective, our suggested strategies include strengthening cooperation among relevant sectors to address the impacts of climate change and environmental challenges, including air, water, and land pollution, flood and drought, and saltwater intrusion, and promoting environmentally-friendly technologies and cooperative projects to contribute to sustainable development in the region. We also suggest continuing to share experiences and expertise to address the effects of pollution caused by transport emissions and promoting the use of low-greenhouse gas (GHG) transport. Additionally, we recommend assisting in building e-mobility ecosystems in the Mekong region (with the purpose of implementing the Nationally Determined Contribution (NDC) in the transport sector). This policy supports the implementation of programs/projects in the use of electric vehicles (EVs) by promoting green transport and developing low-carbon GHG emission policies for vehicles (the transport sector, and promoting biodiversity conservation and management by utilizing the Mekong-Republic of Korea Biodiversity Center as a hub for providing shared knowledge and capacity-building to support biodiversity initiatives and preservation of biological resources). Moreover, the government supports the development of green industries and green cities, and enhancing cooperation in green economy such as green building, energy efficiency, energy

conservation, circular economy, sustainable consumption and production, eco-labelling, and environmental protection.

We also suggest continuing to support exchanges of experts, research, training, data, and information on environmental issues to strengthen human capacity and improve systems and capacities to mitigate environmental health risks. By collaborating through the Peace Forest Initiative, Korea-Mekong Forest Cooperation Center, and Asian Forest Cooperation Organization need to support sustainable forest management and rehabilitation of forests and damaged land, and continuing to support and promote the conservation and sustainable use of biodiversity, water, and forest resources in the Mekong region. Through initiatives such as a reforestation plan, sustainable management of biodiversity, coastal aquaculture environment, and water catchment, we recommend continuing to support member countries in implementing the United Nations' 2030 Agenda for Sustainable Development by improving capacity-building and financial capability.

The last opportunity is supporting regional peace and security in the perspective of non-traditional security challenges. Our suggested strategies include encouraging close coordination among relevant agencies of the six countries in combating non-traditional security threats such as communicable diseases, natural disasters, transnational crimes, terrorism, cybercrimes, and drug trafficking to promote peace and security in the region. We also suggest continuing to collaborate in tackling global health crises such as the COVID-19 pandemic by timely exchanging information on the situation on the ground and measures taken by each country in combatting COVID-19, sharing experiences and best practices in the prevention and control of transmission, as well as the treatment of infected cases.

Additionally, we recommend making joint efforts to address the subsequent social and economic challenges from the impact of the pandemic and to strengthen health security by supporting each other with necessary consulting, medical supplies, and medical infrastructure, and ensuring that the most vulnerable groups are well-protected. We also suggest building capacity for public health institutions and personnel in preventing, detecting, and responding to future outbreaks and pandemic threats, and working together to develop a stronger monitoring and early-warning system to enhance preparedness and capability to reduce the disaster risk caused by natural hazards such as floods and droughts, and to strengthen cooperation for timely and effective restoration in the aftermath of such disasters caused by natural hazards.

Furthermore, we recommend enhancing regional cooperation against transnational crimes including cybercrimes, trafficking of illicit drugs, and terrorism by promoting information and knowledge sharing and training, and working together to strengthen the legal infrastructure and building capacity for the partner countries to respond more effectively to transnational crimes. We also suggest continuing joint projects including the Korea-Mekong

Future Peace Community program to help the Mekong region recover from the shadow of past wars and conflicts by clearing explosive remnants of war, supporting war victims and affected villages, and promoting universal human rights in the region.

## Conclusion

Recently, the Belt and Road Initiative proposed by China has revived the argument on the effectiveness of GMS cooperation. Given the assumption that the impact of GMS cooperation on trade and investment outcomes can be dependent on the trade agreement and individual specific features such as regional per capita income, financial development, and trade openness, policy makers must have an in-depth understanding of how cooperation can facilitate trade among each member country. Our research paper addresses this need by empirically evaluating the GMS's factor relations between Thailand and the Republic of Korea with its partner countries. Overall, the empirical results suggest that regional economic cooperation in the GMS did not facilitate both Thailand and the Republic of Korea's trade as expected due to some misaligned intentions on GMS cooperation. Therefore, we find that policies and strategies with Mekong countries are needed to enhance human capital, trade openness, and financial development that facilitate more GMS countries' cooperation.

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