



Linkages: Development Strategies, Governance and Cooperation

A Comparative Perspective of Thailand and Cambodia

Greater Mekong Subregion Capstone

Capstone leader: Professor Francois Bafoil

Capstone members: Mohamed Abdul Aziz, Wei Li, Zoe Sinclair, Jinglong Yang

Introduction: the topic

- Analysing Special Economic Zones/Industrial Estates and regional integration
- Regional integration as a development mechanism and the role of growth
- Drivers of growth including zones, FDI, industrial policy
- Critical factors of infrastructure, governance, capacity and cooperation

Introduction: methodology

- Comparative – analytical research
- Literature review and desk research
 - Regional integration, economic development, Special Economic Zones, ASEAN, GMS, Investor strategies
- Pre-trip interviews
- Field research: 11 days, Thailand and Cambodia
 - Businesses, investors, SEZs, government officials, education, vocational centres, consultants, international organisation staff.
- Constraints: Language, time, capacity, access.



- Group experience: group members brought individual strengths, deeper understanding gained of the region and development challenges,

Outline

- Part 1: General Perspective
- Part 2: Thailand
- Part 3: Cambodia
- Part 4: Comparative Analysis
- Part 5: Recommendations &
Conclusion



1. General Perspective

- Association of South-East Asian Nations (ASEAN)
 - Ten member states, including CLMV states
 - Focused on accelerating economic growth and expanding trade
 - Policies of non-interference and respect for sovereignty
 - Shallow form of regional cooperation



1. GMS

- Greater Mekong Subregion
 - CLMV states, also Yunnan and Guangxi
 - Economic Cooperation Program
 - Connectivity, Competitiveness and Community
 - Economic Corridors, CBTA



1. Industrial Estates/Special Economic Zones

- Specific, developed areas with more liberal laws for an encouraging investment climate
- A tool for economic development: attract investment, create jobs and boost industry competitiveness and enhance economic growth
- GMS: strategy is for zones to form key poles of growth, located along economic corridors and key resources
- Critical to consider to understand role in generating growth and aiding regional integration. Also a mode of examining other issues such as governance and policy.

1. Industrial Policy

- Critical strategy towards industrial and economic development
- Linked to economic growth, employment and income
- Issues of sectors policy, technology and FDI
- An industrial policy indicative of investment climate which is relevant for zones
- Thailand: failure to harness education and vocation training towards innovation and upgrading
- Cambodia: trying to diversify and strengthen, lacking government support

1. Thailand & Cambodia

- Commonalities and differences
- Both involved in ASEAN and GMS
- Proximity, shared borders and waters
- Thailand: GMS leader, growth and development, institutional development
- Cambodia: LDC, smaller population, low-cost labour
- Development stages and the potential to learn lessons

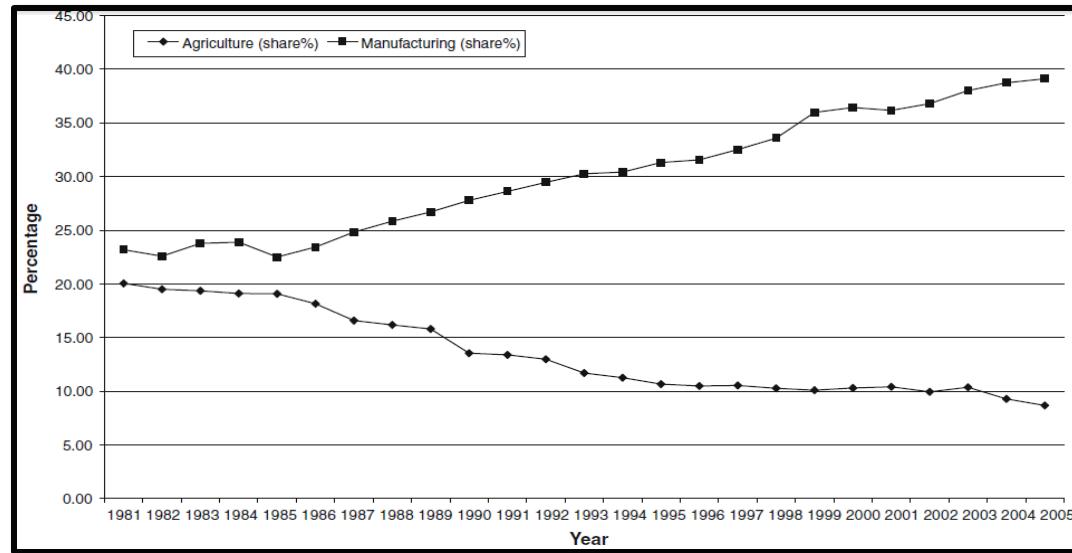
1. The issues

- Regional integration has been limited
 - Due to political economies, regional economic disparities
 - Due to limited state capacity and governance
- Zones as a successful growth model are very subjective to certain conditions
- An effective industrial policy is needed to complement zones
- The private sector has a critical role and influence on growth and regional integration through a need to establish value chains.

Part 2: Thailand



2. Economic Performance



- Restructuring
 - Per capita income US\$820 in (1983) to US\$2990 (2006)
 - Upper middle income country (2011)
 - Manufacturing sector (13%) (1985-2005)
- <1985:
 - Modernization (BOI and IEAT)
 - Infrastructure development
- 1985:
 - Macroeconomic policy FDI regulation
 - Reduced regional competitiveness

2. Resources

Destinations (Point to Point: Km)	Location of the Industrial Estates			
	Ayutthaya	Chachoengsao	Chonburi	Rayong
Bangkok (Central)	65	82	57	117
Laem Chabang Sea Port	197	85	46	30
Map Ta Phut Sea Port	270	130	-	51
Bangkok Port (Klong Toey)	75	107	-	-
Suvarnabhumi Airport	75	50	42	92
Don Mueang Airport	26	120	85	137

Figure 11: Distance of some key destinations from industrial estates

- Geography:
- IE in Bangkok, Ayutthaya, and Eastern Seaboard Area
 - Proximity to infrastructure
 - Access to two deep-sea ports
 - Use of toll ways and express ways



2.Resources

Thailand workforce's education

Level of Education	Unit : Million	Unit : %
No education	1.4	3.54%
Less than Elementary (<6 year)	12	30.38%
Elementary Grade6	8.7	22.04%
Lower Secondary Grade9	5.8	14.68%
Upper Secondary Grade12	5.5	13.92%
Higher Level	6.1	15.44%
Total	39.5	100.00%

Thailand Labour Force					
	1994	1998	2002	2006	2010
Population (million)	58.71	61.2	63.42	65.57	67.31
Labour Force (thousand)	31433	32410	34262	36429	38643
Employed	30164	30105	33061	35686	38037
Agriculture	15180	13407	14042	14171	14547
Manufacturing	4191	4264	5052	5504	5350
Mining	58	45	45	58	41
Others	10735	12389	13922	15953	18100
Unemployment rate (%)	2.6	4.4	2.4	1.5	1
Labour Force participation rate	75.8	72.1	71.9	72.2	72.3
Male	80.3	77.7	80.6	80.9	80.7
Female	64.7	61.2	63.3	64	64.3

Labour:

- Cheap labour was a major factor in attracting FDI
 - Now unemployment is only 1%
 - Weak education policy
 - 75% of work force in manufacturing is unskilled
 - Increased training by BOI

2. Institutions

BOI Zone	Corporate Income Tax Holiday*	50% Reduction in Income Tax Rate for an additional 5 years	Import Duty on Machinery	Import Duty on Raw Material	Double Deduction on Transport and Utility Costs
Zone 1	3 years	No	50% reduction	1 year exempt	No
Zone 2	7 years, 3 years outside an IEAT estate	No	Exempt	1 year exempt	No
Zone 3	8 years	Yes if in IEAT	Exempt	5 year exempt	Yes if in an IEAT industrial estate
Zone 3b	8 years	Yes	Exempt	5 year exempt	Yes



Zoning:

- Categorizing the country into three zones:
- Spread of development in regions
- Reduces Pressure on Bangkok
 - Different Incentive Packages
 - 3 times more IE outside BMA
 - IE at Border Zones

2. Institutions

- Industry Support at the local level:
 - OSS in IE/Ports
- SMEs Strengthening
 - Unit for Industrial Linkage Development (BUILD)
- Matching SMEs with FDIs
 - Well developed database
- BOI Responsiveness to FDIs Needs
 - Japanese FDIs



2. FDI & Investors

- FDI's role in development linked to technology, knowledge, innovation, exports and growth
- Japan a key investor and critical to development
 - one third of FDI
 - Automobile, electronics
- China a smaller role but growing
 - Critical proximity as export market
 - Thai-Chinese business community



2. Investment Climate & Governance



- Investment climate is fundamental
- Infrastructure
 - One of several factors important to a firm
 - Governance critical
- Corruption prevalent
 - Thailand rated 80 of 183
 - Closed networks and conflicts of interest
- Counter-measures: IT systems, commission, NGOs, social media.

2. Value chains

- Value chains – involve the geographical separation of activities in a firms' process
- Conditions: Infrastructure, transport, ICT, border logistics
- In Thailand – vertical specialisation and horizontal diversification present
 - Electronics lends itself to vertical specialisation
 - Automobile – “build where you sell”
- Thailand's integration limited – mainly linked to Japan
- Constraints: skills shortages, support industries

2. Amata

- Amata: Thailand's main industrial park developer
- Predominantly Japanese investors
- One-stop shop: only provides 30-40% processes
- Bureaucratic red tape and regulations continue
- Resources: access to deep sea port and international airport, infrastructure provided



2. Amata

“In five years this park could be haunted without uniqueness...”

- Innovation: 2nd tier supply, challenges in product/process development
- Amata managers develop research side to stimulate innovation
- Place-based policy needed: Amata wants to create a city
- Estate has capitalised on location, provides own services to fill the gap

2. Upgrading

- Stagnation on the value-added chain
 - Lack of Industrial deepening
- Upgrading Strategy:
 - Long-term soft loans
 - Machinery investment/improved processes
 - Knowledge distribution
 - Industrial employees/borrowing firms
 - Tax allowance
 - FDI in rural areas
 - Training
 - To master using new machinery/processes/

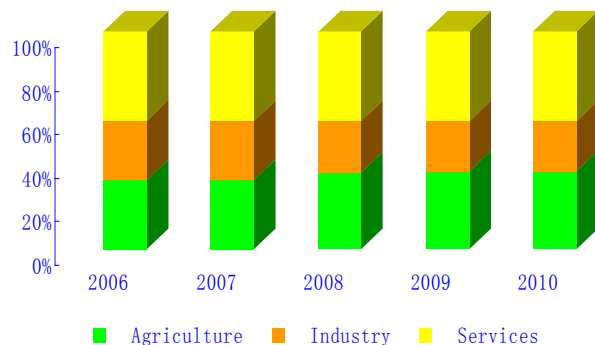
Item	Rank out of 117
Firm-level technical absorption	38
Prevalence of tech licensing	16
Innovation Capacity	62
Utility Patent	60
Scientists & Engineers	69
University-Industry Collaboration	28
Corporate R&D	37
Quality of Scientific Institutions	41
FDI & Technology Transfer	23

A long, narrow wooden truss bridge spans across a river. The bridge is constructed from weathered wood, with a complex truss structure on both sides. The deck is made of wide wooden planks. In the background, there are blue mountains under a cloudy sky. The overall scene is a rural landscape.

Part 3: Cambodia

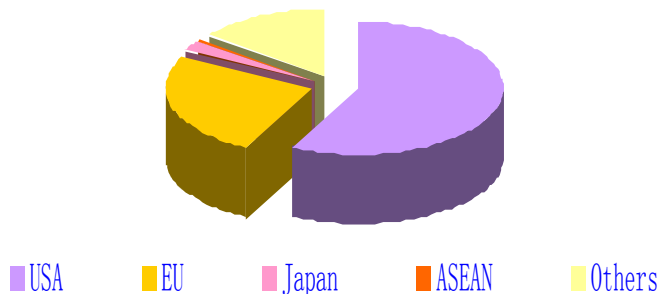
3. Cambodian Economy

• Economic Structure



• Garment

Garment Export in 2010



Construction

- At an annual average level growth rate of 15%, accounted for 7% of GDP and 0.7 point of GDP growth over 98-07
- Accounted for 27% of the industrial sector and 33% of the investment in the sector

Agro-industry

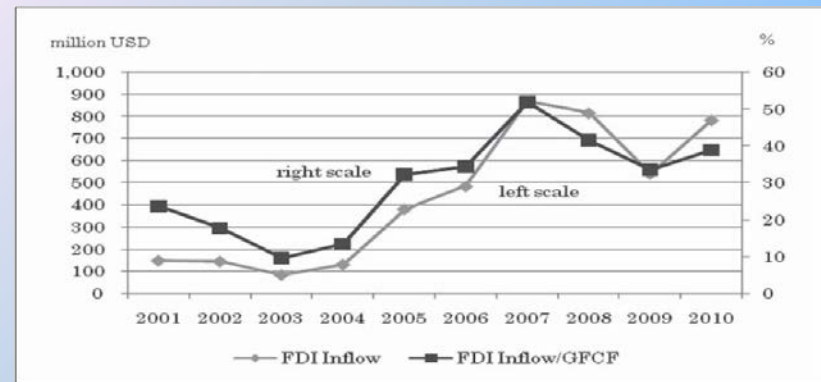
- 60% of the population relies on Agriculture
- Rice plantation covered 2.8 million ha, about two thirds of arable land
- A surplus of about 3-4 million tons of paddy rice for export
- Rice Policy: Within one year, the export of milled rice increased 4 times and market increased from 14 to 32 countries.

3. Economic Reform Policy

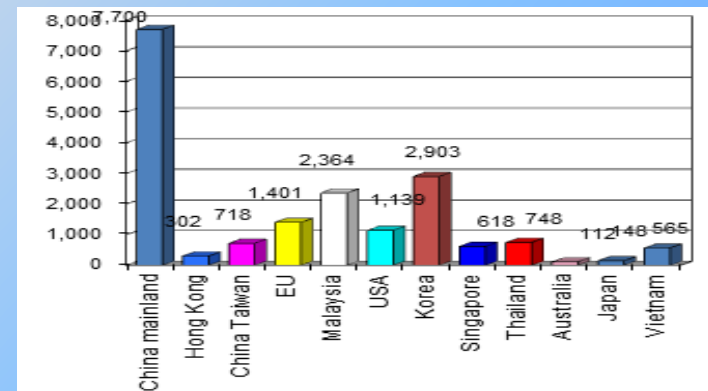
Privatization of SOEs

- Objective: reduce the government's fiscal burdens and attract FDI
- The privatization process was carried out rather smoothly due to relatively small in size and in technology accumulation
- Stage: Ministries privatized their own enterprises under their direct supervision; after 1995, tighten and centralized control by inter-ministerial privatization committee under MOEF
- Outcome: 160 SOEs have been privatized by 2000; in 2007, 17 SOEs operating with a total market capitalization of 1.5 billion USD

Attracting FDI

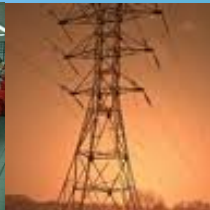


Source: UNCTAD 2011, Annex Table 1 and Table 5.



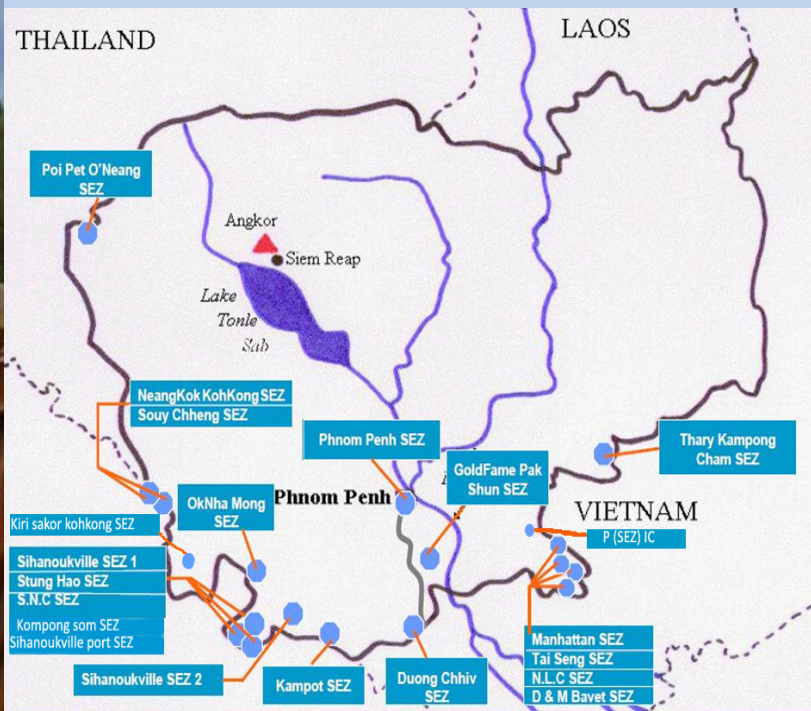
3. Investors (China and Japan)

- Chinese Investors: the biggest investment country in Cambodia.
- The modern Cambodia-China relations started from 1950s.
- Projects: from 1994 to 2011, around 400 investment projects with more than 8.8 billion dollars.
- Trade between C&C: 2.5 billion(11)
- Main sectors: hydro-power, mineral resources, textile and garment industry, banking and finance, tourism and agriculture
- Japanese investors: the top donor to Cambodia
- The modern relations started from 1950s;
- Japanese investments totalled US \$ 250.6 million since 1994 to 2011
- Cambodia-Japan trade volume is lower due to the lack of Japanese investment and trade;
- Main sectors: manufacturing industries, garment and textile, food processing, agriculture and tourism



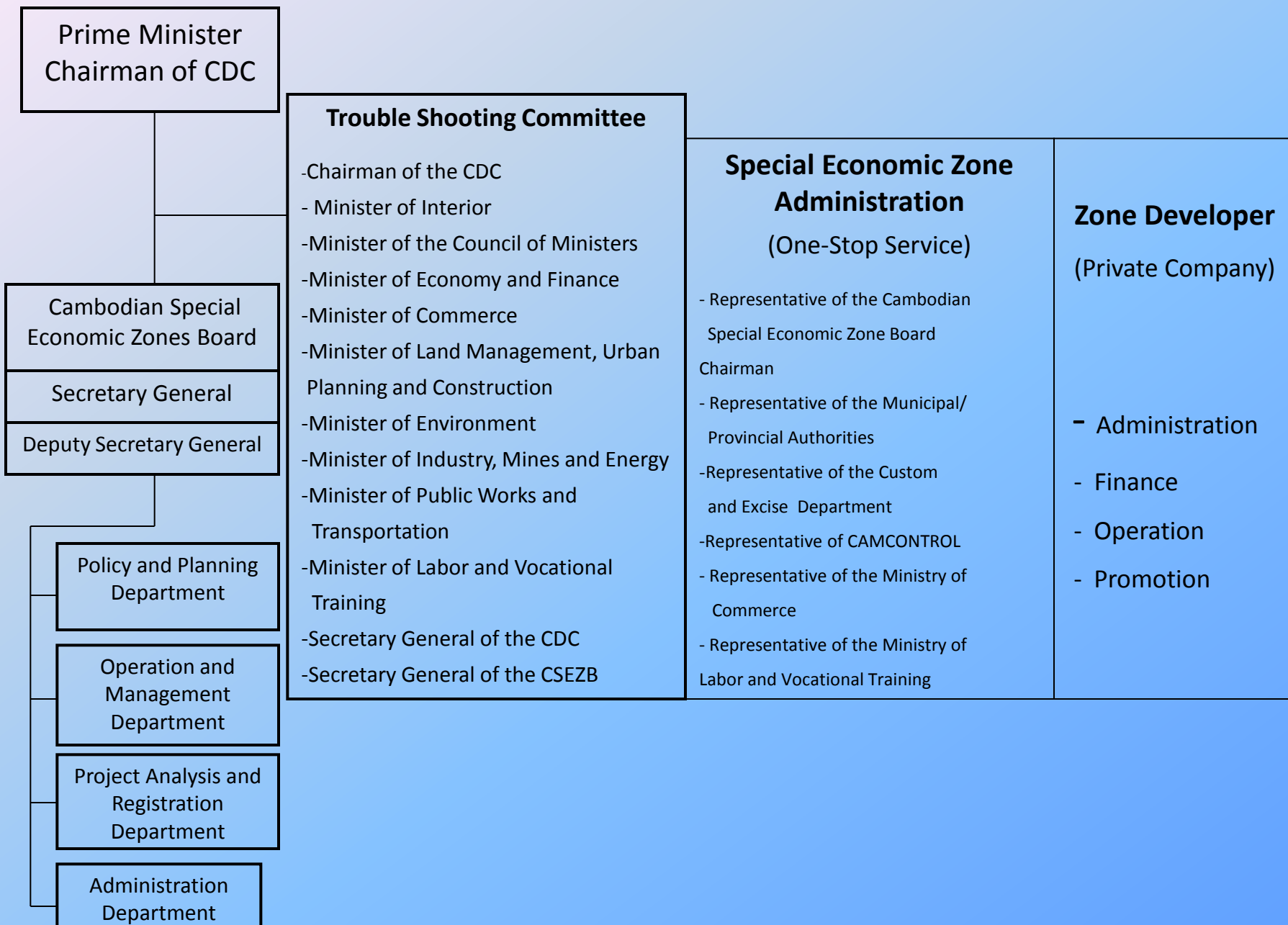
3. SEZs in Cambodia

- Introduced in 2005; 21 licenses have been granted.
- Most distributed along the SEC, border, Metropolitan areas and port cities;



- SEZ may be established by:
 - The State
 - Private enterprise
 - Joint Venture
- Lawful rights of use of a site at least 50 ha.
- SEZ goals: bring capital, technology, management, access to new markets.

3. Management Structure at SEZ



3. Tax Incentives and tools

	Inside SEZ	Outside SEZ
Fiscal Incentives	<ul style="list-style-type: none"> - Corporate tax - 20%; -Tax holidays: up to 9 years; - Full Import Duty Exemption; - Special depreciation; 	Same regime: Corporate tax rate, tax holidays, duty exemptions.
VAT	VAT suspension for all exported oriented activities.	VAT suspension ONLY for garments and footwear production.
Non Fiscal Incentives (other tools)	<p>One Stop Shop at each SEZ :</p> <ul style="list-style-type: none"> -Investment approvals -Minimum inspections -Speedy import-export procedures: -Better security -Land use up to 99 years 	<ul style="list-style-type: none"> -One Stop Shop at the CDC : investment approvals, duty exemptions. -At different Ministries/Agencies for others administrative procedures

3. Case study in Cambodia

Dimension	Phnom Penh SEZ	Sihanoukville SEZ	Port Authority Sihanoukville SEZ
Operating since	2008	2008	Under construction
Location	Inland (near capital)	Coast (Sea Port)	Coast (Sea Port)
No. of investors	36	17	3 under negotiation
Nationality of Developer	Japan & Cambodia	Chinese & Cambodia	Cambodia SOE
No. of jobs anticipated	100,000(15000)	100,000(5000)	25000 to 30000
Sectors	Garment, footwear, food processing, electrical equipment	light industry, including garment, bags and electronics...	Products using more shipment

3. SSEZ/SPSEZ



- Location: the gateway to the world. International deep seaport (5 lines call for the port), Airport, No.4 Highway.

SSEZ:

- Zone developer: joint venture SEZ, China Jiangsu Taihu. One of the first batch of overseas economic and trade cooperation zones of PRC.

Name	Ready built factory	Electricity	Water
SSEZ	Opt.1:0.8/m2/month Opt.2:2.5/m2/month	0.15/kwh	0.25/m3

SPSEZ:

- Zone developer: PAS, State-owned. developed as an ODA project .
- Advantages: The cost of transportation and custom procedure are low; The containers can move from SPSEZ directly to the ship.



3. Key findings

• Advantages and Obstacles

Timing

- Regional initiatives
- Preferential Trading Status (EU, USA, Japan, China, etc.)
- Sound Macroeconomic Environment
- High prices in natural resources
- Competitors

Geographical

- Convenient location
- South EC
- Poor infrastructure
- Small market

Human

- Stable political system
- Cheap labor
- Poor governance
- Lack of strategy
- Low skilled labor
- Lagging regional integration

3. Key findings

- **Obstacles for Cambodia**

- **Governance:** top-down manner, highly centralized structure, lack of capacity building, high level of rent-seeking and non-standard taxation system
- **Resources:** labor issues (shortage, low skilled, missing links), poor infrastructure (road, railway, electricity, grid, etc), and small market capacity
- **Strategies:** lack of overall strategy for SEZs, FDI concentrating on elementary industries
- **Regional integration:** uneven cooperation with neighbouring countries, and different vested interests and procedures

3. Sub-conclusion

Industrial policy:

- Cambodia actually doesn't have the capabilities for managing industrial policy programs effectively, and doesn't succeed in creating a consensus. However, the government has already recognized the importance of this issue and started learning from Japan

SEZ:

- 70% of the SEZs are not functional due to the lack of investors, because they are not qualified in terms of investors' criteria
- SEZs could not be a proper solution in poverty reduction unless some other conditions could be satisfied
- Cambodia should seize the opportunity that investors are considering to move part of their production chains out of Thailand and China
- Considering the "dependency" issue, it is crucial for Cambodia to avoid to become a "victim" during the regional cooperation process

Phnom Penh
Cambodia

4. Comparative Analysis



4. Governance



Thailand

- BOI (under MOI)
- A number of approval requirements
- Not effective
- **one-window operation**

Institutions

- Tax revenue was higher
- Self-reliance
- **Lower corruption**

Capacity

Cambodia

- CDC(MoF)
- A centralized structure
- Inadequate information
- Insufficient
- **One-stop service**

- Weak capacity in policy making;
- Shortage of human resources
- The revenue is low and insufficient
- High corruption; low level of transparency

Analysis

- S: Strong power
- D: Government structure

- S: Lack of private involvement
- D: Revenue
- Corruption level

4. Incentives



Thailand

Cambodia

Analysis

Tax

- 3 to 8-years tax holiday from the commencement of operations
- 50% reduction (thus 15% tax) for 5 years after tax holiday in Zone III

- Up to 9 years after first sales
- 9% (QIP) for five years
- 20% thereafter

- S: both of them use tax incentives to attract FDI
- D: the scope of the incentives

others.

- Investors can own the land

- Land Lease (up to 99 years)

- D: ownership of the land

4. Resources



Thailand

Cambodia

Analysis

Labor

- Shortage in labor, however, 5 times of C
- High labor cost, 4 times of C
- Policies on education have been slow to impact
- Considerable skilled labor

- Shortage in labor
- Low skilled labor
- Poor vocational education system
- Low labor cost

- S: Shortage in labor
Education system
- D: Labor skills
Labor cost

Infrastructure

- Comprehensive transport and logistic system
- Better facilities, water, electricity, sewage, etc

- Poor infrastructure
- Lack of facility: no national grid, lack of electricity supply

- D: Large differences in infrastructure



4. Strategies

Thailand

Cambodia

Analysis

Overall

- Upgrading
- Dispersion and zoning strategies
- BOI involvement at the local level
- IEs located near ports or infrastructure

Invest

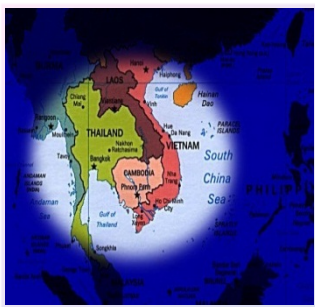
- FDI in electronic and auto industries locate at high level of value chain
- Better Industrial diversification
- Lack of industrial deepening

- Diversification
- Incentives for FDI and SEZs
- Poor involvement in local level
- SEZs located near ports, borders and infrastructure

- Highly dependent on FDI
- FDI focusing on several industries located at low level of value chain

- S: IEATs / SEZs location
- D: Upgrading Vs. Diversification
Zoning strategy
Local level involvement

- S: Lagging innovation system
- D: Different positions in value chain
Different FDI and diversification level
- Cooperators & Competitors



4. Regional integration

Thailand

- Reduce in time and cost
- Construction almost done
- E-Custom and CBTA started implementation
- Limited benefits
- Various interests among relevant ministries

Cambodia

- Reduce in time and cost
- Deficient infrastructure
- Lack of IT capacity
- Various vested interests
- Benefits less

Analysis

- S: limited positive effects and benefits
Vested interests
- D: Infrastructure
Capacity

EC&CBTA





4. Integration Vs. Non-integration

Regional

Thailand

Cambodia

Pro/Be

- Economic driving forces
- Cultural Heritage
- The Mekong river
- Intraregional-trade
- Weak Domestic capital

- Increase security and leadership potential
- Mobilize local resources
- Increase trade and logistic
- Increase interdependency
- Play as backbone

- Expand market
- Access to capital
- Reduce cost, or increase intraregional trade
- Security and signaling
- Domestic reform

Con.

- Different interests of countries
- Different capacity

- Minimum development (More ODAs or time)
- Political economy
- Market reasons
- Lack of capacity

- Political will
- Governance (Capacity)
- Stakeholders (Vested interests)
- Information and public awareness
- More cost in reform
- Loss in revenue
- Potential “victim”



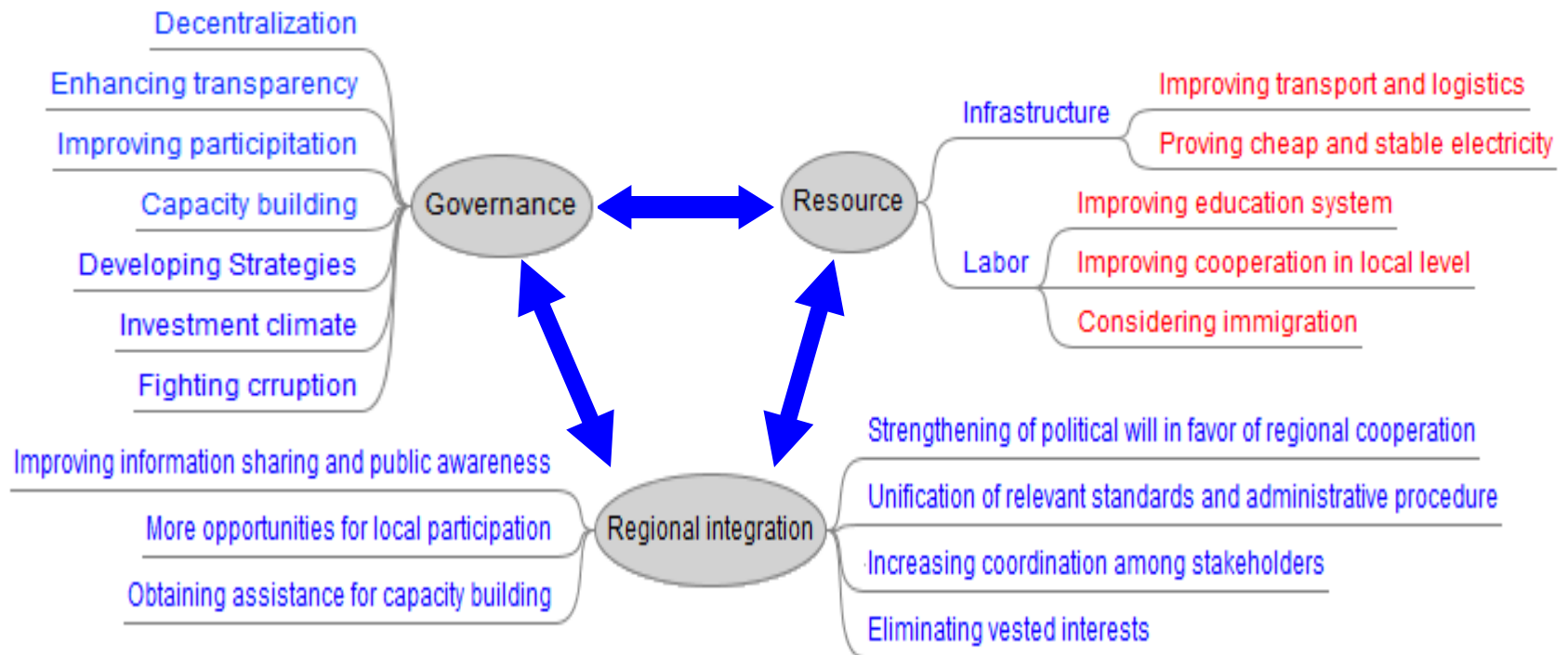
Part 5: Recommendations & Conclusion

Thailand

- **Industrial Policy:**
 - Industrial Deepening
 - Linkages
 - Improved State Capacity
 - Business Climate
- **Regional Integration:**
 - Take Lead
 - Develop Border Areas



Cambodia



Conclusion

- **Limited Regional Integration:**
 - **Disparities/ Limited State Capacities**
- **IEs/SEZs model needs to meet certain conditions**
- **Industrial policy is important to complement IEs/SEZs**
- **Private sector role in growth and integration is crucial**

A wide-angle photograph of a terraced rice field in a valley. The terraces are filled with young rice plants, and the water reflects the surrounding green hills. A person in a white shirt and blue shorts stands on a dirt path in the foreground, looking out over the landscape. In the background, there are more terraced fields and a small village on a hillside. The sky is hazy.

Thank you

Questions

