

# **EXECUTIVE SUMMARY**

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## **BACKGROUND**

Cambodia, Lao PDR, Myanmar and Vietnam have recently been the focus of numerous economic cooperation schemes such as the Greater Mekong Subregion (GMS) program or the Japan-Mekong assistance project. In parallel with infrastructure development, foreign direct investment (FDI) in the CLMV countries has increased in labor intensive industries such as garment and footwear. Investment in diverse industries, however, is limited as illustrated by the lack of investment in electronics and automotive industries in Cambodia, Lao PDR, Myanmar. Vietnam seems to be the exception.

The more advanced ASEAN countries such as Malaysia and Thailand showed remarkable economic growths after the second half of the 1980s by attracting FDI. These countries have integrated themselves into the electric, electronic and automotive global and regional production network. These countries are now currently faced with intense competition from China and India. A number of firms in the more advanced ASEAN countries have considered relocating their production units or fragment one or two of their production blocks to countries that can provide locational advantages.

This purpose of this study is to analyze CLMV countries potential to upgrade or diversify their respective industrial structures by attracting FDI from the more advanced ASEAN countries as a part of relocation and/or “fragmentation” strategy as well as the necessary conditions for the CLMV countries to attract FDI from the more advanced

ASEAN countries.

## **STRUCTURE OF THE STUDY**

Chapter 1 describes the research methodology undertaken based on the background and objectives of this research project. A exploratory approach was selected with semi-structured interviews delivered to key decisions-makers in business associations, government officials and private firms in the three more advanced ASEAN countries (Malaysia, Thailand and Indonesia) and in CLMV. Four different types of surveys were prepared in this research project. The purpose of the surveys targeted to business associations and government officials was to better understand the competitive environment, history and current situations of selected industries. Surveys developed the private sector focused on their respective cost structure and business climate. In the case of the three more advanced ASEAN countries, surveys on the evaluation of relocation or fragmentation to the CLMV countries were collected and for the CLMV countries, questions regarding the need related to “hard” and “soft” infrastructure with a key section on the local investment environment.

Chapter 2 introduces the results of a questionnaire survey on investment climates of major cities within the CLMV countries that was conducted in 2008. The major CLMV cities were Phnom Penh, Sihanouk Ville and Bavet in Cambodia, Vientiane and Savannakhet in Lao PDR, Yangon, Mandalay and Myiek in Myanmar, and Danang and Ho Chi Minh City of Vietnam. This chapter describes some of the key bottlenecks related to investment in each of these CLMV cities. The survey also appraises the one-stop service in Bavet as a successful example.

From Chapter 3 to Chapter 5, the possibilities of relocation or fragmentation of firms in Malaysia, Thailand and Indonesia to the CLMV countries are analyzed. The industry focused in Malaysia is electronics industry, those in Thailand are electronics and automotive industries and those in Indonesia are upstream and downstream textile industries and electronics industries. Each chapter introduces the overviews the related industries and analyzes on the cost structure, indicators of investment climates of the related industries and the possibilities of relocation or fragmentation to the CLMV countries. Firms located in the three advanced ASEAN countries are interested in the investment in Vietnam, but there are no firms which have interests in investing in Cambodia, Myanmar and Vietnam. Chapter 3, however, says that Malaysian firms have already invested in garment, textile, hotels and resorts and infrastructure development. Nevertheless, the chapter concludes that each country has to make efforts in order to create attractive environments for investors in accordance with the experiences of Malaysia. Chapter 4 also give policy recommendations based on the experiences of Thailand and the recommendations include the good linkage between universities, vocational schools and industries and the development of border zones which can procure materials such as parts and components of Thailand easily. Chapter 6 concludes that the investment into the CLM countries is risky, but these results should be treated cautiously due to the limited knowledge of respondents on the CLMV countries and the small number of samples.

Chapter 6 to Chapter 9 describes the possibilities of upgrading or diversifying the existing industrial structure in CLMV countries. The selected industries under study were “existing industries” such as garment and textile, agro-industrial produce, wood-processing and “new industries” such as plastics, electronics and automotive. Each

chapter illustrates the current industrial structure of each CLMV country, provides an overview of several industries and analyses the cost structure, investment climate indicators and local firms' need for "soft" and "hard" infrastructure as well as for the necessary investment climate. In Chapter 6, it is urgent to improve both soft and hard infrastructure in Cambodia. Improvement is slow due to lack of resources. The case of Lao PDR is illustrated in Chapter 7 and concludes that industries including the selected "new industries" were already present in the country while a reduction in production cost is necessary. Chapter 8 describes two different types of policy recommendations. One is for the "existing industries" and the other for the "new industries" in Myanmar as an outcome of the country survey. Myanmar needs to improve its infrastructure in particular those related to electricity supply and cumbersome documentation procedures. Chapter 9 concludes that electronics and automotive industries in Vietnam are still much dependent on imported materials and supporting industries as well as human resource needs to be further developed.

Chapter 10 describes the current situation on the implementation of trade facilitation schemes and facilities for maritime, railway, road, inland waterway and air transport in the CLMV countries and shows the logistics connectivity of Lao PDR as an example. Finally, the chapter stresses on the importance of the development of logistics in increasing the production capability in the CLMV countries. Chapter 11 presents the analytical results of compiled surveys.

## **POLICY RECOMMENDATIONS**

"Hard" infrastructure in the CLMV is still an important issue but not as high as

expected. The highest issues were more focused on the “soft” aspects of infrastructure, in particular those related to institutional complexity. It is therefore of great importance for CLMV policies to be developed according to these recommendations hereunder if CLMV countries would like to diversify their current industrial structure.

- A CLMV sub-regional cooperation framework is needed for investment policy coherence between and within countries. CLMV should be considered as a sub-regional grouping in its own right and marketed as a single investment destination.
- Existing policies, laws, regulations need to be implemented in a fair and transparent manner in order to convince foreign investors of equal treatment.
- Logistics linkages within CLMV must be improved for further integration that is based on key development corridor axis. These corridors need to achieve at least a logistics corridor development level in order to facilitate the efficient and effective flow and storage of goods, vehicles, people and information from origin to destination.
- The development of these corridors should be based on a supply chain/value chain development strategy that focuses on the integration of key industries or sectors. This will enable the establishment of industrial corridors with multinational firms FDI as a key driving force.
- The key proposed corridor for automotive is:
  - Thailand-Lao-Vietnam (Hanoi)
- The key proposed industrial corridors for electronics are:
  - Thailand-Malaysia (Penang)-Thailand

- Thailand-Lao-Vietnam (Ho Chi Minh)-Thailand
- Thailand-Cambodia-Vietnam (Ho Chi Minh)
- The key proposed industrial corridors for the agro-industry are:
  - Thailand-Cambodia-Vietnam
  - Thailand-Lao-Vietnam
  - Thailand-Myanmar-Thailand
- The key proposed industrial corridors for textile and garments are:
  - Thailand-Lao-Thailand
  - Thailand-Cambodia-Vietnam
  - Indonesia-Cambodia-Vietnam

This list of proposed industrial corridors is not exhaustive and is based on the survey results of the more advanced ASEAN and the CLMV countries.