Chapter 5

Investment Climates in CLMV: Their Global Positions

Souknilanh Keola
Institute of Developing Economies, JETRO

March 2008

This chapter should be cited as
Keola, S. (2008), 'Investment Climates in CLMV: Their Global Positions', in Sotharith, C. (ed.), *Development Strategy for CLMV in the Age of Economic Integration*, ERIA Research Project Report 2007-4, Chiba: IDE-JETRO, pp.141-168.

Chapter 5

INVESTMENT CLIMATES IN CLMV: THEIR GLOBAL POSITIONS

Souknilanh Keola

ABSTRACT

This report attempted to identify investment climates in Cambodia, Lao PDR, Myanmar, and Vietnam (CLMV). First, it re-arranged investment climates into (1) macroeconomic factors, (2) infrastructures, (3) supply and demand factors, and (4) policy factors. Then, it made an attempt to evaluate CLMV's positions for each factors by making a comparison across as many countries as possible based on statistics and indices made available by international institutions, national statistical authorities etc. A set of possible policy implications have also been provided as possible ways to improve investment climates in CLMV.

1. DEFINITION

Before making any attempt to examine the investment climates in CLMV, it is first necessary to provide a common definition of investment climate that will be used in this report. Until now, many academic and nonacademic papers have provided a variety of definitions.

David et all (2003) defined investment climate as the institutional, policy, and regulatory environment in which firms operate. The World Bank's *World Development Report 2005* titled "A Better Investment Climate for Everyone" broadened the definition to "The investment climate reflects the many location-specific factors that shape the opportunities and incentives for firms to invest productively, create jobs, and expand." Phillips (2006) divided investment climates into governance and infrastructure components while stating that healthy investment climate includes economic and political stability, rule of law, adequate infrastructure, tax and regulations conducive to doing business, labor policies, and access to finance. Recently, Ho (2006) described investment climate constrains to be primarily policies or resources.

It is obvious that government policies and infrastructures are very important factors determining investment climates based on these definitions. However, few of them put emphasis, at least explicitly, on supply/demand factors such as population sizes and other resources in the places of investment. Population is very important for investment activities in two ways. They can be inputs to production or labor, and can serve as consumers of the final products. This is termed the "home market effect" and is regarded as one of most important determinants of agglomeration forces in spatial economics.

Putting more emphasis on supply and demand factors, this report re-categorizes investment climates into (1) macroeconomic factors, (2) infrastructures, (3) supply and demand factors, and (4) policy factors. It is easy to see that these different factors are all interconnected, and can be substituted. As a result, it is natural to assume that the same level of investment climates can be achieved by different sets and/or levels of each factor of investment climates.

Several indicators will be selected and presented to examine the investment climates in CLMV. Comparison will be made across as many countries or regions as possible.

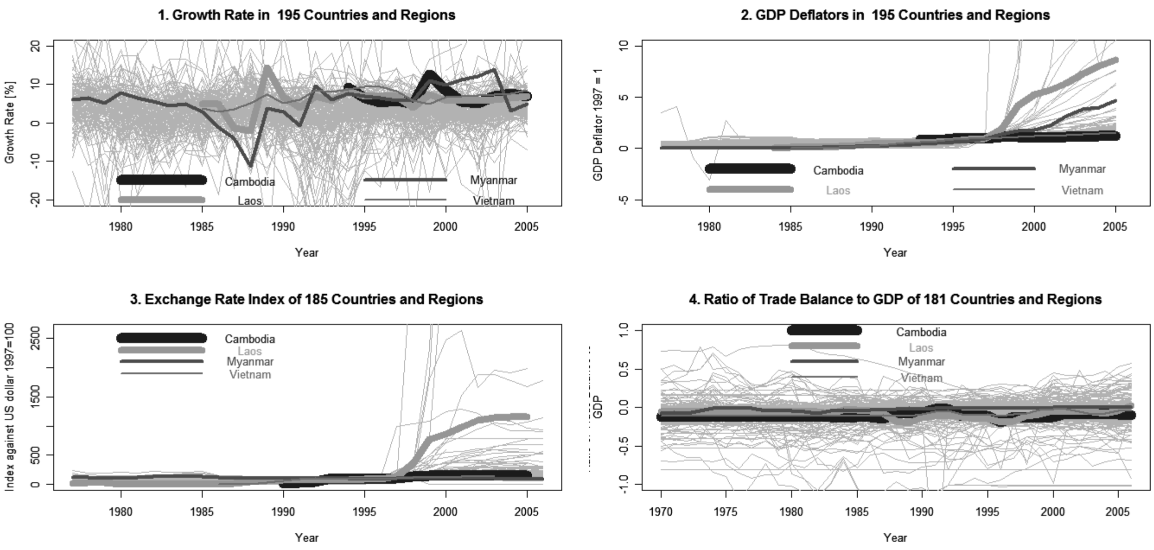
2. MACRO ECONOMIC FACTORS

While macroeconomic factors can be strongly influenced by policies, they are not included as policy factors due to their market-oriented nature. As indicators of macroeconomic factors, the following have been selected: (1) economic growth rate, (2) GDP deflator, (3) foreign exchange rate, and (4) ratio of trade balance to GDP.

Growth rate was selected because, in general, a place that grows faster may be considered more attractive as an investment destination due to the higher possibility of more gain. Figure 1.1 depicts the growth rates of 195 countries and regions from 1977 to 2005. In this period, majority of economies in the world managed to grow in the range of -10 percent to 10 percent annually. For CLMV, Myanmar was the only country with data on growth rate available throughout the period. Laos and Vietnam did not have data until their adoption of policies for transition to market economy in the mid-1980s. Figures for Cambodia were not available before 1994, or one year after the civil war in the country was finally ended by active involvement of the United Nations.

Cambodia had been growing steadily since 1994, with a two-digit growth rate in 1999. Laos adopted a policy to transform the economy from a centrally planned to a market-oriented economy, but only achieved significant growth when it began accepting foreign direct investment at the end of 1988. Myanmar achieved relatively high growth from the late 1970s to the mid-1980s, but then experienced a negative growth toward the end of the 1980s. The economy began to grow again from the mid-1990s with a quite steep fluctuation from time to time. Vietnam can be considered the country with the most steadied growth, but with its huge domestic market, the prospect may be even brighter. Vietnam is actually beginning to compete with some of its former ASEAN members that have not done well economically since the latter half of the 1990s. However, putting their individual progress aside, CLMV as a whole have done quite well in terms of economic growth since the 1990s by staying on a top level globally, in terms of growth rates.

Figure 1: Macroeconomic Factors



Source: Drawn by author based on Common Database, United Nations.

GDP deflators and exchange rates against the US dollar were chosen as indicators of stability of national currencies in both domestic and foreign markets. Figure 1.2 and 1.3 depicts GDP deflators and exchange rates of 195 and 186 countries and regions around the world, respectively. Most countries and regions around the world are more or less stable in terms of prices during 1977 to 2005 when compared to growth rates. Except for a few countries, GDP deflators are slightly more than zero. Cambodia and Vietnam managed to follow this trend of the majority, while Laos and Myanmar did not. Laos was the most unstable among CLMV after 1997 and toward the beginning of 2000s. GDP deflator, a proxy of consumer price index, inflated to almost 10 times in Laos after the Asian financial crisis that broke out in late 1996. Myanmar experienced inflation fivefold and a demonetization of its currency in a few occasions.

In terms of the value against the US dollar of the national currencies of 185 countries and regions in the world during 1977 to 2005, a sharp depreciation can be observed after the Asian financial crisis. Even among former members of ASEAN, a depreciation from 100 to several thousand percent had been observed. However, among CLMV, the depreciation of the LAK (Lao Kip), Laos' national currency, was by far the largest. Myanmar had been stable according to statistics, although there is a need to take into account the fact that Myanmar is the only country that still maintains several exchange rate systems among CLMV.

Figure 1.4 depicts trade balances as percentage to GDP of 181 countries or regions. It shows that the percentage to GDP of trade balance of most countries and regions are in the range of -5 percent to slightly above 2 percent. CLMV lie in the range between -1 percent to about 0 percent of GDP, and are therefore doing "not so bad and not so good" in terms of trade balance among countries or regions in the world.

Therefore, besides the instability of the LAK during 1997 to early 2000s and the not-so-stable financial condition in Myanmar, all of CLMV's macroeconomic factors have been relatively well since the 1990s by world's average standard.

3. INFRASTRUCTURES

Infrastructures are important to economic activities including investment. Table 1 shows the indices of general infrastructures such as road, railway, water, electricity, and telecommunication. Those for Malaysia, Singapore, and Thailand have also been added as the benchmarks that CLMV may aim for.

Among CLMV, road density (total road length divided by total land area) is lowest in Myanmar, higher in Cambodia and Laos, and highest in Vietnam. While one may safely say that more roads will need to be constructed in CLMV considering the very high road density in Singapore or Malaysia, the optimal levels can, however, vary. This is because differences in population densities and their distributions may also lead to different lengths and forms of road to be constructed.

Moreover, quality does matter more when it comes to using roads. While road density is not high in Thailand, its road network is by far better than those in CLMV, including Vietnam that has a higher road density according to statistics. In Thailand, most national roads are generally separated from the roads used daily by local people living along them, making it possible for cars and trucks to travel at a higher speed.

A total of about 650-km-long railway system exists in Cambodia. Though the construction of a 3-km-long railway from the First Friendship Mekong Bridge between Laos and Thailand has been in progress since mid-2007, Laos is still the only country in the ASEAN without a railway besides the city-state of Brunei. Longer railway networks, mainly connecting cities from north to south, exist in Myanmar and Vietnam, but improvement is likely necessary for them to be used as economic corridors.

Almost half of households in Cambodia and Laos still have no access to clean water. The situation is better in Myanmar and Vietnam, but still not good enough when compared to Malaysia, Singapore, and Thailand. Electricity is not only important for better livelihood; it is also indispensible for modern economic activities. With electrification rate lower than 20 percent, electricity is obviously lacking in Cambodia.

Though Laos produces electricity, most of it is exported to Thailand, and therefore has not yet been adequately utilized for domestic economic activities. While the electrification rate is nearly 80 percent in Vietnam, this is still below the ideal target of 100 percent.

Telephone density (lines per 100 inhabitants) is 1.27 in Laos, 0.93 in Mynamar, and only 0.23 in Cambodia. In Vietnam, it is 18.81, which is even higher than the figures for Malaysia and Thailand. However, the trend of shifting from fixed line (or none) to mobile phones is obvious in Cambodia, Laos, and Vietnam, with Myanmar as the only exception. The percentage of mobile cellular subscribers to fixed line subscribers is higher than 90 percent in both Cambodia and Laos. Having less than one mobile cellular phone for every 100 inhabitants as in the case of Myanmar is extremely low even in CLV's standard.

Table 1: Infrastructures

	Cambodia	Laos	Myanmar	Vietnam	Malaysia	Singapore	Thailand
Road density, (year)	217 (2004)	135 (2003)	43 (1999)	717 (2004)	300 (2004)	4627 (2004)	112 (2000)
Railway length, km, (year)	650 (2004)	0	4759 (2000)	2600 (2004)	1949 (2004)	127.9 (2004)	4044 (2002)
Water access rate, 2004	41	50	78	85	99	100	99
Proportion of house holds with electricity, 2000	16.6	38.2		77.8 (1999)	97.3	100	98.3
telephone lines per 100 inhabitants, 2006, (2001)	0.23 (0.25)	1.27 (0.98)	0.93 (0.58)	18.81 (3.82)	16.83 (19.71)	42.32 (47.14)	10.92 (9.75)
Mobile cellular subscribers per 100 inhabitants, 2006	7.94	10.77	0.42	18.17	75.45	109.34	63.02
Internet subscribers per 100 inhabitants, 2006	0.09	0.1	0.01	4.76	18.08	52.78	3.81
Internet users per 100 inhabitants, 2006	0.31	0.42	0.18	17.21	54.23	43.62	13.07
Broadband subscribers per 100 inhabitants, 2006	0.01	0	0	0.61	3.49	18.19	0.16

Source: (1) ASEAN Secretariat (www.aseansec.org/). (2) UNESCAP (www.unescap.org/).

CLMV still have a long way to go in making use of the internet. Less than one in 1000 inhabitants in Cambodia, Laos, and Myanmar use the internet. According to figures from the ASEAN Secretariat, more people access the internet in Vietnam than in Thailand. However, when it comes to access via broadband connection, CLMV together with Malaysia and Thailand still have a long way to go before they can catch up with Singapore.

As a landlocked country, Laos has no sea ports. Table 2 shows the main ports in CMV. Cambodia has one sea port and two ports along the Mekong River. Myanmar has several international ports along its coastal line. Vietnam has the biggest number of ports but none of them can rival the much densely used ports of Singapore or even Thailand. While ports are almost indispensible as infrastructures for trade and economic activities, having only them would not help much. For instance, while many ports in Vietnam are closer to many parts of Laos than the ports in Thailand, most exporters in

Table 2: Main Ports in CMV

Cambodia	Myanmar	Vietnam
Sihanoukville	Yangon	Northern
Sihanoukville port	Yangon port	Hai Phong port,
Phnom Penh	Rakhine	Cua Cam Hai Phong port,
Phnom Penh port *	Sittwe port, Kyaukphu port,	Nghe Tinh port, Guang Ninh port,
Koh Kong	Thandwe port	Thanh Hoa port,
Koh Kong port *	Ayeyarwady	Central
	Pathein port	Danang port, Haison port,
	Mon	Ky Ha port, Nha Trang port,
	Mawlamyine port	Nguyen Ban Troi port,
	Tanintharyi	Quy Nhon port,
	Dawei port, Myaeik port,	Song Han port
	Kawthoung port	Southern
		Ben Nghe port, Cat Lai port,
		Can Tho port, Dong Nai port,
		Dong Thap port, My Tho port,
		My Thoi port,
		Tan Cang Saigon port,
		Tan Thuan Dong port,
		Saigon port, Saigon Petro port,
		Xang Gau Nha Be port

Source: (1) ASEAN Port Association (http://www.aseanports.com). (2) Royal Government of Cambodia's Website (http://www.cambodia.gov.kh/).
Note: * is port on Mekong river.

Laos still prefer the Thai ports apparently due to their lower prices, safer handling, and predictable times.

Airports are important to economic activities including investment. Cambodia has only two international airports but more than 20 airlines, most of them flying internationally. Laos has three international airports but with only five airlines that fly to and from the biggest airport in the capital city. Myanmar has two international airports but with relatively fewer flights compared to Cambodia. Vietnam has two big international airports in the north and south, and one smaller international airport in the central part.

While it is obvious that infrastructure development is an urgent need in CLMV to attract more investment, it is not easy for economies like them with relatively limited financial resources to develop infrastructures at a steady rate. However, many Asian

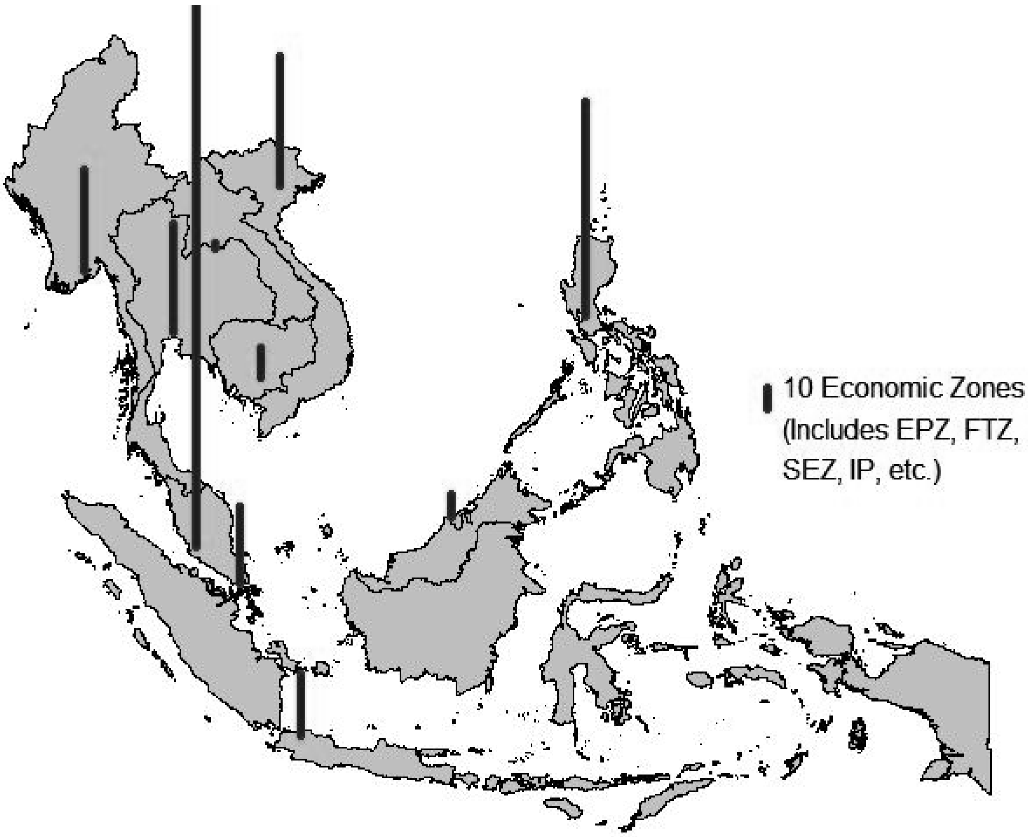
Table 3: International Airports and Operating Airlines

Cambodia	
Siem Riep International Airport	
	AirAsia,Thai AirAsia,Angkor Airlines,Asiana Airlines,Bangkok Airways, Cathay Pacific ,Dragonair, China Airlines,China Southern Airlines, EVA Air, Far Eastern Air Transport,Jetstar Asia Airways,Korean Air, Malaysia Airlines,President Airlines,PMTair,Royal Khmer Airlines, Royal Phnom Penh Airways, Shanghai Airlines, Siem Reap Airways, Singapore Airlines, SilkAir, Thai Airways International, Transmile Air Services, Vietnam Airlines
Phnom Penh International Airport	
	AirAsia, Air Macau, Angkor Airways, Asiana Airlines, Bangkok Airways, China Eastern Airlines, China Southern Airlines, Japan Airlines, Jetstar Asia Airways Kampuchea Airlines, Korean Air, Lao Airlines, Malaysia Airlines, PMTair, President Airlines, Royal Khmer Airlines, Royal Phnom Penh Airways, Siem Reap A Singapore Airlines, SilkAir, Vietnam Airlines
Laos	
Wattay International Airport	
	AirAsia, Cl China Southern Airlines, Lao Airlines, Thai Airways International, Vietnam Airlines
Luangphabang International Airport	
	Bangkok Airways, Lao Airlines, Siem Reap Airways, Vietnam Airlines
Pakxe International Airport	
	Bangkok Airways, Lao Airlines
Myanmar	
Yangon International Airport	
	Air Bagan, Air India IC, AirAsia, Thai AirAsia, Air Bagan, Air China, Air Mandalay, ATRAN Cargo Airlines, Bangkok Airways, China Airlines, Mandarin Airlines, China Southern Airlines, Hong Kong Express Airways, Jetstar Asia, Malaysia Airlines, Myanma Airways, Myanmar Airways International, Qatar Airways, Singapore Airlines, Silk Air, Thai Airways International, Vietnam Airlines, Yangon Airways
Mandalay International Airport	
	Air Bagan, Air Mandalay, China Eastern Airlines, Myanma Airways, Yangon Airways
Vietnam	
Noi Bai International Airport	
	Aeroflot, AirAsia, Thai AirAsia, Air Dream, Air France, Asiana Airlines, Cathay Pacific, China Airlines, China Southern Airlines, EVA Air, Uni Air, Hong Kong Japan Airlines, Korean Air, Lao Airlines, Malaysia Airlines, Pacific Airlines, PMTair, Royal Khmer Airlines, Singapore Airlines, Thai Airways International, Nok Tiger Airways, Vladivostok Air, Vietnam Airlines
Da Nang International Airport	
	Far Eastern Air Transport, Pacific Airlines, PBair, Singapore Airlines,SilkAir, Vietnam Airlines
Tan Son Nhat International Airport	
	Air China, Air France, All Nippon Airways, Asiana Airlines, Bangkok Airways, Cathay Pacific, Cargolux, China Airlines, Mandarin Airlines, China Airlines Carg China Eastern Airlines, China Southern Airlines, EVA Air, Uni Air, Finnair, Garuda Indonesia, Hong Kong Airlines, Japan Airlines, Jetstar Asia Airways, KLM, Korean Air, Korean Air Cargo, Lufthansa, Malaysia Airlines, Pacific Airlines, Philippine Airlines, Qantas, Jetstar Airways, Qatar Airways, Royal Brunei Airline Royal Khmer Airlines, Shanghai Airlines, Shanghai Airlines Cargo, Shenzhen Airlines, Singapore Airlines, Thai Airways International, Tiger Airways,Transaerc United Airlines, Vietnam Airlines, Viva Macau

Source: Various sources on the WWW.

countries have shown good examples of how to overcome this constraint since the middle of the 20th century. Economic zoning, ranging from providing a mere tract of land to a full package estate, is a good scheme of attracting investment into a geographical area. In most cases, the chosen site not only provides good access to facilities and administrative services but also gives investment incentives. These generally consist of reduced set-up costs and easier mobility for investors. Many kinds of economic zoning from export processing zone to industrial park, free port, and free zones in ASEAN are plotted in Figure 2.

Figure 2. Concentration of Industrial Parks in ASEAN (Including Planned)



Source: Drawn by author based on statistics at ASEAN-Japan Centre's Home Page (http://www.asean.or.jp/eng/).

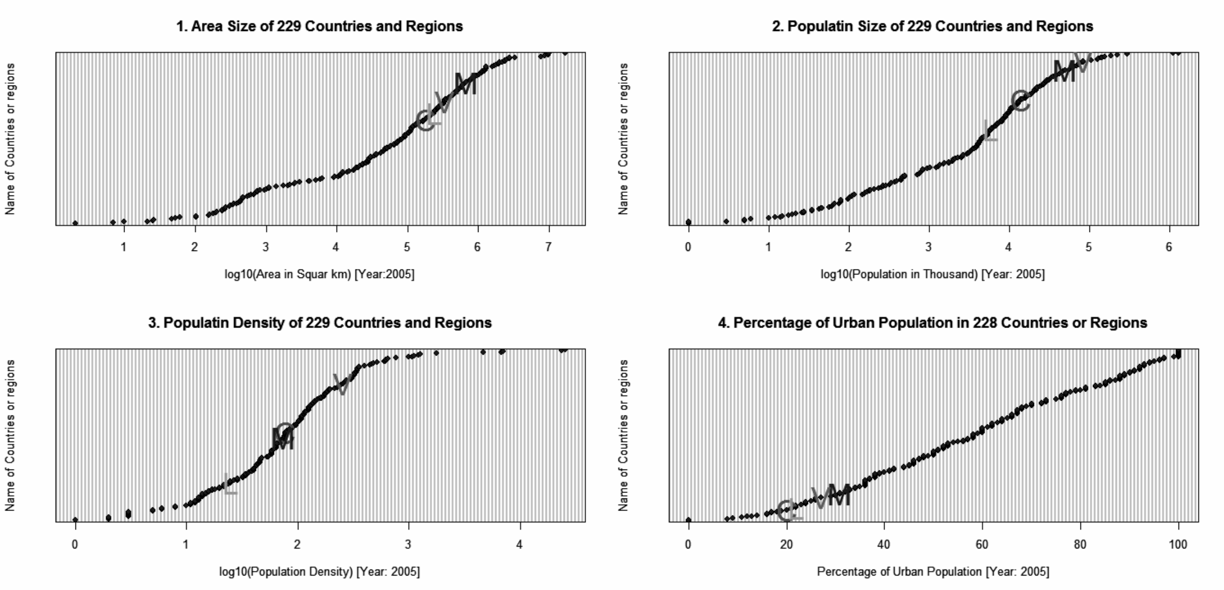
Larger concentrations of economic zones are seen in more industrialized ASEAN countries such as Singapore, Malaysia, Thailand, and Philippines. However, a number of these facilities can also be found in relatively small city-states such as Brunei. For CLMV, a certain number of economic zoning facilities are seen in growth centers of Vietnam both in the north and in the south. While Cambodia has small concentrations of industrial parks in coastal areas, Laos has only two planned sites. There are about 50 various types of industrial estates throughout Myanmar.

4. SUPPLY AND DEMAND FACTORS

As pointed out earlier, this report added supply and demand factors to the general definitions of investment climate. Figure 3.1 to 3.4 depicts land areas, population sizes, population densities, and percentages of urban population in 229 countries and regions around the globe. These were selected to demonstrate some of the potential supply factors for investment activities within these territories.

In Figure 3.1, CLMV are on the top half, meaning that more than half of 229 countries and regions in the world have areas smaller than CLMV. Myanmar has the largest area among countries in the Indochinese peninsula. Vietnam is on the top third among the 229 territories because of its land area which is even larger than Japan. Despite its small population, Laos is larger than many states in the European Union (EU). Cambodia is the smallest in terms of land area but still larger than more than half of 229 territories presented in Figure 3.1.

Figure 3: Supply Factors



Source: Drawn by author based on statistics available at United Nation Statistics Division's Home Page (http://unstats.un.org/unsd/default.htm).

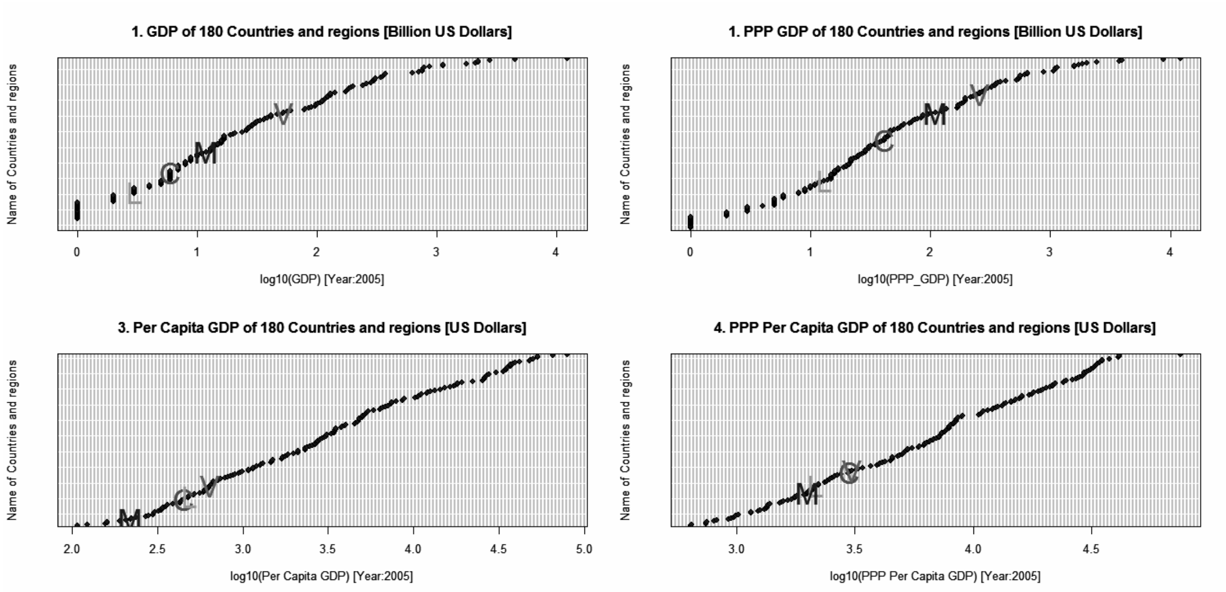
It is also worth noting that while larger areas do not necessary lead to more natural resources, most of these resources are in fact under land or sea. CLMV have actually entered into the era of modern or large-scale commercial exploration of natural resources since the late 1990s. PetroVietnam's annual export of crude oil reached US$4 billion in the first several months of 2007. Myanmar's export of natural gas to Thailand jumped from several hundred thousands in 1997 to more than US$2 billion in 2006. Laos began its commercial export of gold in 2003, and the total export value of gold and copper reached more than US$500 million in 2006. The commercial export of oil under exploration off the Cambodian shore is expected in 2010. More natural gas mines and gold mines are being developed in Myanmar and Laos, respectively, while crude oil export from Vietnam is likely to continue increasing. In CLMV, natural resources are therefore one of the attractive sectors to invest in.

In terms of population, besides China and India (represented by two dots in Figure 3.2) that have more or less than one billion population each, there are not many countries in the world that have a population much larger than Vietnam (more than 84 million). Myanmar's population is around 50 million. It is followed by Cambodia with more than 14 million and by Laos with nearly 6 million. While Laos' population is extremely small by ASEAN's standard, it is actually bigger than many industrialized states in the EU.

Density is also important when it comes to population. Industrial agglomeration will not be possible without agglomeration of population as labor cannot pay higher so people can travel to their place of work. Figure 3.3 reveals that the population density in Vietnam is high by global standard. Cambodia and Myanmar are in the middle while Laos has one of the lowest population densities in the world. The population density of Laos is significantly low because while its population is larger than Singapore and a little smaller than Hong Kong (China), two of the most industrialized states in Southeast Asia, its land area is nearly 342 times larger than that of Singapore. Mobilization of labor force would likely be necessary if Laos is to move forward with the improvement of investment climate, especially for the manufacturing sector.

As can be gleaned from Figure 3.4, the urbanization level in CLMV is still in its early stages. The percentage of urban population in Cambodia and Laos is around 20 percent; in Myanmar and Vietnam, the figure is around 30 percent. This may be a reflection of the stage of industrialization in these countries as well as the potential of work force mobilization in the face of industrialization.

Figure 4: Demand Factors



Source: Drawn by author based on statistics available at United Nation Statistics Division's Home Page (http://unstats.un.org/unsd/default.htm).

Figure 4.1 to 4.4 reveal the indicators of CLMV as potential markets among economies in the world. Based on Figure 4.1, the GDP of Vietnam is in the bottom top half of 180 countries or regions. Vietnam's economy is still smaller than all former members of ASEAN, but the largest among CLMV. With their combination of large population and small per capita income, Vietnam and Myanmar are certainly by far more attractive in terms of a single market compared to Cambodia and Laos.

Per capita incomes of CLMV are low or among the lowest in the world as can be seen in Figures 4.3 and 4.4. While this spells CLMV's high potential to supply cheap labor, it also lowers their attractiveness as markets at present.

Although the population sizes of CLMV can be considered both supply and demand factors of investment climate, the supply and demand factors of these countries are not necessarily equal. With the ongoing trend in reduction of transportation costs, development of transportation technologies, and emerging regional integration around the world, the accessible markets for investment activities within a territory are usually larger than just a domestic market. For CLMV, many efforts within several frameworks, such as ASEAN, Great Mekong Subregion Program (Asian Development Bank), and Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy, are all aiming at, or at least moving in, the direction of creating a single market. Therefore, for both Cambodia and Laos, where domestic markets are relatively small, but are sandwiched or surrounded by much larger and growing economies such as Thailand, Vietnam, other ASEAN members, and even China, the accessible market for investment in both countries may be several times bigger than their domestic markets.

In short, among CLMV, the supply and demand factors of Myanmar and Vietnam are good even by international standard, while Cambodia and Laos can also be attractive if certain conditions are met.

5. POLICY FACTORS

Tax regimes, governance issues, and government policies or actions that affect the investment climate can be considered as policy factors. However, making a comparison of such factors based on statistics across countries in the world would be extremely difficult. Indexing them would require large funds, time, and manpower for both surveys and analyses.

This report, instead, makes use of the Doing Business Index compiled by World Bank, which encompasses mainly policy factors across countries. The index is composed of 10 detailed indices or rankings, namely, (1) start a business, (2) dealing with licenses, (3) employing worker, (4) registering property, (5) getting credit, (6) protecting investors, (7) paying taxes, (8) trading across border, (9) enforcing contracts, and (10) closing a business.

Start a business index ranks the easiness of starting a business in a country or region based on (1) number of procedures, (2) time (days), (3) cost, and (4) minimum capital as percentage of per capita income. Table 4 shows CLV scores in the start a business index. There are more or less 10 procedures to start a business in CLV compared to 2 to 20 procedures in other countries. However, in term of time to start a business, more than five months are needed in Laos, nearly three months in Cambodia, and more than one and a half months in Vietnam. The time needed to start a business in Cambodia and Laos is many times longer than the world average (47.7 days). Vietnam is close to achieving the world average, better than Indonesia's 97 days, almost the same as the Philippines' 48 days, but 20 days longer than Malaysia's 30 and Thailand's 33 days and far behind Singapore's six days and Australia's best practice of two days.

Minimum capital (as percent of per capita GDP) necessary to start a business is generally low in ASEAN. However, more than half of per capital GDP is required in Cambodia and ASEAN. This may not be problem for large scale or foreign investment, but it is certainly a huge barrier for lower classes.

The processes comprising the start a business index can be taken as the beginning of investment itself and therefore no benefit from investment may be achieved if investors cannot pass through them.

Licensing is one of the main obstacles in doing business in many developing countries. The time and cost associated with obtaining licenses are high, and unpredictable in many cases. The dealing with licenses index includes (1) number of procedures, (2) time (days), and (3) cost (as percentage of per capita income). Table 5 provides CLV's scores for said index focusing on the construction sector in the individual countries. Sierra Leone (Africa) has the most number of procedures (48) to obtain business licenses. Cambodia has 28; Laos, 24; and Vietnam, 14. The best practice is found in Denmark with 7 procedures. Singapore, which was ranked overall as the most friendly environment for doing business according to the dealing with licenses index, has 11 procedures.

Table 4: Start a Business Index [2006]

Economy	Rank_All	Rank	Procedures (number)	Time (day)	Cost (% per capita GDP)	Minimum Capital (% per capita GDP)
Cambodia	143	159	10	86	236.4	66.2
Lao PDR	159	73	8	163	17.3	0
Vietnam	104	97	11	50	44.5	0
Indonesia	135	161	12	97	86.7	83.4
Malaysia	25	71	9	30	19.7	0
Philippines	126	108	11	48	18.7	1.8
Singapore	1	11	6	6	0.8	0
Thailand	18	28	8	33	5.8	0
Australia	8	2	2	2	1.8	0
Canada	4	1	2	3	0.9	0
Denmark	7	14	3	5	0	44.6
New Zealand	2	3	2	12	0.2	0

Source: Doing Business 2007.

The time necessary to deal with business licenses is about 4 to 6 months in CLV, a little shorter than the world average of nearly 7 months. The best practice is Korea's 52 days. The cost of dealing with licenses in Cambodia, which is equal to 1640.5 percent of per capita income is, however, extremely high, and lower than only a few countries that are mostly in Africa. This figure is 204.1 percent in Laos and 56.4 percent in Vietnam.

Table 5: Dealing with Licenses Index [2006]

Economy	Rank_All	Rank	Procedures (number)	Time (day)	Cost (% per capita GDP)
Cambodia	143	159	28	181	1,640.50
Lao PDR	159	130	24	192	204.1
Vietnam	104	25	14	133	56.4
Indonesia	135	131	19	224	311
Malaysia	25	137	25	281	78.2
Philippines	126	113	23	197	113.4
Singapore	1	8	11	129	22
Thailand	18	3	9	127	11.1
St. Vincent and the Grenadines	44	1	11	74	10.6
Denmark	7	6	7	70	67.8
South Korea	23	28	14	52	175.9
Palau	62	42	23	114	6.8

Source: Doing Business 2007.

The employing worker index was derived from examining government regulation in the area of employment and social security. The index consists of (1) rigidity of employment index, (2) nonwage labor cost (% of salary), and (3) firing costs (weeks of wages). The rigidity of employment index is divided further into (1) difficulty of hiring index, (2) rigidity of hours index, and (3) difficulty of firing index.

Since employment and social security are decided to protect workers, it is difficult to determine whether rigid or not rigid regulations are better for both employers and employees. Therefore, the term "best practice" may not be suitable in this category. The indices in Table 6 should instead be taken as barometer of rigidity of employment and social security in a certain country.

Among countries in ASEAN, regulations regarding employment and social security are not so rigid in Laos, Vietnam, Singapore, and Malaysia. They are more rigid in Cambodia, Indonesia, Philippines, and Thailand. On the other hand, nonwage salary cost is almost 0 in Cambodia while it ranges from 5 to about 10 percent of salary for the rest in ASEAN. Among CLV, firing cost is highest in Vietnam and least in Cambodia and Laos.

Table 6: Employing Worker Index [2006]

Economy	Rank All	Rank	Difficulty of Hiring Index	Rigidity of Hours Index	Difficulty of Firing Index	Rigidity of Employment Index	Nonwage labor cost % salary	Firing costs Weeks of wages
Cambodia	143	124	56	60	30	49	0	39
Lao PDR	159	71	11	40	60	37	5	19.4
Vietnam	104	104	0	40	70	37	17	86.7
Indonesia	135	140	61	20	50	44	10	108.3
Malaysia	25	38	0	20	10	10	12.8	88
Philippines	126	118	56	40	20	39	8.5	91
Singapore	1	3	0	0	0	0	13	4
Thailand	18	46	33	20	0	18	5.2	54.3
Marshall Islands	87	1	0	0	0	0	10.5	0
Australia	8	9	0	0	10	3	21.3	4
Hong Kong	5	16	0	0	0	0	5	62.1
Maldives	53	5	0	0	0	0	0	8.7
Tonga	51	4	0	20	0	7	0	0

Source: Doing Business 2007.

According to statistics from Doing Business 2007, land and building account for between half and three quarters of the wealth of most economies. Registering them has been proven advantageous for entrepreneurs. The registering of property index is composed of (1) number of procedures, (2) time (days), and (3) cost (% of property value). These indices are based on the standard case of an entrepreneur wanting to purchase land and building in the largest business city in each economy.

In Laos, it takes more than four months to process nine procedures and the cost of registration is 4.2 percent of the value of the property to be registered. In Cambodia, the registration time is less than two months for seven procedures and the cost is 4.6 percent of the value of the property to be registered. The cost of registration is relatively low in Vietnam at only 1.2 percent of the value of the property and the number of procedures is less at 4 but processing time is still about two months.

Table 7: Registering Property Index [2006]

Economy	Rank All	Rank	Procedures (number)	Time (day)	Cost (% property value)
Cambodia	143	100	7	56	4.6
Lao PDR	159	148	9	135	4.2
Vietnam	104	34	4	67	1.2
Indonesia	135	120	7	42	10.5
Malaysia	25	66	5	144	2.4
Philippines	126	98	8	33	5.7
Singapore	1	12	3	9	2.8
Thailand	18	18	2	2	6.3
New Zealand	2	1	2	2	0.1
Norway	9	6	1	1	2.5
Saudi Arabia	38	4	4	4	0

Source: Doing Business 2007.

Firms consistently rate access to credit as one of the greatest barriers to their operation and growth (Doing Business 2007). The getting credit index is composed of (1) legal right index, (2) credit information index, (3) public registry coverage (% adults), and (4) private bureau coverage (% adults). The strength of legal rights index measures 10 aspects of the rights of borrowers and creditors in collateral and bankruptcy laws, including whether:

- General rather than specific description of assets and debt is permitted in collateral agreements;
- Any legal or natural person may grant or take security in assets;
- A unified registry operates that includes charges over movable property;
- Secured creditors have priority both within bankruptcy and outside it;
- Parties may agree on out-of-court enforcement of collateral by contract; and
- Creditors may both seize and sell collateral out of court, no automatic stay or “asset freeze” applies upon bankruptcy, and the bankrupt debtor does not retain control of the firm.

Table 8: Getting Credit Index [2006]

Economy	Rank All	Rank	Legal Rights Index	Credit Information Index	Public registry coverage (% adults)	Private bureau coverage (% .adults)
Cambodia	143	174	0	0	0	0
Lao PDR	159	173	2	0	0	0
Vietnam	104	83	4	3	2.7	0
Indonesia	135	83	5	2	8.4	0.2
Malaysia	25	3	8	6	42.2	
Philippines	126	101	3	3	0	4.8
Singapore	1	7	9	4	0	38.6
Thailand	18	33	5	5	0	21.7
United Kingdom	6	1	10	6	0	86.1
Hong Kong	5	2	10	5	0	64.5
Japan	11	13	6	6	0	
Portugal	40	65	4	4	72	9.1
Argentina	101	48	3	6	25.4	100

Source: Doing Business 2007.

Data were obtained by examining collateral and bankruptcy laws and legal summaries, and verified through a survey of financial lawyers (Doing Business 2007).

According to scores in Table 9, legal rights in CLV are still weak. They are 0 in Cambodia, 2 in Laos, and 4 in Vietnam, all less than 5 in the range from 0 to 10. Among former member of ASEAN, only Malaysia (8) and Singapore (9) score higher than 5.

The credit information index measures the extent to which the rules of a credit information system facilitate lending based on the scope of information distributed, the ease of access to information, and the quality of information. The score of Cambodia and Laos is both 0. Vietnam's score is 3, which is higher than Indonesia's, the same as the Philippines', and close to Singapore's score.

Public and private registry coverage refers to the number of individuals and firms covered by public and private registry. They are both 0 in Cambodia and Laos. For Vietnam and the rest of ASEAN, the strategy can be obviously divided into two types.

While Vietnam, Indonesia, and Malaysia try to cover this by public registry, these are left mainly to the private sector in the Philippines, Singapore, and Thailand.

If the rights of investors are not protected, having the majority share in the ownership of a business is the only way to eliminate expropriation. But then, investors must devote more oversight attention to fewer investments resulting in entrepreneurship being suppressed (Doing Business 2007).

The protecting investor index is composed of (1) disclosure index, (2) director liability index, (3) shareholder suits index, and (4) investor protection index. Out of 175 economies, Laos and Vietnam are both ranked 170 while Philippines is ranked 151. Cambodia is ranked 60, the same as Indonesia. Singapore and Malaysia are ranked 2 and 4, respectively.

Table 9: Protecting Investor Index [2006]

Economy	Rank All	Rank	Disclosure Index	Director Liability Index	Shareholder Suits Index	Investor Protection Index
Cambodia	143	60	5	9	2	5.3
Lao PDR	159	170	0	3	3	2
Vietnam	104	170	4	0	2	2
Indonesia	135	60	8	5	3	5.3
Malaysia	25	4	10	9	7	8.7
Philippines	126	151	1	2	7	3.3
Singapore	1	2	10	9	9	9.3
Thailand	18	33	10	2	6	6
New Zealand	2	1	10	9	10	9.7
Hong Kong	5	3	10	8	9	9
New Zealand	2	1	10	9	10	9.7

Source: Doing Business 2007.

The paying tax index consists of (1) payments (number), (2) time (hour), (3) profit tax, (4) labor tax and contributions, (5) other taxes, and (6) total tax rate. Cambodia and Laos are ranked 16 and 36, respectively, in this index, and are between Singapore in rank 8 and Indonesia in rank 133 in ASEAN. Vietnam is ranked 120, much lower than Cambodia and Laos mainly due to the time necessary in paying tax. Time in hours necessary to pay tax in Vietnam is 1,050, which is clearly longer than the time in Laos (180) and Cambodia (121)

The trading across border index consists of (1) documents for export (number), (2) time for export (days), (3) cost to export (US$ per container), (4) documents for import (number), (5) time for import (days), and (6) cost to import (US$ per container).

Laos is among the countries where trading across border is most difficult. It is ranked 161 out of 175 economies, while Cambodia and Laos are ranked 114 and 75, respectively. The costs to import (U$1,420) and export (U$1,690) in Laos are nearly two times higher than those in Cambodia and Vietnam.

Table 10: Paying Tax Index [2006]

Economy	Rank All	Rank	Payments (number)	Time (hour)	Profit tax	Labor tax and contributions	Other taxes	Total tax rate
Cambodia	143	16	27	121	19.6	0	2.7	22.3
Lao PDR	159	36	31	180	26.7	5.8	0	32.5
Vietnam	104	120	32	1,050	21.6	19.7	0.2	41.6
Indonesia	135	133	52	576	25.2	11.3	0.6	37.2
Malaysia	25	49	35	190	17.7	15.8	1.6	35.2
Philippines	126	106	59	94	22.7	10.6	19.7	53
Singapore	1	8	16	30	12	14.8	2	28.8
Thailand	18	57	46	104	29.2	6	5	40.2
Maldives	53	1	1	0	0	0	9.3	9.3
Saudi Arabia	38	6	14	75	2.1	12.8	0	14.9

Source: Doing Business 2007.

Table 11: Trading Across Border Index [2006]

Economy	Rank All	Rank	Documents for export (number)	Time for export (days)	Cost to export (US$ per container)	Documents for import (number)	Time for import (days)	Cost to import (US$ per container)
Cambodia	143	114	8	36	736	12	45	816
Lao PDR	159	161	12	66	1,420	16	78	1,690
Vietnam	104	75	6	35	701	9	36	887
Indonesia	135	60	7	25	546	10	30	675
Malaysia	25	46	6	20	481	12	22	428
Philippines	126	63	6	18	1,336	7	20	1,336
Singapore	1	4	5	6	382	6	3	333
Thailand	18	103	9	24	848	12	22	1,042
Hong Kong	5	1	2	5	425	2	5	425
Estonia	17	6	5	3	640	6	5	640
Tonga	51	17	6	12	265	9	17	360

Source: Doing Business 2007.

Where contract enforcement is efficient, businesses are likely to engage with new borrowers or customers (Doing Business 2007). The enforcing contract index is based on the efficiency of the judicial system to resolve a commercial dispute. The index consists of (1) procedures (number), (2) time (days), and (3) cost (% of debt).

As can be read in Table 12, it takes more than a year to resolve a business dispute in Cambodia and Laos, and nearly 10 months in Vietnam. It costs 20 percent more than the cost of the debt itself in Cambodia. Making processing time shorter and less costly is certainly what an economy can do to improve its rank in this index. Time and cost are, however, still high in most of the ASEAN except for Singapore with 120 days and 14.6 percent.

Table 12: Enforcing Contract Index [2006]

Economy	Rank All	Rank	Procedures (number)	Time (days)	Cost (% debt)
Cambodia	143	118	31	401	121.3
Lao PDR	159	146	53	443	30.3
Vietnam	104	94	37	295	31
Indonesia	135	145	34	570	126.5
Malaysia	25	81	31	450	21.3
Philippines	126	59	25	600	16
Singapore	1	23	29	120	14.6
Thailand	18	44	26	425	17.5
Denmark	7	1	15	190	6.5
Iceland	12	8	14	352	5.9
New Zealand	2	15	28	109	10.9
Korea	23	17	29	230	5.5

Source: Doing Business 2007.

Lastly but equally important is the closing a business index. The economic crises of the 1990s in emerging markets—from East Asia to Latin America, from Russia to Mexico—raised concerns about the design of bankruptcy systems and the ability of such systems to help reorganize viable companies and close down unviable ones (Doing Business 2007). In countries where the bankruptcy system is inefficient, unviable businesses linger for years, keeping assets and human capital from being reallocated to more productive uses (Doing Business 2007). The closing business index consists of (1) time (years), (2) cost (% of estate), and (3) recovery rate (cents on the dollar).

Judging from Table 13, it is difficult to close a business in CLV. Cambodia and Laos are both ranked 151 while Vietnam is ranked 116 out of 175 economies. Recovery rate is 0 in Cambodia and Laos, and 18 cents on a dollar in Vietnam. The processing time is five years in Laos and Vietnam, a little shorter than Indonesia's 5.5 years, Philippines' 5.7 years, and clearly much longer than Singapore's 0.8 years.

Table 13: Closing a Business Index [2006]

Economy	Rank All	Rank	Time (year)	Cost (% estate)	Recovery rate (cents on the dollar)
Cambodia	143	151			0
Lao PDR	159	151	5	76	0
Vietnam	104	116	5	14.5	18
Indonesia	135	136	5.5	18	11.8
Malaysia	25	51	2.3	14.5	38.7
Philippines	126	147	5.7	38	4
Singapore	1	2	0.8	1	91.3
Thailand	18	38	2.7	36	42.6
Japan	11	1	0.6	3.5	92.7
Ireland	10	7	0.4	9	87.9
Singapore	1	2	0.8	1	91.3
Eritrea	170	151	1.7	14.5	0

Source: Doing Business 2007.

6. CONCLUSION REMARKS

This paper attempted to identify the investment climates in CLMV. First, it re-arranged investment climates into (1) macroeconomic factors, (2) infrastructures, (3) supply and demand factors, and (4) policy factors. Then, it tried to reveal CLMV's position for each factor by making a comparison across as many economies as possible using statistics and indices made available by international institutions and national statistical authorities mainly in CLMV.

Utilizing data from several sources is, in itself, a limitation of this report. While this made comparison across wider topics and economies possible, ensuring consistency in degree and scope and accuracy of statistics and data from different sources proved to be difficult. Despite this constraint, however, the report was able to arrive at a number of conclusions.

According to statistics, the macroeconomic factors in CLMV can be considered stable in general since the beginning of the 21^{st} century, with a few exceptions. Firstly, Cambodia and Laos are still heavily dependent on external aid. The sudden stoppage of aid can lead to extremely unstable macroeconomic conditions. Secondly, Lack of statistics and very large gaps between information from different sources in the case of Myanmar, and to less extent Cambodia, Laos and Vietnam, have made it difficult or impossible to accurately evaluate their macroeconomic factors.

Among CLMV, supply factors, especially in terms of labor, are much better in Myanmar and Vietnam due to their huge population sizes. The situation is better in Cambodia than in Laos, because while the population size of Cambodia is only about three times that of Laos, the higher population density has made the location of labor-intensive industries more viable in Cambodia. On the other hand, supply factors in terms of natural resources are getting better recently for all CLMV, due to successful commercialization of exploitation of different resources in different countries.

There is, however, plenty of room for improvement in both infrastructure and policy factors in CLMV. For infrastructure factors, sufficient roads and railway networks are yet to be developed in Cambodia and Laos, while improvement and better administration are still necessary in Myanmar and Vietnam. This also holds for policy factors, where Cambodia (143), Laos (159), and Vietnam (104) are still ranked lower than 100 out of 175 economies according to Doing Business 2007.

Providing better investment climates evenly throughout an economy may be considered ideal but, in reality, it is often difficult or not possible due to many resource limitations including finance. One way to overcome this may be through economic zoning. Economic zoning, which ranges from providing a mere tract land to a full package estate, may make it possible to provide better investment climates within a certain (smaller) geographical area, with relatively limited resources. This has been proven practical and effective as a tool for industrialization by many newly industrializing economies in Asia, former ASEAN members, as well as China during the mid to late 20th century

REFERENCES

Bredo, William 1960. Industrial Estate: Tool for Industrialization. Free Press.

Ho, James K. 2006. Maximum resolution dichotomy for investment climate indicators. *INTERNATION JOURNAL OF BUSINESS ENVIRONMENT.* Vol. 1, No.1, 2006, pp. 126 - 135.

Ota, Tatsuyuki .2003. The Role of Special Economic Zones in China's Economic Development As Compared with Asian Export Processing Zones:1979-1995. Asian in Extenso, March 2003.
http://www.iae.univ-poitiers.fr/EURO-ASIE/Docs/Asia-in-Extenso-Ota-mars2003.pdf

Phillips, Lauren M. 2006. Growth and the Investment Climate: Progress and Challenges for Asian Economies. Institute of Development Studies.
http://www.asia2015conference.org/pdfs/Phillips.pdf

Wong, Kyan-Yiu, and David K.Y. Chu. 1984. Export Processing Zones and Special Economic Zones as Generators of Economic Development: The Asian Experience, Geografiska Annaler. Series B, Human Geography, Vol.66,No.1.(1984),pp.1-16.

World Bank. 2005. World Development Report 2005.
http://siteresources.worldbank.org/INTWDR2005/Resources/complete_report.pdf

World Bank. 2007. Doing Business 2007.
http://www.doingbusiness.org/documents/DoingBusiness2007_FullReport.pdf