

Chapter 2

Survey Findings on Investment Climates of Major Cities in CLMV Countries

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CHAPTER 2

SURVEY FINDINGS ON INVESTMENT CLIMATES OF MAJOR CITIES IN CLMV COUNTRIES

Masami Ishida

Abstract

A questionnaire survey on investment climates in major cities in CLMV countries was conducted in 2008 as part of a project called “Development Strategy of CLMV Countries” of the Economic Research Institute of ASEAN and East Asia (ERIA). This study seeks to compare the survey results across cities and countries and to explain the purpose and backgrounds of the results, which show the challenges in human resources, infrastructure and trade-related institutions. Based on the survey, the service link cost has been reduced by the introduction of the one-stop service. Such a measure is key to attract foreign direct investments (FDI) in the upgraded manufacturing sectors.

INTRODUCTION

In 2008, the Economic Research Institute of ASEAN and East Asia (ERIA) in the fiscal year of 2008 undertook a survey on the investment climates in major cities in the CLMV countries, namely, Cambodia, Lao PDR, Myanmar and Vietnam. The analytical

results were reported by Sisovanna (2008), Oraboune (2008), Kyaw (2008) and Dinh (2008). This paper provides a comparative analysis of the survey results focusing on cities cited by Ishida (2009).

These cities belong to at least one of following categories: 1) metropolitans areas with lager population, 2) ports and harbors, 3) junctions and 4) border areas. In Cambodia, Phnom Penh, the cities cited were Sihanouk Ville and Bavet. Phnom Penh is a metropolitan city and the capital of Cambodia. It has an international airport and is home to the Mekong River port. Six national roads comprise Phnom Penh. National Road Nos. 1, 5 and No. 6 are parts of Central Sub-Corridor of the Southern Economic Corridor while National Road No. 4 connects with Sihanouk Ville.

Sihanouk Ville is the largest sea port in Cambodia, where several liners connect with Singapore, Hong Kong, Kelang in Malaysia, Laem Chabang in Thailand and Ho Chi Minh City¹ in Vietnam. Bavet borders Vietnam and is located along the Central Sub-Corridor of the Southern Economic Corridor. In Manhattan Special Economic Zone (SEZ) located in Bavet, six companies have already started operations. The distance from Manhattan SEZ to Ho Chi Minh City is just 66km while the distance to Phnom Penh is 218 km.²

In Lao PDR, Vientiane and Savannakhet were the cities chosen for the analysis. Vientiane, the capital of Lao PDR, is a metropolitan area and borders Nongkhai Province of Thailand. Savannakhet borders Mukdahan Province of Thailand and is on the junction of National Road No. 13 – the most major road of Lao PDR – and National Road No. 9 – which makes up the East-West Economic Corridor. In Savannakhet, Savan-Seno area was designated as a SEZ by virtue of Decree No. 2 issued by the Prime

¹ Based on an interview with the staff of Sihanouk Ville Autonomous Port on September 10, 2009.

² Calculated in accordance with Ishida and Kudo (2007).

Minister on January 21, 2002 (Keola 2008).

In Myanmar, the cities selected for the comparative analysis were Yangon, Mandalay and Myeik. The Yangon metropolitan area has the largest population in Myanmar. It lies in the harbor area along Yangon River. Mandalay is also a metropolitan city and boasts the second largest population in Myanmar. It is also an important point on the major import route from China, and is expected to be a junction of National Road No. 1 and a road connecting China and India. Myeik is just a small town with a small harbor and has a border trade post that enables free-on-board exports to Hong Kong, Malaysia and Singapore (Than 2006). The major industry of Myeik is processing of fresh fish.

In Vietnam, the survey covered Ho Chi Minh City and Danang. Ho Chi Minh City, one of Vietnam's metropolitan areas, has the largest population in the country and has several container terminals such as Saigon Port and Saigon New Port. There are plans, however, to move the freight ports in Ho Chi Minh City to Thivai and Caimep Port in Baria-Vuntau Province in the next several years.³ Several major roads are located in Ho Chi Minh City, which lies at the junction of National Road No. 1 and Central Sub-corridor of Southern Economic Corridor. Danang is the third largest city in Vietnam with a deep-sea port. It is also the starting point of the East-West Economic Corridor.

Reviews of the operations of respondent companies in each city and country are presented in Table 1. Respondents were given a five-point scale response options: 1) very poor, 2) poor, 3) fair, 4) good and 5) excellent. There were 71 questions multiplied by the total number of cities (10) comprising the study, totaling 710. A total of 12 and six questions were not included in the survey in Lao PDR and Myanmar, respectively.

³ Based on an interview with staff of the Saigon Port dated on December 8, 2009.

Table 1: Number of Samples for Each City in CLMV Countries

Country	City	Number of Samples		Number of Samples	
Cambodia	Phnom Penh (PP)	62	Myanmar	Yangon (YG)	30
	Sihanouk Ville (SHV)	6		Mandalay (MDL)	20
	Bavet (BV)	8		Myeik (MYK)	10
Lao PDR	Vientiane (VT)	30	Vietnam	Ho Chi Minh City (HCM)	35
	Savannakhet (SVK)	30		Danang (DN)	30

Source: Data file of surveys.

Thus the number of average values came up to 668 ($710 - 12 \times 2 - 6 \times 3$). The average value of 668 is 3.15 and standard deviation is 0.53. The interval of 1σ is 2.62 – 3.68; that of 2σ is 2.09 – 4.21; and that of 3σ is 1.56 – 4.74. These values can be good benchmarks and the values higher than 3.68 (1) are focused. However, in terms of a benchmark of the lower value, the values lower than 3.0 are focused at the same time. For the average value of less than 3.0 means that some respondent companies at least are not satisfactory with the specified investment climate.

This paper seeks to compare and explain the results of the comparative analyses of the investment climates in CLMV against the foregoing benchmarks. The questions were divided into three parts, that is, according to business set-up, business operation and logistics (Kuroiwa 2009). The business operation is further divided into macro economy, governance, regulatory framework, infrastructure, labor related matters, effectiveness of investment incentives and other factors affecting the investment climates. The logistics refer not only to transport for the domestic and foreign markets but also to domestic and foreign procurements. Policy recommendations concerning each CLMV country are given in the conclusion.

1. INVESTMENT CLIMATE ON BUSINESS SET-UP

Table 2 shows the evaluations by respondent companies of the investment climates in the CLMV cities where they operate. Of these cities, Bavet, a Cambodian city that borders Vietnam, received a remarkable evaluation. Seven of eight respondent companies will start their operation in SEZs in Bavet. The Cambodian government set up a one-stop shop at Bavet so companies do not have to go to Phnom Penh for certain business transactions. The business services rendered by SEZ, including the one-stop shop, have contributed to Bavet's high rating. The results of evaluations on obtaining licenses and permits in Phnom Penh, Sihanouk Ville and Danang also exceeded 3.7.

On the other hand, the evaluations of the one-stop service in three cities in Myanmar are lower than 3.0. Investment regulations in Yangon and Myeik also fell below 3.0. However, Mandalay rated higher on collecting information on regulations and obtaining licenses and permits.

Table 2 Investment Climate for Business Set-up

	Cambodia				Laos			Myanmar				Vietnam		
	PP	SHV	BVT	Total	VT	SVK	Total	YG	MDL	MYK	Total	HCM	DN	Total
Collecting business information	3.5	3.2	3.8	3.5	3.5	3.1	3.3	3.5	3.6	3.0	3.5	3.3	3.3	3.3
Collecting information on regulation	3.3	3.2	3.9	3.4	3.3	3.4	3.4	3.5	3.9	3.0	3.6	3.3	3.5	3.4
Obtaining licenses and permits	3.7	3.8	3.8	3.7	3.3	3.4	3.3	3.3	3.9	3.1	3.5	3.4	3.7	3.5
One stop service	3.3	3.0	3.9	3.3	3.1	3.5	3.2	2.3	2.8	2.5	2.5	3.4	3.3	3.4
Investment regulation	3.7	3.2	3.8	3.6	3.5	3.4	3.5	2.8	3.2	2.4	2.9	3.2	3.4	3.3

Notes: 1) The cities are abbreviated as follows: PP (Phnom Penh), HV (Sihanouk Ville), SVK (Savannakhet), YG (Yangon), MDL (Mandalay), MYK (Myeik), HCM (Ho Chi Minh City), DN (Danang).

2) The underlined values are less than 3.0 and shaded values are larger than 3.68 (1 σ).

Source: The author made based on the survey results.

2. INVESTMENT CLIMATE ON BUSINESS OPERATIONS

2.1. Macro Economy

Macro economy is an important factor for the companies operating in each CLMV country. Table 3 shows the respondents' corresponding ratings on macro economies. Macro economy rated lower than 3.0 except in three cities in Cambodia and Myeik in Myanmar.

Table 3 Evaluation on Macro Economy

	Cambodia				Laos			Myanmar				Vietnam		
	PP	SHV	BVT	Total	VT	SVK	Total	YG	MDL	MYK	Total	HCM	DN	Total
Macro economy	3.2	3.5	3.3	3.3	<u>2.9</u>	<u>2.7</u>	<u>2.8</u>	<u>2.5</u>	<u>2.6</u>	3.0	<u>2.6</u>	<u>3.0</u>	<u>2.9</u>	<u>2.9</u>

Notes: as same as Table 2.

Source: as same as Table 2.

In case of Lao PDR, the exchange rate of kip against the U.S. dollar depreciated from 720 kip to the dollar in the first half of 1990s to 3,298 kip against the dollar in 1998, declining further to 10,000 kip in 2002 (Suzuki 2009). This tremendous depreciation was spawned by the failure of macro-economic policies that the government of Lao PDR enforced to solve the economic crisis that began in Thailand **in 1997** by increasing money supply (Koyama 2005).

In the case of Myanmar, the anti-government protests spearheaded by monks in Yangon in September 2007 was triggered by government's announcement on August 15, 2007 to raise the fuel prices (Kudo 2008). In the case of Vietnam, its economy was suffering from 23% inflation and increasing trade deficits in the first half of 2008 despite a steadily growing economy so far (Teramoto and Sakata 2009). The instability

of macro economies in recent years is reflected in the evaluations of macro-economic policies by respondent companies.

2.2. Governance

Investment climate items related to governance are enumerated in Table 4. Remarkably, the evaluations on corruption are lower than 3.0 in eight cities except in Myeik and Danang. This means that corruption is still one of the biggest problems in CLMV countries. On the other hand, the legal system and tax administration systems rated higher than 3.0 in all the cities. Governance and quality of policy rated relatively higher, especially in Bavet, but rated lower in Myeik. Quality of policy formation and implementation rated lower than 3.0 in Yangon and Myeik. Thus, governance factors other than corruption are not major concerns among respondents.

Table 4 Evaluation on Governance

	Cambodia				Laos			Myanmar				Vietnam		
	PP	SHV	BVT	Total	VT	SVK	Total	YG	MDL	MYK	Total	HCM	DN	Total
Governance	3.2	3.5	4.0	3.3	3.4	3.7	3.6	3.6	3.6	3.0	3.5	3.5	3.4	3.4
Quality of policy	3.4	3.2	3.9	3.4	3.6	3.3	3.4	2.8	3.2	2.9	3.0	3.3	3.3	3.3
Quality of government service	3.0	3.2	3.3	3.1	3.3	3.2	3.2	3.3	3.5	2.6	3.3	3.1	3.2	3.2
Legal system	3.0	3.2	3.5	3.1	3.6	3.5	3.5	3.2	3.6	3.0	3.3	3.2	3.3	3.2
Corruption	2.6	2.8	2.9	2.7	2.9	2.9	2.9	2.9	2.7	3.0	2.9	2.9	3.0	2.9

Notes: as same as Table 2.

Source: as same as Table 2.

2.3. Regulatory Framework

Table 5 shows the evaluations of respondent companies of regulatory frameworks across CLMV cities. Ratings for obtaining licenses and permits came out higher than

Table 5 Evaluation on Regulatory Framework

	Cambodia				Laos			Myanmar				Vietnam		
	PP	SHV	BVT	Total	VT	SVK	Total	YG	MDL	MYK	Total	HCM	DN	Total
Regulation of license & permit	3.5	3.3	3.9	3.6	3.4	3.6	3.5	3.5	3.7	2.9	3.4	3.3	3.6	3.4
Tax rate	3.2	3.5	3.6	3.3	3.1	2.9	3.0	2.5	2.7	2.3	2.6	3.2	3.3	3.2
Tax administration	3.3	3.3	3.5	3.3	3.1	3.2	3.2	3.3	3.3	3.0	3.3	3.3	3.3	3.3
Land regulation	3.3	3.5	3.9	3.4	3.4	3.6	3.5	3.7	3.6	3.0	3.6	3.1	3.2	3.2
Finance Regulation	3.3	3.5	3.8	3.4	3.7	3.3	3.5	3.2	3.7	3.0	3.3	3.3	3.3	3.3
Intellectual property right	3.2	3.2	3.8	3.3	3.4	2.9	3.2	3.4	3.3	3.0	3.3	3.0	3.2	3.1

Notes: as same as Table 2.

Source: as same as Table 2.

3.0 (fair) except in Myeik of Myanmar. Those of Bavet and Mandalay are higher than 3.7.

The respondents' ratings for tax rates in three cities in Myanmar and Savannakhet in Lao PDR fell below 3.0 while those in three cities in Cambodia were relatively higher. The corporate income tax rate of Myanmar is 40.0% while those of Vietnam, Cambodia and Lao PDR are 25%, 20% and 20%, respectively.

In addition, according to the 2010 *Doing Business* report of the World Bank, on "paying tax," Cambodia, Lao PDR and Vietnam ranked 58th, 113th and 147th, respectively, out of 183 economies covered in the report. The respondents took into account the total number of hours it takes each year to pay taxes in Vietnam, which is 1,050 hours, and the sum of related tax rates, which is 40.1%. The corresponding figures in Cambodia and Lao PDR are 173 and 362 hours, respectively, and 22.7% and 33.7%, respectively, in terms of the sum of tax rates. These facts are reflected in the evaluations except that the tax rate of Lao PDR is lower than Vietnam. Tax administration ratings are generally moderate except in Myeik in Myanmar.

Among the CLMV countries, land ownership, especially by private companies, is allowed only in Cambodia, which imposes a domestic equity requirement of 51% or more (CDC 2007). Lao PDR, Myanmar and Vietnam do not allow land ownership for private firms. In Lao PDR, the longest land use term for foreign investors is 30 years in case he leases from a Lao national, 50 years in case he leases from the government, and 75 years in case he leases land in the special economic zone. Land use term may be extended subject to the approval of the National Land Management Authority, the government and the parliament (Suzuki 2009). In Myanmar, people can lease land over a period of 10 to 30 years or for a maximum term of 50 years⁴. In Vietnam, the maximum land use term is 50 years, according to Article 36 of the investment law in Vietnam (Law No.59/2005/QH11.)⁵ The maximum allowable period for a company lease land in an industrial estate in Vietnam depends on when the estate was built. For example, if a company invests in an industrial estate established in 2000, as of 2010, the land use term is 40 years for the company. In terms of satisfaction over land use terms in the CLMV countries, respondents' choices were – in order of how they were rated – Cambodia, Vietnam or Lao PDR and Myanmar.

Vietnam was rated the lowest (3.2) by the companies in terms of land regulation. Myanmar rated the highest (3.6) while Baviet and Yangon rated higher at 3.7. Differences in land use term is not reflected in the evaluation of land regulation.

The financial regulations in the CLMV countries are generally perceived fair based on the evaluations. Cambodia rated 3.4, Lao PDR 3.5, Myanmar 3.5 and Vietnam 3.3 while Baviet, Vientiane and Mandalay rated higher than 3.7. Ratings on intellectual

⁴ Referred to Website of JETRO, on January 17, 2010.

⁵ Referred to Website of Ministry of Planning and Investment, Vietnam on January 17, 2010. (See comment above)

property rights fell below 3.0 in Savannakhet and Myeik.

2.4. Infrastructure

Table 6 shows the respondents' evaluations of infrastructure in the CLMV countries. Power supply is a major problem in Cambodia, Myanmar and Vietnam, and hardly a concern in Lao PDR, a net electricity exporter. Myanmar's rating was extremely low. Myanmar is faced with incessant blackouts despite the price of electricity for manufacturing industries pegged at only 5 cent per kilowatt hour, said to be lower than those of other countries in the ASEAN. Based on interviews with several companies in Yangon, factories operate their electricity generators for four to five hours daily.⁶

Phnom Penh and Sihanouk Ville rated lower than 3.0. on power supply. In Cambodia, electricity cost is very high – at 19.3 cents and 18 cents per kwh in Phnom Penh SEZ and Sihanouk Ville Port SEZ, respectively.⁷ Bavet rated higher on power

Table 6 Evaluation on Infrastructure

	Cambodia				Laos			Myanmar				Vietnam		
	PP	SHV	BVT	Total	VT	SVK	Total	YG	MDL	MYK		HCM	DN	Total
Electricity	3.0	<u>2.8</u>	<u>3.8</u>	3.0	3.4	<u>3.8</u>	3.6	<u>2.2</u>	<u>2.2</u>	<u>2.0</u>	<u>2.2</u>	<u>2.9</u>	3.1	3.0
Water	3.4	3.0	3.4	3.3	3.4	3.5	3.4	<u>3.7</u>	<u>3.8</u>	<u>2.0</u>	3.5	3.0	3.4	3.2
Gas/fuel	3.3	3.5	3.4	3.3	3.3	3.7	3.5	3.5	3.1	<u>2.2</u>	3.2	3.2	3.2	3.2
Transportation	3.3	3.3	<u>3.9</u>	3.4	3.2	3.4	3.3	3.2	<u>3.8</u>	<u>2.3</u>	3.3	<u>2.5</u>	3.1	<u>2.8</u>
Telecommunication	3.5	<u>2.8</u>	3.4	3.4	3.6	<u>3.8</u>	<u>3.7</u>	<u>2.8</u>	<u>3.7</u>	3.0	3.1	3.4	3.5	3.4
Industrial estate	3.5	<u>3.7</u>	<u>4.1</u>	3.5	3.2	3.5	3.4	<u>2.7</u>	3.1	<u>2.3</u>	<u>2.8</u>	3.1	3.3	3.2
Accommodation for foreigners	3.7	<u>4.0</u>	<u>4.0</u>	3.7	3.3	3.6	3.5	<u>3.0</u>	3.8	<u>2.7</u>	<u>3.2</u>	3.1	3.0	3.1

Notes: as same as Table 2.

Source: as same as Table 2.

⁶ Based on interviews conducted on October 21-22, 2009.

⁷ Based on an interview with a staff of Phnom Penh SEZ on September 11, and with a staff of the Port Authority of Sihanouk Ville on September 10. At Phnom Penh SEZ, stable electricity supply is guaranteed by an electricity generating company, Golden Energy PPSEZ Ltd. , which generates 15MW/h.

supply due to its lower power cost. Cross-border power supply in Vietnam is easily supplied in the border area at a cost of 12.65 cents per kwh. When this survey was conducted, blackouts were frequent occurrences in Phnom Penh. The frequency of blackouts has since decreased⁸ after transmission lines were extended to Phnom Penh from Takeo Province, in accordance with a signed contract between Vietnam Electricity Group and Electricité du Cambodge on May 26, 2009.⁹

In Ho Chi Minh City, the evaluation on electricity was lower than 3.0. A distinction must be made between the evaluations made by companies within industrial estates and in special economic zones and those outside. The average rating on power supply given by the former was 3.4, with no “poor (2)” and “very poor (1)” ratings while the latter gave a corresponding rating of 2.7. Electricity costs in Vietnam tend to change on a day’s notice (Table 7). In Lao PDR, power cost for industrial use in 2009 ranged from 516 kip (6.1 U.S. cents) to 607 kip (7.1 cents).

Table 7: Price of Electricity in Vietnam

		Low Point	Normal Point	Peak Point
Bien Hoa	Time	22:00 - 6:00	6:00-9:30 11:30-17:00 20:30-22:00	9:30-11:30 17:00-20:30
	Price	₭ 3.0 (VND 530)	₭ 5.3 (VND 920)	₭ 10.5 (VND 1,830)
Danang	Time	22:00 - 4:00	4:00-9:30 11:30-17:00 20:00-22:00	9:30-11:30 17:00-20:00
	Price	₭ 2.6 (VND 455)	₭ 4.7 (VND 835)	₭ 9.7 (VND 1,690)

Source: Interview with a staff of Industrial Estate at Bien Hoa and Brochure of Saigon Danang Investment Corporation.

⁸ Based on an interview with a garment factory manager in Phnom Penh.

⁹ Based on an article, published on May 27, 2009 on the website of NASDAQ Newsletter (accessed on January 21, 2010).

Compared with electricity, complaints on gas/fuel do not seem to be serious except in Myeik. The evaluations on transportation in general were lower than 3.0 in Myeik and Ho Chi Minh City. Underdevelopment of infrastructure and traffic congestions merited poor ratings in Myeik and Ho Chi Minh City, respectively. As for industrial estates, Yangon and Myeik obtained ratings lower than 3.0 for reasons owing to the poor state of the one-stop service.

2.5. Labor Force

Table 8 shows the education attainment of workers, middle managers and engineers. The majority of workers in Cambodia, particularly in Phnom Penh and Sihanouk Ville, either have no education or reached only middle high school. Those in Bavet have slightly higher educational attainments, with 25 to 30% of the workers having finished elementary to middle high school and completed high school. This proportion is similar to that of Vientiane in Lao PDR. In Savannakhet, the share of workers with elementary school decreases as that with high school and vocational education increases. In Myanmar, the highest education level attained by nearly half the workers is middle high school while workers in Yangon and Mandalay with university education comprise more than 10%. In Vietnam, more than 40% of the workers have high school education.

The highest educational attainment of the majority of middle managers in Sihanouk Ville and Bavet is high school while those in Phnom Penh have high school or some college/university education. Engineers have relatively higher education than middle managers. None of the employees in the respondent companies in Sihanouk Ville are engineers. The majority of engineers in Phnom Penh have either vocational education or some college/university education while all engineers in Bavet have

Table 8: Education Background of workers, Middle Managers and Engineers

<Workers> (Unit: %)

	Cambodia				Lao PDR			Myanmar				Vietnam		
	PP	SHV	BVT	Total	VT	SK	Total	YG	ML	MYK	Total	HCM	DN	Total
No Schooling	21.3	25.0	16.7	21.0	6.7	4.6	5.7	0.8	0.0	0.0	0.4	1.1	0.2	0.7
Elementary School	27.3	25.0	25.0	27.0	32.3	15.3	23.8	19.7	18.0	34.5	21.6	8.7	4.7	6.8
Middle High School	27.8	25.0	29.2	27.8	20.3	27.6	24.0	45.1	46.3	51.0	46.5	34.2	32.4	33.4
High School	17.1	16.7	25.0	17.9	27.1	31.4	29.2	18.9	22.8	11.5	18.9	43.5	46.7	45.1
Vocational School	5.6	8.3	4.2	5.6	11.1	18.2	14.7	2.0	2.3	0.0	1.8	11.6	12.4	12.0
College/University	0.9	0.0	0.0	0.8	2.4	2.9	2.7	13.6	10.8	3.0	10.9	0.7	3.9	2.2
Graduate School	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

<Middle Managers> (Unit: %)

	Cambodia				Lao PDR			Myanmar				Vietnam		
	PP	SHV	BVT	Total	VT	SK	Total	YG	ML	MYK	Total	HCM	DN	Total
No Schooling	1.7	0.0	0.0	1.6	0.0	0.7	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Elementary School	4.0	0.0	0.0	3.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Middle High School	13.2	20.0	9.1	13.2	2.0	0.5	1.3	0.0	0.0	0.0	0.0	2.7	4.3	3.6
High School	27.6	60.0	54.5	30.0	5.9	17.0	11.4	0.0	8.3	33.0	8.3	20.2	7.0	13.0
Vocational School	18.4	0.0	18.2	17.9	53.5	34.7	44.1	6.7	0.0	0.0	3.4	19.2	28.0	24.0
College/ University	27.6	20.0	18.2	26.8	33.5	42.3	37.9	90.0	91.7	67.0	86.5	56.4	59.1	57.8
Graduate School	7.5	0.0	0.0	6.8	5.1	4.8	4.9	3.4	0.0	0.0	1.7	1.5	1.5	1.5
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

<Engineers> (Unit: %)

	Cambodia				Lao PDR			Myanmar				Vietnam		
	PP	SHV	BVT	Total	VT	SK	Total	YG	ML	MYK	Total	HCM	DN	Total
No Schooling	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Elementary School	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Middle High School	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.3	0.3	0.0	0.0	0.0
High School	0.0	0.0	0.0	0.0	0.0	12.6	6.0	5.3	0.0	0.0	2.6	0.0	0.0	0.0
Vocational School	50.0	0.0	0.0	48.4	60.5	45.5	53.4	70.5	74.5	98.8	77.6	15.3	3.5	9.4
College/University	40.0	0.0	100.0	41.9	38.6	34.3	36.5	24.2	25.5	0.0	19.5	81.5	90.6	86.0
Graduate School	10.0	0.0	0.0	9.7	1.0	7.6	4.1	0.0	0.0	0.0	0.0	3.2	5.9	4.5
Total	100.0	0.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Calculated based on the survey data (Lao PDR, Myanmar and Vietnam) and Sisovanna (2009).

college/university education.

In Savannakhet, the majority of middle managers and engineers attended vocational schools and obtained college/university education. In Myanmar, the majority of middle managers have college/university education while most engineers have vocational education. In Vietnam, the majority of middle managers and engineers have

college/university education.

Respondents' evaluations of the quality of workers in Mandalay and Bavi (Table 9) are relatively higher. The share of workers with high school and middle high-school education in Mandalay is bigger than Yangon and those with either no education or attended elementary schools in Mandalay are slightly lower in number than those in Yangon. Those with college/university education make up a bigger number in Yangon. Similar trends can be seen in Bavi and Phnom Penh. On the other hand, the evaluation of the quality of workers in Sihanouk Ville is below 3.0. This area has the largest share of workers with no schooling. Vietnam, which has the highest educational attainment of workers among the countries in CLMV, did not rate higher on the quality of workers.

The evaluations of the quality of middle managers and engineers in Mandalay and in Bavi show similar trends. The evaluation of middle managers and engineers in Sihanouk Ville is higher than the evaluation of its workers. The ratings given to the quality of engineers in Sihanouk Ville, however, is not a credible one, there being no information from the respondent companies about the engineers' level of education. In

Table 9: Evaluation on Labor Related Matters

	Cambodia				Laos			Myanmar				Vietnam		
	PP	SHV	BVT	Total	VT	SVK	Total	YG	MDL	MYK	Total	HCM	DN	Total
Quality of worker	3.2	<u>2.8</u>	3.5	3.2	3.2	3.2	3.2	3.2	<u>3.7</u>	3.0	3.3	3.1	3.3	3.2
Quality of middle management	3.3	3.3	3.5	3.4	3.6	3.5	3.6	3.4	<u>3.7</u>	3.0	3.4	3.5	3.4	3.5
Quality of engineers	3.3	3.5	3.4	3.3	3.6	3.6	3.6	3.4	3.5	3.0	3.4	3.4	3.4	3.4
Labor cost	3.3	3.2	3.3	3.3	3.5	3.5	3.5	3.1	3.2	3.0	3.1	3.1	3.1	3.1
Recruitment of workers	3.2	<u>3.7</u>	3.5	3.3	3.1	3.0	3.1	3.3	<u>4.0</u>	3.0	3.5	<u>2.9</u>	3.1	3.0
Labor turnover	3.0	3.2	3.3	3.1	3.1	3.2	3.1	3.2	<u>3.9</u>	3.2	3.4	<u>2.9</u>	<u>2.9</u>	<u>2.9</u>
Labor relation (strike, etc.)	3.0	3.5	3.6	3.1	<u>4.0</u>	<u>4.3</u>	<u>4.2</u>	3.5	<u>4.1</u>	3.2	3.6	3.4	3.5	3.4

Notes: Same as Table 2.

Source: Same as Table 2.

Lao PDR and in Vietnam, the quality of middle managers and engineers rated higher than the workers.

On labor cost, the evaluation of Lao PDR yielded higher ratings than other countries whereas Vietnam rated lower. The minimum wage in Lao PDR is 384,000 kip (US\$ 45) (Suzuki 2009), which is lower than Cambodia's (US\$56). The minimum wage in Vietnam differs by investment area, as shown in Table 10. But it is mostly higher than that of Cambodia. The minimum wage in Myanmar is not made public.

The level of minimum wages is reflected in the results of evaluations of labor costs across the CLMV countries. Ratings of ease of recruitment of workers are relatively higher in Mandalay and Sihanouk Ville while that of Ho Chi Minh City is lower than 3.0. It is said that employee recruitment in Vietnam has been difficult since 2006 since a foreign direct investment boom based on the "China plus one" strategy. Maybe so the evaluation of labor turnover in Ho Chi Minh City and Danang is also lower than 3.0. As for labor relations, the higher ratings given to Lao PDR and Mandalay reflect the stable relations between employer and employees. Phnom Penh,

Table 10: Minimum Wages in Vietnam

Time of Implementation	Jan. 2006	Jan. 2008	Jan.2009	Jan.2010
First Area	US\$ 54.4 (VND 870,000)	US\$ 61.3 (VND 1,000,000)	US\$ 68.6 (VND 1,200,000)	US\$ 74.4 (VND 1,340,000)
Second Area	US\$ 49.4 (VND 790,000)	US\$ 55.2 (VND 900,000)	US\$ 61.7 (VND 1,080,000)	US\$ 66.1 (VND 1,190,000)
Third Area	US\$ 44.4 (VND 710,000)	US\$ 49.1 (VND 800,000)	US\$ 54.3 (VND 950,000)	US\$ 57.8 (VND 1,040,000)
Fourth Area			US\$ 52.6 (VND 920,000)	US\$ 55.6 (VND 1,000,000)

Notes: 1) The first areas are Ho Chi Minh City and Hanoi; the second, suburban areas of Ho Chi Minh and Hanoi; the third are other cities; and the fourth are remote areas.

2) Exchange rates of Vietnam Dong are 15,994 in 2006, 16,302 in 2008, 17,500 in 2009 and 18,000 in 2010 are assumed.

Source: Newspapers and brochures of industrial estates.

where one company alone has several trade unions, obtained a relatively lower rating on labor relation.

2.6. Other Factors Affecting Business Operations

The results of evaluations of other investment climates are shown in Table 11. In terms of land price, cities rated between 3.0 and 3.3. Only the companies in Savannakhet rated slightly higher (3.6). According to Article 30 of the Decree on the Management Regulations and Incentive Policies Regarding the Savan-Seno Special Economic Zone, investors leasing land inside the SEZ for a period of 30 years are exempted from making lease payments for 12 years.

Still another factor evaluated by respondents was access to loan, which received a rating of less than 3.0 in Phnom Penh and Sihanouk Ville. Institutionally, the law on banking and financial institutions was enacted in 1999. Overseas capital transfer, issuance of letter of credit and foreign exchange service are available in Cambodia. It is said, however, that capital borrowing is generally difficult without offering immovable assets as collateral, the lending term is shorter and the lending rates are higher than those in other countries (CDC 2007).

Table 11: Other Investment Climates on Business Operation

	Cambodia				Laos			Myanmar				Vietnam		
	PP	SHV	BVT	Total	VT	SVK	Total	YG	MDL	Mey	Total	HCM	DN	Total
Land price /office rentals	3.1	3.3	3.3	3.2	3.2	3.6	3.4	3.2	3.1	3.0	3.1	3.0	3.1	3.0
Finance-access to Loan	<u>2.8</u>	<u>2.8</u>	3.1	<u>2.9</u>	3.0	3.2	3.1	3.2	3.5	<u>2.8</u>	3.2	3.1	3.2	3.2

Notes: as same as Table 2.

Source: as same as Table 2.

Table 12: Effectiveness of Investment Incentives

	Cambodia				Laos			Myanmar				Vietnam		
	PP	SHV	BVT	Total	VT	SVK	Total	YG	MDL	MYK	Total	HCM	DN	Total
Tax incentives	<u>3.7</u>	3.5	<u>4.0</u>	<u>3.7</u>	3.5	<u>3.8</u>	3.6	<u>1.7</u>	<u>1.6</u>	<u>1.8</u>	<u>1.7</u>	3.3	3.3	3.3
Subsidies	<u>2.7</u>	3.0	<u>2.6</u>	<u>2.7</u>	<u>2.6</u>	3.3	3.0	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	n.a.	<u>2.9</u>	<u>2.8</u>	<u>2.9</u>
Rent-free or subsidized land	<u>2.8</u>	<u>2.8</u>	<u>2.7</u>	<u>2.8</u>	3.1	3.6	3.4	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	n.a.	3.0	3.0	3.0
Access to low-cost financing	<u>2.8</u>	<u>2.8</u>	3.1	<u>2.8</u>	3.1	3.0	3.0	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	n.a.	<u>2.9</u>	<u>2.9</u>	<u>2.9</u>
Easing remittance restriction	3.6	<u>3.8</u>	3.5	3.6	3.3	3.4	3.4	n.a.	n.a.	n.a.	n.a.	3.1	3.1	3.1
Exemption from trade restrictions	3.6	<u>3.8</u>	3.4	3.6	<u>3.7</u>	<u>3.7</u>	<u>3.7</u>	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	n.a.	3.0	<u>3.0</u>	<u>3.0</u>
Foreign ownership restriction	3.3	3.5	<u>2.9</u>	3.3	3.0	3.5	3.3	n.a.	n.a.	n.a.	n.a.	3.1	3.1	3.1
Prioritized supply of utility services	3.1	<u>3.0</u>	3.4	3.1	3.5	<u>3.8</u>	3.6	<u>n.a.</u>	<u>n.a.</u>	<u>n.a.</u>	n.a.	<u>2.9</u>	<u>3.0</u>	<u>3.0</u>

Notes: as same as Table 2.

Source: as same as Table 2.

2.7. Effectiveness of Investment Incentives

Table 12 shows the results of evaluation of the effectiveness of investment incentives.

Tax incentives like tax holidays rated higher than 3.8 in Phnom Penh, Bavet and Savannakhet while those in the three cities in Myanmar rated lower than 2.0.

The tax holiday system in Cambodia guarantees three years after a ‘triggered period’ if an investment project is classified as Qualified Investment Project (QIP). The triggered period refers to the three years or a period before the QIP earns a profit. In addition to the triggered period and the three years, priority period – as provided for in the financial management law – for a maximum of six years can be added. The priority period is determined according to the specifications of the project (CDC 2007).

The tax holiday period in Lao PDR is divided into three categories according to the level of infrastructure development in the investment area: seven years for the first category (lower development area), five years for the second category (medium-level development area) and two years for the third category (the most developed area). Three

years and two years of tax reduction are given to the second (7.5%) and third categories (10%) after the exemption period. After the reduction or exemption (the first category), the tax rates are pegged at 10% for the first category, 15% for the second category and 20% for the third category (Suzuki 2009).

In Myanmar, a three-year tax holiday is given to the companies established in accordance with the requirements of the foreign investment law.¹⁰ The corporate income tax rates and the exemption and reduction periods are different in Vietnam, as shown in Table 13. The standard tax rate is 28%, which applies after the years subject to the incentive tax rate are over. The exemption period begins after the investor begins to earn profits. Thus the period when an investor enjoys the incentive tax rate without exemption and reduction differs in accordance with the period before the investor begins to earn profits.

The evaluations on subsidies are lower than 3.0 except in Savannakhet and it is just 3.3 even in Savannakhet. Access to low-cost financing merited a lower rating both in Cambodia and in Vietnam. This result suggests that the governments do not offer such kinds of financing in these countries. In Lao PDR, based on the Decree on the

Table 13: The Conditions of the Tax Rates, Exemption and Reduction in Vietnam

	Incentive Tax Rate	Exemption Period	Conditions for 50% Reduction
Investment in Promoted Sector	20% (10 years)	2 years	3 years (10%)
Investment in Promoted Area	20% (10 years)	2 years	6 years (10%)
Investment in Specially Promoted Sector	10% (15 years)	4 years	7 years (5%)
Investment in Specially Promoted Area	10% (15 years)	4 years	9 years (5%)

Notes: 1) After the years given for incentive tax rates, standard tax rate (28%) is imposed.

2) Exemption periods begin after the investment project begins to earn profits.

Source: Website of JETRO.

¹⁰ Based on website of JETRO.

Management Regulations and Incentive Policies Regarding the Savan-Seno Special Economic Zone, such financing is inexistent. The evaluations on rent-free or subsidized also yielded relatively lower ratings, especially in Phnom Penh and Sihanouk Ville. Savannakhet, on the other hand, obtained higher ratings because investors leasing land inside the SEZ for a period of 30 years is exempted from paying rent for 12 years as earlier explained.

In terms of remittance restrictions, Cambodia, especially Sihanouk Ville, rated higher than it did on access to loan. Dollar-based business is common in Cambodia although the law, particularly the sub-decree of 1992, prohibits doing business in foreign currency. The law of September 1997 on foreign exchange stipulates that there shall be no restriction on foreign exchange operations through authorized banks, which in turn must report to the National Bank of Cambodia each transfer amounting to US\$10,000 or above. Investors can freely remit foreign currencies abroad in accordance with Article 11 of the amended law on investment of 2003 (CDC 2007).

In Lao PDR, foreign investors remit their profits, dividends, capital and other incomes to foreign countries through commercial banks in Lao PDR as far as related financial obligations are fulfilled (Suzuki, 2009). On the other hand, in Vietnam, depositing into and withdrawing from bank accounts, including remittances abroad, are undertaken by accomplishing the required forms in advance.¹¹ Vietnam has stricter procedural requirements than Cambodia and Lao PDR. Respondents' ratings for the three countries reflect the complexities of said requirements. The complexities of foreign exchange regulations in Myanmar are well known. For instance, foreign currencies needed to import products shall be earned by exporting, and bringing in and

¹¹ From the JETRO website, accessed on January 19, 2010.

out foreign currencies over US\$2,000 shall be reported to the authorities.¹² Respondents' lower ratings for foreign exchange regulations in Bavet and Savannakhet compared what they gave Mandalay are attributed to the difficulty of procurement of foreign exchanges in these two areas, given their distances from the capital cities.

Trade restrictions obtained higher ratings in Sihanouk Ville, Vientiane and Savannakhet while Danang rated lower than 3.0. Foreign ownership restrictions in Table 12 scored higher than 3.0 but lower than 3.7 while Bavet obtained only 2.9. Restrictions for foreign companies setting up in Cambodia are not considered strict, which makes it a wonder why the country rated low on this factor.

Basic utilities such as electricity and telecommunications received ratings between 3.0 and 4.0 except in Ho Chi Minh City. Lao PDR rated 3.6, higher than other cities. Yet, the author had difficulty accessing phone numbers in Lao PDR and Myanmar while at the Narita Airport in August 2008. On the other hand, it is said that getting a specific phone number makes easy connections in Lao PDR is easy, although it entails quite a sum of money.

Electricity supply is gets higher priority in industrial estates in Vietnam compared to non-industrial ones. All six respondent companies in industrial estates in Ho Chi Minh City gave it a rating of 3 while four out of 19 companies outside industrial estates and SEZ rated it 2. The lower evaluation is manifest among companies located outside of industrial estates and SEZ.

¹² From the JETRO website, accessed on January 19, 2010.

3. LOGISTICS

3.1. Domestic and Foreign Markets

Respondents to the survey were likewise asked to evaluate the domestic and foreign markets as destinations of goods (Table 14). Based on the respondents' evaluation, the size of the domestic market and the local purchasing power are serious concerns in Cambodia. Most of the respondent companies are garment and footwear exporters, who consider the domestic market too small compared to those of foreign developed economies. As of 2008 Cambodia's population was 14.7 million.

In Lao PDR, the small population – estimated at 5.8 million as of 2008¹³ – is not a major concern. In fact, there are more companies catering to the domestic market compared to Cambodia, and they generally seem satisfied with how their businesses are doing, as evidenced by the relatively higher ratings they gave to the domestic market.

The evaluation on smuggling control in Phnom Penh, Bavet, Savannakhet and Ho

Table 14: Evaluation on Domestic Market and Foreign Market

	Cambodia				Laos			Myanmar				Vietnam		
	PP	SHV	BVT	Total	VT	SVK	Total	YG	MDL	MYK	Total	HCM	DN	Total
Domestic market size	<u>2.0</u>	<u>3.0</u>	<u>1.9</u>	<u>2.0</u>	3.0	3.2	3.1	3.1	3.2	<u>3.0</u>	3.1	3.1	3.2	3.2
Local purchasing power	<u>2.0</u>	<u>2.8</u>	<u>1.7</u>	<u>2.0</u>	3.0	3.3	3.2	<u>2.8</u>	3.6	<u>3.0</u>	3.1	3.2	<u>2.9</u>	3.1
Smuggling Control	3.2	3.0	<u>2.3</u>	3.1	<u>2.7</u>	<u>2.6</u>	<u>2.6</u>	3.1	3.2	<u>2.6</u>	3.1	<u>2.7</u>	3.1	<u>2.9</u>
Export procedure	3.4	3.3	<u>4.0</u>	3.4	<u>3.7</u>	3.2	3.5	3.2	3.1	<u>2.8</u>	3.1	3.2	<u>3.5</u>	3.3
Export tax	3.5	3.2	<u>4.5</u>	3.5	<u>3.8</u>	3.5	3.6	3.0	3.1	<u>2.0</u>	2.9	3.1	<u>3.1</u>	3.1
Rules of Origin for GSP	3.4	<u>3.8</u>	<u>4.2</u>	3.5	<u>3.8</u>	3.4	<u>3.7</u>	<u>2.6</u>	<u>2.9</u>	<u>2.8</u>	2.7	3.2	<u>3.4</u>	3.2
Uncertainty of GSP	3.0	3.5	<u>3.8</u>	3.1	3.4	3.1	3.3	<u>2.7</u>	3.3	<u>2.8</u>	2.9	<u>3.0</u>	3.0	3.0

Notes: as same as Table 2.

Source: as same as Table 2.

¹³ Referred to on the website of ASEAN Secretariat on January 19, 2010.

Chi Minh City are lower than 3.0. On export procedure and export tax, Bavet and Vientiane got more favorable evaluations. These two cities are located near the border with Vietnam and Thailand, respectively. To export to the third countries from these two cities, transit transport is necessary. In Vientiane, trucks from Thailand can transport to the Laem Chabang Port or Khlong Toey Port directly after containers are sealed at Thanalane in Lao PDR (Suzuki 2009). At Bavet, trucks can go directly to ports in southern Vietnam such as that of Saigon after securing a customs clearance in Manhattan SEZ (Shiraishi 2010). These cities obtained higher ratings in terms of customs clearance.

Cambodia, Lao PDR and Myanmar belong to the least developed countries (LDC). Firms in Cambodia can benefit from the Generalized System of Preferences (GSP) of the United States, European Union (EU) and Japan; Lao PDR from those of EU and Japan; and Myanmar, Japan. The higher values of GSP and uncertainty over GSP in Sihanouk Ville, Bavet and Vientiane are reflected by the completeness of GSP. Firms interested in availing oneself of the GSP incentives can go directly to the local administrative office in Bavet while firms in Savannakhet have to go to Vientiane for the same purpose.¹⁴ The benefits of GSP can be suspended for a country with serious labor issues. The relatively lower rating obtained by Phnom Penh on the uncertainty of GSP is attributed to its labor problems.

3.2. Domestic and Foreign Procurements

Table 15 shows the respondents' evaluations of domestic and foreign procurement systems. Ratings given to information on and quality of local suppliers in Phnom Penh

¹⁴ Based on an interview with a garment factory worker in Savannakhet on August 5, 2006.

Table 15: Evaluation on Domestic and Foreign Procurement

	Cambodia				Laos			Myanmar				Vietnam		
	PP	SHV	BVT	Total	VT	SVK	Total	YG	MDL	MYK	Total	HCM	DN	Total
Inf. Local Suppliers	<u>2.8</u>	3.0	<u>2.0</u>	<u>2.8</u>	3.3	<u>2.9</u>	3.1	3.3	<u>3.9</u>	<u>2.7</u>	3.4	3.1	3.2	3.2
Quality of L Suppliers	<u>2.8</u>	3.2	<u>1.8</u>	<u>2.7</u>	3.4	3.1	3.2	3.3	3.5	<u>2.8</u>	3.3	3.0	3.2	3.1
Access to Foreign Supplier	3.4	3.3	<u>3.7</u>	3.4	3.6	<u>3.8</u>	3.7	3.3	3.6	<u>2.9</u>	3.3	3.2	3.1	3.2
Foreign Procurement	3.5	<u>3.7</u>	<u>4.2</u>	3.5	3.6	3.6	3.6	3.0	3.4	<u>2.8</u>	3.1	3.0	3.5	3.3
Customs clearance	3.3	3.3	<u>3.7</u>	3.3	3.6	3.5	3.5	3.5	3.4	<u>2.9</u>	3.4	3.1	3.4	3.2
Tariff barrier	3.3	3.3	<u>3.3</u>	3.3	3.5	3.5	3.5	3.1	<u>3.7</u>	<u>3.0</u>	3.3	<u>3.0</u>	3.3	3.1
Non-tariff barrier	3.1	3.2	<u>2.8</u>	3.1	3.4	3.1	3.2	3.5	3.4	<u>3.0</u>	3.4	<u>3.0</u>	3.2	3.1
Drawback of import duty & VAT	3.2	3.2	<u>3.2</u>	3.2	<u>2.8</u>	3.6	3.2	2.3	3.0	<u>2.3</u>	2.5	<u>2.9</u>	3.3	3.1
Trade regulation	3.3	3.3	<u>3.5</u>	3.3	3.6	3.6	3.6	3.0	3.5	<u>2.7</u>	3.1	<u>2.9</u>	3.3	3.1
Foreign exchange regulation	3.4	3.5	<u>3.3</u>	3.4	3.5	3.2	3.4	3.3	3.4	<u>2.9</u>	3.3	<u>3.0</u>	3.2	3.1

Notes: Same as Table 2.

Source: Same as Table 2.

and Bavet are lower. These are attributed to the fact that many companies in Cambodia are “enclave companies” in garment and footwear industries, which import raw materials and intermediate goods and export the finished products. These “enclave companies” do not have to search for local suppliers; as a result, the local suppliers have not well-developed so far. In Lao PDR and Myanmar, the respondents’ ratings are more moderate except in Savannakhet, where there are less export-oriented companies compared with Cambodia. In terms of access to foreign suppliers and foreign procurements, the evaluations in Bavet, Vientiane and Savannakhet – being border areas – are relatively higher. In short, access to companies in Vietnam and in Thailand is easier for companies located at border areas.

As for tariff and non-tariff barriers, respondents’ ratings in Ho Chi Minh City are lower than 3.0 and those on non-tariff barriers in Bavet also fell below 3.0. Most raw materials and intermediate goods needed in Bavet are procured through the Saigon port

or from Ho Chi Minh City. These ratings suggest that companies in Ho Chi Minh City still face difficulties on tariff and non-tariff barriers even if there have been efforts to eliminate these hurdles since Vietnam became a member of the World Trade Organization.

Import tariff and value added tax (VAT) merited less than 3.0 in Vientiane, Yangon, Myeik and Ho Chi Minh City. In terms of trade regulations and exemptions from trade restrictions, the evaluations in Sihanouk Ville, Phnom Penh, Vientiane and Savannakhet are relatively higher. The Automatic System for Customs data (or simply referred to as ASYCUDA) introduced in Sihanouk Ville in 2008 is expected to have raised the respondents' rating. On the other hand, the evaluations on trade regulations in Ho Chi Minh City and on trade restrictions in Danang turned out lower than 3.0. The corresponding rating for Myeik is 2.7.

As shown in Tables 14 and 15, all trade-related items except tariff and non-tariff barrier relating to Myeik rated lower than 3.0 whereas Bavet got higher values. These higher values maybe reflect the effects of the one-stop service and services given by SEZ, both of which help reduce the service link costs.

3.3. Transport and Communications

Table 16 shows the evaluations on more detailed items under transport and communication. Cost, efficiency and reliability of land transport rated 1.1 and those of air transport got 0.7. In Ho Chi Minh City, the emerging lower value may be traced to the bad condition of land transport. Cost, efficiency and reliability of land transport rated 2.8, 2.8 and 2.9, respectively. These are collectively attributed to the traffic jams in the highly populated city – home to major ports and many business activities. This

Table 16: Evaluation on Transport and Communication

	Cambodia				Laos			Myanmar				Vietnam		
	PP	SHV	BVT	Total	VT	SVK	Total	YG	MDL	MYK	Total	HCM	DN	Total
Cost of land transport	<u>2.9</u>	<u>2.6</u>	3.5	<u>2.9</u>	n.a.	n.a.	n.a.	<u>1.2</u>	<u>2.3</u>	<u>1.1</u>	<u>1.6</u>	<u>2.8</u>	3.0	<u>2.9</u>
Efficiency of land transport	3.3	<u>2.8</u>	<u>3.8</u>	3.3	n.a.	n.a.	n.a.	<u>1.3</u>	<u>2.7</u>	<u>1.1</u>	<u>1.7</u>	<u>2.8</u>	3.1	<u>3.0</u>
Reliability of land transport	3.5	<u>2.8</u>	<u>3.8</u>	3.5	n.a.	n.a.	n.a.	<u>1.4</u>	<u>2.5</u>	<u>1.1</u>	<u>1.7</u>	<u>2.9</u>	3.2	3.1
Cost of sea transport	3.2	3.0	3.5	3.2	n.a.	n.a.	n.a.	3.3	<u>1.9</u>	<u>2.8</u>	<u>2.7</u>	3.1	3.2	3.1
Efficiency of sea transport	3.5	3.5	3.3	3.4	n.a.	n.a.	n.a.	3.3	<u>1.9</u>	<u>2.6</u>	<u>2.7</u>	3.3	3.3	3.3
Reliability of sea transport	3.6	3.5	<u>3.7</u>	3.6	n.a.	n.a.	n.a.	<u>3.7</u>	<u>2.1</u>	<u>2.7</u>	<u>3.0</u>	3.4	3.4	3.4
Cost of air transport	<u>2.6</u>	<u>2.3</u>	<u>2.8</u>	<u>2.6</u>	n.a.	n.a.	n.a.	<u>1.1</u>	<u>0.0</u>	<u>0.7</u>	<u>0.7</u>	3.1	3.0	3.1
Efficiency of air transport	3.3	<u>2.3</u>	<u>2.7</u>	3.2	n.a.	n.a.	n.a.	<u>1.7</u>	<u>0.0</u>	<u>0.7</u>	<u>1.0</u>	3.3	3.1	3.2
Reliability of Air Transport	3.6	<u>2.3</u>	<u>2.5</u>	3.4	n.a.	n.a.	n.a.	<u>2.1</u>	<u>0.0</u>	<u>0.7</u>	<u>1.2</u>	3.4	3.6	3.5
Cost of communication	<u>2.9</u>	3.0	3.2	<u>2.9</u>	n.a.	n.a.	n.a.	<u>2.2</u>	3.1	<u>2.6</u>	<u>2.6</u>	3.2	3.4	3.3
Efficiency of communication	3.1	3.0	3.3	3.2	n.a.	n.a.	n.a.	<u>2.5</u>	3.0	<u>2.6</u>	<u>2.7</u>	3.2	3.4	3.3
Reliability of Communication	3.3	3.0	3.0	3.3	n.a.	n.a.	n.a.	<u>2.5</u>	3.3	<u>2.7</u>	<u>2.8</u>	3.3	3.4	3.3

Note: Same as Table 2.

Source: Same as Table 2.

shows that improved road infrastructure cannot cope with the increased demand of the regional economies. In the near future, most of the functions of ports and harbors will be moved to Thivai and Caimep area in Baria-Vuntau Province. The heavy traffic load in the city will lighten while that of National Road of No. 51 to Baria Vuntau is expected to increase.

Based on the respondents' evaluations, transportation rated 3.2 in Yangon and 3.8 in Mandalay (Table 6). However, the evaluations showed land and air transport in both two cities is faced with a lot of problems. In Mandalay, which is 833km away from Yangon, in addition to land and air transport, the cost, efficiency and reliability of sea transport rated 1.9, 1.9 and 2.1, respectively. As for Cambodia, particularly Sihanouk Ville, land transport and air transport got lower than 3.0 in terms of cost, efficiency and reliability. The cost of land and air transport similarly rated less than 3.0. This is

understandable when seen in light of the landing fee at the Phnom Penh International Airport, which is US\$ 25 – considered higher than those of other international airports.

As for communication, telecommunication rated 2.8 in Sihanouk Ville, slightly lower than the rating obtained by the cost of communication in Phnom Penh, with 2.9. In Cambodia, several mobile phone companies compete in the market, but the communication fees between different companies is set to be higher; as a result, not a few people has two or three mobile phones.

In Myanmar, the evaluations of the cost, efficiency and reliability of communication obtained ratings lower than 2.0 in Yangon and Myeik. The cost of telecommunications in the country is exorbitant while Internet connectivity is poor. The initial cost of registration for a mobile phone and a fixed phone is US\$1,500. An long-distance call to Japan, for example, costs US\$8.1 per three minutes.¹⁵

CONCLUSION

The survey detailed above yielded very useful findings on the investment climates in major cities in the CLMV countries. Yet they may not have always brought out other important facts. This is partly because the survey – owing to certain limitations – may not have covered all pertinent questions, especially those that concern multi-national companies operating in the CLMV countries. Thus the search for suitable facts should continue.

In Phnom Penh and Sihanouk Ville in Cambodia, challenges like access to loans, corruption, the educational attainment of the labor force, electricity cost, air and land

¹⁵ Based on the JETRO website.

transport and telecommunication became evident through the survey among respondent firms. Corruption, smuggling control and level of education are challenges also in Bavet. Based on the survey, Lao PDR is confronted by challenges like policy of macro economy, corruption, smuggling control, education, road infrastructure.

In Myanmar, Myeik rated low on many questions. Yangon and Mandalay are similarly confronted by a number challenges to the investment climate. Considering economies of scale, improvement of the factors underlying such challenges in Yangon and Mandalay – particularly macro economy, electricity, quality of policy, corruption, one stop service, tax rate, tax incentives, electricity and telecommunication – should be prioritized. In Vietnam, Ho Chi Minh City is besieged with more problems than Danang. Trade facilitation by decreasing tariff and eliminating non-tariff barriers should be required. In addition, improving land transport, especially, in the city and in areas leading to the Thivai Caimep port, is necessary. Increase in power supply is also needed to cover not only the industrial estates but also other areas where businesses operate.

However, the education level of workers is relatively higher in Ho Chi Minh City and Danang. Thus efforts should be channeled to the improvements of power supply, transport infrastructure and trade facilitation. By doing so, Vietnam can further diversify the industrial structure. In Cambodia, Bavet rated remarkably higher. Making the most of the benefits of better infrastructure like electricity and ports of Vietnam and of lower wages and GSP in Cambodia will make the border area more attractive. This same approach can be used in Poipet, another border area with Thailand. Also worth noting is one of the factors underlying the competitive investment climates in Bavet – a good trade facilitation system, which can reduce the service link cost. Efforts toward trade facilitation by establishing SEZ and setting up a one-stop service can improve the

investment climate dramatically.

In Cambodia, the diversification of industrial structure is possible, especially along border areas like Bavet. However, it should be pointed out that labor force is limited in such areas. In Lao PDR, the fee waiver for land lease in Savannakhet SEZ, stable labor relations and power supply were rated highly. This leaves out human resource development and transport infrastructure, which needs to be improved. The one-stop service in Savannakhet can further improve the investment climate.

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