Linkages: Development Strategies, Governance and Cooperation

A Comparative Perspective of Thailand and Cambodia

<u>The Greater Mekong Subregion Capstone</u>

Capstone Director: Professor Francois Bafoil

Capstone Researchers

Mohamed Abdul Aziz

Wei Li

Zoe Sinclair

Jinglong Yang

Executive Summary

This capstone has set out to understand the relationship between Special Economic Zones (SEZ), or Industrial Estates (IE), and regional integration. Additionally, it looks at their role as vehicles for investment, particularly Foreign Direct Investment (FDI), and links to growth. Initially the report analyses the concept of regional integration, the types and ways of regional integration, and its context in the Greater Mekong Subregion(GMS). The issue of zones will be considered which have a regional history and country specificities. Based on our conceptual research and field research, this report will then expand on the factors involved in each issue and the flow-on effects – from resources and governance to the implications of FDI and potential for value chains.

Regional Integration

Regional integration has been increasingly seen as a potential development tactic. But its forms, factors and implications vary according to context. The Association of South-East Asian Nations, or ASEAN, was established in 1967 and expanded over the years to its current form of ten member states: Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei Darussalam, Vietnam, Laos, Myanmar and Cambodia. From its early stages, ASEAN was aimed at accelerating economic growth and expanding trade[1]. As a result, ASEAN's concept of regional integration has predominantly been focused on the market. Additionally, due to characteristics such as its policy of non-interference and a respect for sovereignty, there has been little interest in the development of supra-national institutions. As such it has evolved to a relatively shallow form of regional cooperation where briefings and meetings are regularly held and consensus occurs on a policy of mutual interest. Plans for an ASEAN economic community are continually pushed back, although the most recent ASEAN annual report places the goal at 2015.

The inclusion of the so-called CLMV states (Cambodia, Laos, Myanmar and Vietnam) had implications for ASEAN due to their low GDPs. ASEAN took a number of steps to aid growth in these countries such that they might be more in-line with the rest of the members. The Asian Development Bank (ADB) developed a specific GMS programme which also includes the two south-western Chinese provinces of Yunnan and Guangxi. In 1992, the GMS Economic Cooperation Program (GMS-ECP) was launched with the support of Asian Development Bank (ADB), setting out "to promote sustainable economic development through closer economic linkages between its member states.[2]" This vision is embodied in the 3Cs strategy of enhanced "Connectivity", increased "Competitiveness", and a greater sense of "Community"[3].

In 2002, the GMS countries compiled a strategic framework for subregional development based on sector priorities and programmes. It focused on strengthening infrastructure linkages, facilitating cross-border trade and investment, and

1 Hussey, p. 1
2 Bafoil and Ruiwin, 2010, 80
3 ADB, 1996

enhancing private sector participation, developing human resources, as well as environmental protection. An integral part of the program and ADB's work towards development in the region has been focused on infrastructure. As one ADB official put it "roads are easier to build than cooperation"[4]. However, Economic Corridors (EC) are intended to be much more than just roads but are "designed to attract investment and generate economic activities along a central transport artery and the border regions.[5]" These corridors connect to SEZs and resources such as ports and major hubs. Priority has also been placed on transport due to its role on regional development by enhancing trade and connectivity. The EC approach to 'development through connectivity' was adopted by GMS countries during the 8th GMS Ministerial Meeting in Manila in 1998. The three phases to the realization of the EC are: building infrastructures; instilling the logistics, and; initiating economic cooperation activities.

Three main EC, with several sub-corridors create a network connecting the subregion. These are the North South Economic Corridor (NSEC), East West Economic Corridor (EWEC), and Southern Economic Corridor (SEC). Along with connectivity to key resources and zones, these corridors connect the GMS with the Indian Ocean and the Pacific Ocean – providing connections to South and East Asia.

This development of hardware has been accompanied by 'software', most notably the Cross-Border Transport Agreement (CBTA). This connection of infrastructure with software is important as it has been realised that many of the benefits of infrastructure are held back by time and costs at borders. For this reason, the CBTA was not only important but also significant for bringing together the region's leaders to a common agreement on the issue. The CBTA includes: allowing through permits the movement on specific routes of vehicles, goods and license recognized drivers; using single-stop and single-window inspection to reduce transaction time by providing advance and clear information on clearance; providing customs transit, and guarantee system to avoid costly transhipment, and; enhancing CBTA effects by increasing CBTA checkpoints[6].

However, beyond the initial signing, members have not ratified all the principles contained within the CBTA and the agreement's success has been limited. Furthermore, the agreement has not been incorporated in all the national laws. While there are limitations to its success at a national level, there are also problems with its implementation at the local level. The capacity of the local border authorities is weak, and the role of the private sector in complementing the process is also lacking.

SEZs and Industrial Estates

SEZs are areas allocated within a country where the laws are more liberal to create an encouraging investment climate. Specifically, they are identified by characteristics including: a large developed site; infrastructure and services; sale and lease of factory buildings; control which allows benefiting the occupants and wider community[7]. In Cambodia, these areas are called SEZs; while in Thailand they are Industrial Estates (IEs). While they have a number of differences, as will be shown, their similarities are sufficient that they can be defined as economic zones. When convenient for discussing both, they will be referred to as just 'zones'.

The development of industrial estate across Asia, as a tool for economic development especially in regional areas, began in Singapore in 1951[8]. Japan, Korea, Malaysia and Thailand followed in the main wave in the 60s, but it is the Chinese model that has gained the most recognition. The successes of these growth models have been replicated elsewhere with

[4] Jean-Pierre Verbiest, speaking at GMS forum at CERI, 2011.

[5] Bafoil and Ruiwin, 2010, 80

[6] ADB, *Greater Mekong Subregion Cross-Border Transport Facilitation Agreement*, 4

[7] Cited in Aveline-Dubach, p.175

[8] Aveline-Dubach, p.175

varying successes and many differences[9]. It is estimated that are some 3,000 zones in 135 countries today, accounting for more than 68 million direct jobs and more than $500 billion of direct trade-related value added within zones[10].

Within the GMS, zones have been seen as tools to attract investments, create jobs, and boost industry competitiveness, aimed at enhancing economic growth. Thailand was an early adopter and Cambodia has since also created a number of SEZs. The subregion, particularly with ADB's infrastructure creation, as aimed for the zones to form key poles of growth. As such, they form key points along the economic corridors, including at border areas and near key resources such as ports. This strategy behind the zones' locations often ties their success to the development of the corridors and the corridors success. These links, between the corridors, zones, resources and growth, will be examined as part of this report.

Industrial Policy

Industrial policy is seen as a critical strategy towards industrial and economic development. It is linked to economic growth, employment and income. Often it is focused on particularly sectors and growth is generated from those linkages. In particular, the stage of development of a country is often identifiable by industrial policy and its level of technology. This often starts as absorption by developing countries, and they can experience a significant catch-up effect by doing so[11]. FDI is often a key way by which technology is introduced to a country and firms. However, the links between FDI, technology and improvements for local firms require a complex balance of factors including government support and policies that push for integration into the value chain. By improving technological status, and innovation, it is possible enhance the value-add to products, and thus for firms and the country to move up the value chain. Related policies to achieve this often involve improving efficiency, capacity, innovation and linking upstream and downstream economic activities.[12] However, each industry has differences in technology and in skills needs. The various different approaches of developing the industry have been called industrial policy. Other critical components are macroeconomic policies, sectoral polices and the investment climate. In the case of this report, the investment climate can be viewed through the zones which are designed as a vehicle for investment. This thus links industrial policy to its role for growth, the zones and regional integration. As this report will demonstrate, Thailand has essentially failed to upgrade and incorporate an industrial policy that supports education and vocational training towards skills improvements and innovation. Furthermore, there was limited support for entrepreneurs or state companies and a lack of place-based policies to support the zones. Cambodia faces an issue of diversifying and strengthening its sectors for growth. Government involvement in industrial policy is also extremely limited.

Case studies

Thailand and Cambodia share a number of commonalities and differences, both of which serve to make them worthwhile case studies. Given this report's focus on regional integration, it was important to focus on studies that are involved in ASEAN and GMS so as to examine their reasons for involvement and constraints to integration. Their relations to each other are also interesting given their proximity, shared borders and gulf and other similarities.

Thailand's growth and development, based on FDI and comparative advantages of low cost labour, occurred during the 1980s and 90s. Crucial institutions were the Board of Investment and the Industrial Estate Authority Thailand (IEAT). Zones and incentive schemes followed, aimed at encouraging development outside Bangkok. Cambodia, meanwhile, has focused on developing various sectors and encouraging SEZs. The zones have typically been located near borders although the most successful ones are centred around the key hubs and resources including Phnom Penh and

9 Aveline-Dubach, p.176

10 World Bank, 2008.

11 Kraemer-Mbula. E, Wamae.W (2010) 'Innovation and the Development Agenda', OECD, pp 40

12 Whitfield p.7

Sihanoukville. Cambodia also has a strong open market approach that has led to private investment in the zones but has not translated to development.

Thailand has the highest GDP in the GMS and has witnessed successful growth over the past decades. Just as it has learned through developments in East Asia, it too can serve to provide lessons to those less developed countries. Theoretically, development stages were expected to progress similarly in different countries but there is a clear need for contextualisation. Cambodia as a Less Developed Country (LDC) makes possible for a contrasting case and can potentially learn from Thailand's successes and mistakes. However, it has its own characteristics, including a smaller population and as such smaller domestic market and labour force. Given that many of the investors in Thailand started there because of the domestic market, especially the Japanese, this could prove a critical difference for Cambodia. Governance in Cambodia is also lacking, and similarly is capacity. The case studies illustrate the various advantages but also challenges the countries have. With these in mind, it is possible to see their growth paths and strategies and the implications for regional integration.

Conclusion

Regional integration, particularly with respect to Thailand and Cambodia, has been very limited. When considering these factors of regional integration - hard and soft elements of infrastructure and cooperation – the concept is not fully present.

Growth and development have been considered an important part of integration – in terms of allowing for it by having countries of relative size and levels to provide a context for integration; and in terms of encouraging integration by opening up new markets. As a tool for growth and development, the development of industrial estates has been the key. Thailand was an early starter in this field but Cambodia too has developed a model of Special Economic Zones. As such, we are interested in investigating industrial estates and special economic zones to understand growth and regional development. The zones also rely on resources, access to markets, and good policies. Given this, they provide a way of assessing these elements and regional integration. The zones also act as vehicle for FDI which has been attributed as one of the main reasons for Thailand's growth. However, Thailand's growth has slowed and it faces challenges. What is stopping the industrial estates policy from continuing the growth?

Given the role of FDI in SEZs, the actors and their influence need to be considered. The role of MNCs in the region's zones, and globalisation, introduces the issue of value chains. Value chains have an impact on regional and international integration and needs to be assessed as an additional influence on the process of integration.

This paper will argue a number of points, including that a) regional integration has been limited. This is due to political economies and regional economic disparities, and secondly, to limited state capacity and governance. The report will also illustrate that b) SEZs as a successful growth model are subjective to certain conditions c) an effective industrial policy is needed to complement SEZs d) The private sector has a critical role and influence on growth and regional integration through a need to establish value chains.

Contents

Acknowledgements

This report is the production of nearly one year collaboration between four Master of Public Affairs students at Sciences Po, Paris.

Professor Bafoil, Director of Research at the Centre for International Research (CERI) and capstone leader, was of great support. His guidance during the research, and comments on our draft, made a difference in our work.

Grateful thanks also go to both Mr. Jean-Pierre Verbiest of Asia Institute of the Technology and Dr. Hang Chuon Naron of the Ministry of Economy and Finance of Cambodia. They gave us a very useful introduction and insight to the two countries as well as assisting with coordination of interviews. Without this assistance, especially in Cambodia, we would not have had access to many interviewees, particularly government.

A great deal of gratitude also goes to the people whom we interviewed during our trip in Thailand and Cambodia in January 2012. We are especially grateful for their welcome, support, advice and information. Without them our work in Southeast Asia would not have been as fruitful as it was.

Last but not least, we would like to also thank the 2011 MPA capstone team who worked on the Greater Mekong Sub-region topic. The advice they provided about the field trip and the capstone report was a useful reference.

List of interviews

Date/time	Department/Firm	Name	Position
Thailand			
01-09-2012	National Research Council	Chieanchuang Audi Kalayanamitr	Businessman/advisor
	International Affairs Bureau, Office of the Board of Investment	Vasana Mututanont	Executive Director
01-10-2012	Charoen Pokphand Group Company Limited.	Sunthorn Arunanondchai,	CBE, Vice Chairman
	Industrial Business Development, AMATA Corporation PCL	Satha Vanalabh-patana	Department Manager
		Vatchariya Ngaotheppitak	Business Development Officer
01-11-2012	Thailand Resident Mission	Rattanatay Luanglatbandith	Economist (Regional Cooperation)
	University of the Thai Chamber of Commerce	Dr. Pussadee Polsaram	Head of School of Business
Cambodia – Phnom Penh			
01-12-2012	Supreme National Economic Council Ministry of Economy and Finance	Dr. Hang Chuon Naron	Vice Chairman Secretary of State
	Department of Investment and Cooperation Ministry of Economy and Finance	Pen Thirong	Director
	Cambodian Special Economic Zone Board, Council for the Development of Cambodia (CDC)	Chea Vuthy	Deputy Secretary General
	Ministry of Public Works and Transport	Tauch Chankosal	Secretary of State
		Vasim Sorya	Planning and Administration General Department, Director General
		Chan Dara	Planning and Administration General Department, Deputy Director General
	Cambodia Resident Mission, ADB.	Peter J. Brimble	Senior Country Economist
01-13-2012	Phnom Penh Governor's Office	Huot Hay	Deputy Director of Administration, Responsible for Investment, Planning and Waste Management Division
	East Asia and Pacific Region, World Bank	Huot Chea	Senior Economist
	Cambodia Chamber of Commerce	Ngoun Meng Tech	Director General
	Phnom Penh Special Economic Zone (PPSEZ)	Hiroshi Uematsu	Managing Director PP SEZ
	Minebea Cambodia	Kengo Katsuki	Vice President (COO)
Cambodia – Sihanoukville			
01-16-2012	Sihanoukville Governor, Ministry of Interior	Sbong Sarath	Governor of Preah Sihanouk Province
	Sihanoukville Training Center of National Employment Agency	Ton Shina	Accountant
	Sihanoukville Special Economic Zone (SSEZ)	Michelle Zhang	Department of CSR, Manager
		Amy Yan	Overseas Marketing Department Vice Section Chief
	Sihanoukville Office of the Ministry of Public Works and Transport	Nub Heng	Head of Office
01-17-2012	Sihanoukville Office of the Ministry of Labour and Vocational Training	Yow Khemara	Director, Department of Labour, Sihanouk Province
	Sihanoukville Autonomous Port (PAS)	Lou Kim Chhun	Delegate of the Royal Government in Charge as Chairman and CEO, PAS
		Norng Soyeth	Director, Marketing and SEZ Department, PAS

List of Acronyms

ADB – Asian Development Bank
ADBI- Asian Development Bank Institute
ADF – Asian Development Fund
AEC- Asian Economic Community
AFTA – ASEAN Free Trade Area
AIT- Asian Institute of Technology
ASEAN – Association of Southeast Asian Nations
ASW- ASEAN Single Window
BSEZ - Bavet Special Economic Zone
CDC - Cambodia Development Council, which heads the Sub-committee of the Cambodian Special Economic Zone (SEZ) Board
CBTA - Cross Border Transport Agreement
CLMV- Cambodia, Laos, Myanmar, Vietnam countries
EC - Economic Corridors
EWEC – East–West Economic Corridor
FDI- Foreign Direct Investment
GMS - Greater Mekong Sub-Region Program
GDP - Gross Domestic Product
HR - Human Resources
IICBTA – Initial Cross Border Agreement
MICL - Medtecs International Corporation Limited
MSEZ - Manhattan Special Economic Zone
MRC – Mekong River Commission 14
OSS – One Stop Service
PPSEZ - Phnom Penh Special Economic Zone
SCGT - Southern China Growth Triangle
SEAME - Southeast Asia Ministers of Education Organization
SEA - South East Asian
SEZ - Special Economic Zone
SFA-TFI – Strategic Framework for Action on Trade Facilitation and Investment
SPS - Sanitary and Phytosanitary Stop
SSI- Single Stop Inspection
SIJORI- Singapore, Johor and Riau growth triangle
R&D- Research and Development
TFWG - Trade Facilitation Working Group – GMS
TTF- Trade and Transportation Facilitation
UJIC - Universal Joint International Group
UNESCAP – United Nations Economic and Social Commission for Asia and the Pacific

Chart of Figures*

* This chart comprises all the images, graphs, tables and illustrations.

Introduction

This report aims to analyse the role of Special Economic Zones(SEZs), or Industrial Estates(IEs), and regional integration. Given that regional integration has often been used as a development mechanism, and there is a critical role for economic growth, drivers of economic growth will also be considered. This includes examining FDI and industrial policy. These also have strong linkages with zones, both SEZs and IEs, as they often form vehicles for investment due to their more liberal laws. Critical to these are considering the various factors involved: resources, governance and value chains. This introduction will unpack these concepts named here before exploring the theory, and history behind them in the General Perspective. The main component of this section is to present regional integration, its history in the region and developments, the status quo of regional integration and the kind of regional integration. The report will then draw out the implications of regional integration for the report before presenting the zones and the rationale behind the case studies.

Regional Integration

This report considers regional integration in a number of ways. Beyond establishing in the general perspective that it is very limited, it considers the role of key resources, particularly infrastructure. This is primarily due to its focus on infrastructure as a means of encouraging growth and integration. The Economic Corridors were built along main roads but designed to connect to SEZs and resources such as ports and major hubs. This priority on SEZs underlines their importance towards harnessing the potential benefits from regional integration such as goods flows and connectivity. It has been accompanied by 'soft' infrastructure, mainly the Cross Border Transport Agreement (CBTA). As will be shown, the establishment of infrastructure has limited benefits without the accompaniment of agreements to improve the flow of goods and transport at the least. The CBTA has been limited in a number of ways, including with ratification and also at a local level. As such this report's consideration of Economic Corridors and CBTA and SEZS and their linkages to regional integration must consider both national and regional level policy and the firm or zone level. This is achieved with documentation on policy statements indicating the level of ratification and similarly at the local level. Both are complemented with field interviews talking to different actors. Senior government officials were important to understand their constraints, capacities and policies. Interviews with firms and zone management provided an understanding of their connectivity locally, in terms of resources, and regionally. Meetings also indicated their perception of the potential role of regional integration, constraints and opportunities.

Drivers of Growth

SEZs/IEs

Zones have a links to growth, regional integration and investment. As was detailed, zones have played an important part in plans for regional integration and function as poles with economic corridors. The zones act as a vehicle for investment and have been successful in various scenarios as growth models but the factors encouraging the growth need to be considered. Their design can often lead to clustering and innovation allowing countries to upgrade and move up the value chain. Consideration must also be given to the types and effects of investment that flow from the zones.

FDI

Foreign Direct Investment (FDI) has typically had a strong role in encouraging growth, extending networks and production chains. This was the case with Thailand and was critical to the development of industrial zones along the Eastern Seaboard and in the sectors of automobiles and electronics. It is also key to increasing capital – an issue of key

concern to Cambodia. FDI's links to technology are also important for allowing a country to develop, but it must be harnessed.

Industrial policy

Industrial policy is also seen as a driver of growth and also indicative of a country's strategy and policy capacity. From this implications towards a country's regional integration policy, capacity and governance in general, and indicate an economy's level of technology and place on the value chain.

Constraints

The environment within which these issues are being considered has a particular track of development, specifically characteristic of the region. This includes the market-oriented approach and a trend towards economic regionalism due to the prioritisation of economic growth as a strategy by ASEAN and ADB. It has implications for the extent of policies supportive of integration, particularly soft infrastructure. Furthermore, there are issues of economic disparities, political economies, and governance and state capacity which limit potential for integration. Ultimately, the result is that there is limited regional integration and both Thailand and Cambodia face significant challenges for growth and in which these key drivers need development.

Report Organisation

The report will cover four parts:

Part 1: This chapter, The General Perspective, considers the background and regional context. The paper will cover key points of development for ASEAN and GMS and the kind of regional integration that has been developing. It will also consider the four pillars, a tool designed to analyse critical aspects of the report: Strategy, Resources, Governance and Incentives. The paper will present the rationale for examining Thailand and Cambodia as case studies. Generally, Thailand is the most developed country in the region, while Cambodia is the least developed one; the former is the one of the founder members of ASEAN, while the later is the last member of ASEAN; Thailand has experienced almost the slowest economic growth rate, while Cambodia's was the fastest. As such the countries provide for interesting comparative cases. This section will also outline the grounds for focusing on industrial policies and zones to illustrate and analyse regional integration. Finally, this part will present the research methodology.

Part 2 & 3: These chapters present the case study narratives and key findings. These sections focus on the field research, examining in particular the industrial policies and estates in Thailand and Cambodia. Field research included interviews with local governments, NGOs, enterprises, communities and other data. The cases will detail the development of Thailand's industrial policy and estates, the policy incentives and governances, investment climate and investors' involvements, and development resources. This section will also analyse the key findings according to the case study of the AMATA Zone. Regarding Cambodia, the study will focus on the development and performance of SEZs (industrial estates). The paper will present three SEZs in Cambodia to analyse the main constraints and opportunities for Cambodia's industrial policies and estates. In addition, the chapters will cover the analysis of the countries' main investors, including Chinese and Japanese investors.

Part 4: This chapter forms the comparative part of the report. It analyses key aspects in Thailand and Cambodia including institutional establishment, governance capacity and policy incentives among other factors. By using Thailand as a potential model for Cambodia, it will allow for clarity on differences between the two and potential constraints for Cambodia. This section will analyse the nature of different investors and their influence on local developments, including the impact of Chinese and Japanese investors' different strategies, performances and goals. Finally, this section will

assess the implications of these issues for regional integration to identify what Thailand and Cambodia should do to achieve their development targets and improve regional integration.

Part 5: This concluding section, will propose relevant policy recommendations according to what has been established in the analysis presented in the previous sections. This will include issues such as what Cambodia could learn from Thailand and what Cambodia should do according to its endowments and place on the value chain, before a final conclusion.

Methodology

This report is a comparative - analytical research paper that explores SEZs and IEs and Industrial Policy as a focus in regional and development literature; it draws from the research relevant models and typologies, and then identifies both analytical and practical concerns regards to the industrial estates and industrial policies concerned and their roles in accelerating regional integration and economic development.

The research process took place over an eight month period. In the first four months, the existing literature was reviewed on the following topics: Regional Integration, Local Development, Special Economic Zones, ASEAN, Greater Mekong Sub region, Investors' Strategies, Background Summaries on each country along historical, political and social lines, Economic Performance of these Countries and relevant fiscal data and trends on growth, trade and FDI etc. Furthermore, to make the analysis clearer, we used big players' strategies (involvement of Chinese and Japanese investors), physical resources (infrastructure, natural resources), policy incentives and governance as four important pillars to help us in identifying the key issues.

The primary sources of this report were cultivated through field research that took place over a 11 day visit to the two countries including extended visits in the Four Industrial Estates (AMATA in Bangkok, SEZs in Phnom Penh and Sihanouk Ville in Cambodia). During that process the group interviewed: Firms, Central and Local Government officials, Public officers involved in SEZ organization, Developers of Industrial Estates, Education centre, Private actors, Expertises, Consultant, NGOs, the World Bank and the ADB. There were additional interviews took place with experts in Paris during the workshop of GMS, and in the last four months the report preparation phase was developed. The interviews were all semi-structured interviews with primary sources of information, acknowledging the social interaction between researchers and interviewees, including language barriers. Official data was collected as and when possible in a systematic and non-intrusive way.

The main obstacles of the research were a) language barriers that affected the capacity to gather information; in turn limiting our ability to develop strong relationship with interviewees and also restricting access to low management workers and locals, both of which are key sources to understanding the conditions of labourers in the industrial estates and b) insufficient time on the ground. Ideally, we would have been able to stay for a longer period of time in the region as new actors are referenced in the process that we were unable to interview. There was a challenge since one of our team members could not participate in the field trip because of diplomatic issues. However, the rest of team overcame the constraint and improved cooperation and understandings by sharing more responsibilities.

Chapter I: General perspective

1.1 Regional Integration and South East Asia

Regional integration, and in particular regional trading groups, has been used as a development tactic more frequently in recent years[13]. A World Bank report posits that the main goal of regional agreements is "reducing barriers to trade between member countries"[14] and include the basic step of removing tariffs to non-tariff barriers and liberalization for investment and potential economic union and shared institutions. The World Bank report charts a number of changes to what it broadly terms Regional Integration Agreements including: a move from closed regionalism to a more open model; a recognition that integration is more than reducing tariffs (in the GMS this refers to the 'soft' aspects such as CBTA); and the development of North-South trade blocks.

One of the prime examples is the EU which had its origin in the European Coal and Steel Community before developing into the European Economic Community. Its success is cited as causing other regionalism initiatives. The rationale behind such initiatives are: conforming to better polices and signaling such to investors; access to markets; achieving economies of scale for firms' better access to labour and technology; safeguarding sovereignty by improving economic standing; improve stability and prosperity in the region to avoid spillovers of negative issues[15]. Some of these can be seen in ASEAN and the GMS, for example ASEAN was seen as a way to reduce tension between Indonesia and Malaysia[16]. ASEAN officials have also been quoted as commenting on the creation of the organization as a vehicle for attracting FDI[17].

Theories that take into account the political, economic and institutional factors have attempted to explain how and why regional integration occurs and what qualities define deep regional integration. The distinction has been made between positive and negative integration whereby the latter involves the removal of discriminatory national economic policies while positive refers to common institutions[18]. A stages approach is expected to progress as follows: free trade area; customs union, economic union, total economic integration[19]. Finally, a distinction can be made between deeper integration, beyond the removal of border barriers, and shallow integration, which is trade liberalization[20]. However, ASEAN is generally seen as a relatively shallow form of regional cooperation where briefings and meetings are regularly held and consensus occurs on a policy of mutual interest.

ASEAN

The Association of Southeast Asian Nations, or ASEAN, was established on 8 August 1967 in Bangkok, Thailand, with the signing of the ASEAN Declaration (Bangkok Declaration) by Indonesia, Malaysia, Philippines, Singapore and Thailand. Brunei Darussalam then joined on 7 January 1984, Viet Nam on 28 July 1995, Lao PDR and Myanmar on 23 July 1997, and Cambodia on 30 April 1999, making up what is today the ten Member States of ASEAN.

---

13 Maurice Schiff and Winters, L. Alan, Regional integration and development, World Bank, 2003, p.ii

14 Schiff, p.1

15 Schiff, p.9

16 Schiff, p.192

17 Schiff, p. 7

18 Tan, Lay Hong, Will Asean Economic Integration Progress beyond a Free Trade Area?, The International and Comparative Law Quarterly, Vol. 53, No. 4 (Oct., 2004), pp. 935-967, Cambridge University Press on behalf of the British Institute of International and Comparative Law, p.943

19 Tan, p.944

20 Tan, p. 944

ASEAN's main goals were intraregional economic development, social progress and cultural development and regional peace and stability, as the declaration came to reflect[21]. It also aimed to accelerate economic growth and expand trade, particularly in the field of agriculture and industries.

The region's enlargement occurred in three phases beginning in 1995 and today, the organization's members have a total population of approximately 600 million people and in 2010, its combined nominal GDP was US$1.8 trillion. The inclusion of Cambodia, Laos and Viet Nam was seen as a change in the description of ASEAN members. These states were transition economies and had significantly lower GDPs. It had posed concern for the economic development and integration of the region although the addition of different industries and a diversified regional economy are now seen as an advantage. The CLMV states were also given time to meet the region's programmes, including reducing tariffs and liberalizing services and investment.

A number of events and issues since ASEAN's creation and the declaration have helped characterize the regional organisation's policies. These policies involve: non-interference, security, and integration. Developments to the policy on non-interference came in 1998 and resulted in a principle of "enhanced interaction"[22]. Steps were taken for data collection to better understand financial and economic situations nationally with a view to addressing them as regional issues and an informal foreign ministers retreat was organized as a mechanism to frankly discuss issues of regional importance[23]. The ASEAN Security Community (ASC) was created in October 2003 in recognition of transnational security problems[24].

Policy on the integration front has been focused on a number of developments including: demographics, financial crises, and institutions. East Asia was concerned that they needed organizations and cooperation regionally to protect them and prevent a reoccurrence of the Asian Financial Crisis[25]. Although the attempt by Japan to create an Asian Monetary Fund in 1998 failed, the idea behind it was reflected in the strengthening of ASEAN and APT and the Chiang Mai initiative[26]. There have also been more than 40 bilateral trade agreements since the crisis[27]. Following the approach of the EU, it would seem institutions are an important step towards closer integration. However, the non-interference policy and strong sovereignty has inhibited institution building. However, various crises within the region have required the establishment of institutions, although typically on an "ad-hoc" basis. ASEAN has taken the approach, sometimes considered "soft institutionalism", of setting up regular forums and informal meetings in order to address issues of concern.

In terms of steps towards regional development, and following from that increased integration, ASEAN began with three economic projects, including, the ASEAN Industrial Projects (AIP) and the ASEAN Industrial Complementation (AIC) project. The first was plagued by direction and project agreement problems, and financing issues. The second was focused on the micro-economy and enhancing intraindustrial linkages and trade. Complex and lengthy processes affected the success of this project. Trade barriers have also been an inhibiting factor. However, Preferential Trade Arrangements was partly successful, especially for tariff preferences, although it progressed slowly on a product by product basis[28], and involved an extensive exclusion list[29]. Trade as a sign of integration has not evidenced increased integration among ASEAN members as it is dominated by a few countries, mainly Singapore, and trade in minerals and

[21] Antonia Hussey, Regional Development and Cooperation through Asean, Geographical Review, Vol. 81, No. 1 (Jan., 1991), pp. 87-98, American Geographical Society, p. 1

[22] Bertrand Fort and Douglas Webber. " Regional Integration in East Asia and Europe: Convergence or divergence?", Routledge. 2006, p.151

[23] Fort, p.151

[24] Fort, p. 166

[25] Fort, p69.

[26] Higgott, p31.

[27] Higgott, p29.

[28] Hussey, p. 90

[29] Tan, p.938

fuels. Increased trade is inhibited by the lack of complementarity between members, both in types of goods and market characteristics, and prohibitive nontariff barriers[30].

Before evaluating ASEAN's effectiveness towards regional integration, it should be noted that it was originally intended for economic development and was fiercely protective of sovereignty, so progress towards supranational institutions remains limited. This history of ASEAN, the development of its membership and ad-hoc adjustments to policy, characterize the critical regional organization and provided for an understanding of why and how regional integration, in general, is progressing the manner and style it is.

Greater Mekong Sub-region (GMS)

The Greater Mekong Sub-Region (GMS), which consist of Cambodia, the People's Republic of China (PRC, specifically Yunnan Province and Guangxi Zhuangzu Autonomous Region), Lao People's Democratic Republic (Lao), Myanmar, Thailand, and Viet Nam, is geographically located among the fast-growing economies of both South and East Asia. It has a combined population of nearly 320 million—more than that of the United States of America—and a contiguous land area of about 2.5 million square kilometers—roughly the size of Western Europe. The GMS is rich in human and natural resources, and its people are bound by a shared culture and history[31].

In 1992, the GMS Economic Cooperation Program (GMS Program) was launched with the support of Asian Development Bank (ADB), setting out "to promote sustainable economic development through closer economic linkages between its member states.[32]" As enunciated by the GMS leaders, the vision of the GMS Program is a sub-region that is prosperous, integrated, and harmonious. This vision is embodied in the 3Cs strategy of enhanced Connectivity, increased Competitiveness, and a greater sense of Community. The GMS Program seeks to enhance their economic relations, building on their shared histories and cultures, covering nine priority sectors: agriculture, energy, environment, human resource development, investment, telecommunications, tourism, transport infrastructure, and transport and trade facilitation; moreover, GMS program planned to help the participating countries achieve the Millennium Development Goals (MDGs) through "increasing connectivity, improving competitiveness, and engendering a greater sense of community (the three Cs, ADB 1996).

In 2002, the GMS countries assembled the various sector approaches with their associated programs and projects into a comprehensive strategic framework for sub-regional development with a focus on five strategic thrusts (strengthening infrastructure linkages, facilitating cross-border trade and investment, and enhancing private sector participation, developing human resources, as well as environmental protection) and 11 flagship programs, including the 3 economic corridor (EC). Apart from hardware in the form of physical infrastructure, the GMS program has also tried to address complementary software issues. A key initiative towards this end is the Cross-Border Transport Agreement, a comprehensive multilateral instrument that supports a range of measures to facilitate trade and investment, which in turn promotes integration.

"The formulation of the GMS–SF in 2002 took into account the global and regional trends relevant to economic cooperation at that time, and these trends have continued and accelerated, bringing globalization and regional integration to a higher level. The Framework Agreement on Comprehensive Economic Cooperation between ASEAN and the PRC was signed in November 2002, shortly after the 1st GMS summit, and one year later, similar framework agreements were signed between ASEAN and the Republic of Korea (ROK), and between ASEAN and Japan. These

[30] Tan, p. 936

[31] ADB, "Midterm review of the GMS Strategic Framework (2002-2012)", 2007, p2

[32] ` Bafoil and Ruiwen, 2010,p 80

developments show that the environment and context for GMS development have changed dramatically over the last several years because of accelerating globalization and regional economic integration (REI)" [33].

In doing so, the program has indeed accelerated, delivering concrete results and contributing to economic growth and poverty reduction in the sub-region, as well as to the broader realization of a prosperous, integrated, and harmonious GMS. The pragmatic, action-oriented, and results-focused approach of the Program enabled GMS countries to expedite the implementation of high-priority sub-regional projects and initiatives. It also mobilized an increasing amount of financial assistance from development partners and other important stakeholders. During the past 2 decades, Gross domestic product (GDP) in the sub-region has grown at over 8% per year on average, which was one of the fastest rates in the world; real per capita incomes have more than tripled during the same period, the poverty incidence in GMS countries based on national poverty lines has declined substantially, and GMS countries have made major progress in meeting the other Millennium Development Goals.

By the end of 2010, GMS loans (grants) had financed 55 projects with a total investment of 13.8 billion dollars, of which 5 billion dollars was ADB's own lending $ 5 billion, GMS governments matching funds of $ 4.3 billion co-financing of $ 4.5 billion; technical assistance 172 projects totaling approximately $ 230 million, of which ADB's own lending $ 100 million, GMS governments to provide matching funds of $ 20 million co-financing of $ 110 million.

In light of these successes and looking ahead, GMS countries wish to maintain the overall Direction of the GMS Program. The GMS Program begins its third decade in 2012. The new ten-year (2012-2022) strategic framework of the GMS Economic Cooperation endorsed at the Fourth GMS Summit in Nay Tyi Taw on Dec. 20, 2011. The strategic framework for 10 years of the GMS Program builds on the substantial progress the program has made and the likely future global and regional trends, as well as on the commitment that member countries have made in their national development plans to the promotion of regional integration and, to encouraging greater GMS integration as part of a broader process of greater integration within ASEAN and the Asia region. The new strategic framework proposes eight priority sectors for cooperation: namely GMS economic corridor development, infrastructure linkages, energy, telecommunications, tourism, agriculture, environment and human resources development.

[33] ADB, "Midterm review of the GMS Strategic Framework (2002-2012)", 2007, p11

1.2 Four Pillars

Strategy

One of the pre-field-trip research tools employed by the capstone group was to examine what was driving the various actors and institutions in the region and how their strategies manifested. In this case, strategies can be considered 'the science and art of employing the political, economic, psychological, and military forces of a nation or group of nations to afford the maximum support to adopted policies'. It also speaks to the potential geo-politics in the region. At a lower level, it was considered important to also look at the main groups of investors and their interests and impacts on development in the area. Some of these actors have already been discussed earlier and their strategies will only briefly be illuminated.

China: China's involvement in the GMS has occurred through the inclusion of South-Western provinces Yunnan and Guangxi in the development project. It has also been critically involved in the development of the North-South Corridor, which stretches from Kunming to Bangkok and from Kunming to Hanoi, and has contributed about US$4billion in highway construction. The priority of the GMS has shifted to become a national policy issue. Beijing has also promoted trade and investment in GMS by unilaterally removing tariffs. Meanwhile, plans have also been announced to expand development projects in the GMS – including into human resources, trade and investment facilitation and telecommunications. In terms of the country's FDI policy, decentralised authority has been encouraged, the development of better regulation and the creation of 'State Level Economic & Technological Development Zones' and border economic cooperation zones. Trade between China and the GMS countries consists of mostly mineral commodities, forestry items, agricultural goods and resource-based products. However, China's investment in the GMS had been increasing steadily. More importantly is the PRC's Future Plan which involves: improving cooperation between Guangxi and ASEAN; turning Yunnan into an important bridgehead open to southwest; and, according to local 12th 5 year plans, improving the cooperation between provinces and ASEAN, GMS, and accelerating the construction of the economic corridors.

Japan: Japan has had a long history with South East Asia and has maintained a presence there for critical periods of growth when China's involvement had retracted. Japan was the key to the development of networks and chains and encouraging the flow of trade in the region. The Japanese automobile industry began its overseas operations in 1960, starting with operations in Malaysia, Taiwan and Thailand. This initial start was due to the region's proximity to Japan and a lack of local competitors[34]. However, its presence initially was mainly to serve local markets and maintain a presence. The electronics industry took a greater interest in South East Asia in the 70s due to the appreciation of the yen, and moved its labour-intensive processes to the region. These were generally concerned with low-end products. In Thailand, it meant an important role of the Eastern Seaboard industrial area which is significant today.

Investors: Recent figures from Thailand's Board of Investment indicate that Japan remained the largest foreign investor in Thailand, with 101 projects and a combined investment value of Bt38.253 billion. In second place was the United States, with 10 projects and Bt8.162 billion in investment value. Japan has been a significant investor in Thailand despite China's increasing presence. This is clear through statistics provided by BOI, however the more subtle details of their different impacts on development through investment are the work of the case studies. However, foreign investment into Cambodia has been much more dominated by China. Various sources say China is the main investor into Cambodia and has maintained that status for about 14 years with nearly $6bn[35]. South Korea followed with nearly $3bn and Malaysia with just over $2bn.

[34] Intarakumnerd, Patarapong and Yveline Lecler. "Sustainability of Thailand's Competitiveness: The Policy Challenges", ISEAS Publishing. 2010, p. 210.

[35] Business in Asia: http://www.business-in-asia.com/cambodia/investing_countries.html

Physical connectivity

In 1992, ADB started a set of projects in terms of infrastructure, energy, telecommunication, and so on to improve physical connectivity within GMS, and these projects and actions have been designed to increase the physical competitiveness in GMS.

Transport Infrastructures (Economic Corridors)

The transportation infrastructure is one of the most important issues of all GMS-EC promoted sectors due to the impact of transport on regional development through trade and connectivity and the poor status quo caused by many years' conflict in the region. Therefore, GMS-EC emphasized transport infrastructure, and transport corridors have played a significant role.

Transport corridors in GMS are planned to eventually be transformed into Economic Corridors (EC), which are specific road networks through which the infrastructures projects are complemented by economic activities. EC intersect the central transport routes (such as rail or road) within a country, and connect remote regions. Such connectivity enhances economic development of remote and border regions.

The EC approach to 'development through connectivity' was adopted by GMS countries during the 8th GMS Ministerial Meeting in Manila in 1998. The three phases to the realization of the EC are: building infrastructures; instilling the logistics, and; initiating economic cooperation activities.

Three main EC, with several sub-corridors, connect the GMS different regions[36]. Those corridors are less congested, and have enhanced safety. In addition, custom facilitation is better at cross border where ECs road networks pass. For instance, border areas in Laos, through which EWEC intersects, charge lower transaction fees for trucks transporting between Thailand and Vietnam[37].

However, to date the transport corridors in GMS have benefited national level movement more compared to cross-national movement. Sub-regional benefits are likely to take more time to materialize. In addition, addressing the softer aspects such as harmonization of procedures, standards and regulations is will enhance cross-national benefits from GMS transportation[38].

Ports and airports[39]

During the ASEAN countries development history, there have been more than a few cities, such as Bangkok, Ho Chi Minh City, Phnom Penh, Yangon, relying on their big population and close access to ports and harbours, which provide connectivity to the world. Moreover, the promising cities in Cambodia, Laos and Myanmar including Sihanoukville, Vientiane, Mandalay and Dawei also have the similar characteristics in terms of a big population and short distance to ports. Therefore, it is clear that the connectivity provided by these ports or airports is an important factor for attracting FDI and boosting development. Within the region, according to the statistics, Thailand has the most developed and comparative ports and airports system, followed by Vietnam, while Myanmar, Cambodia and Laos are a little bit falling

[36] These are the North South Economic Corridor (NSEC), East West Economic Corridor (EWEC), and Southern Economic Corridor (SEC). In addition to connecting the different GMS countries, the economic corridors connect the GMS with the South and East Asia (for instance, EWEC connects the Indian Ocean with the Pacific Ocean and intersects with the NSEC).

[37] ISONO*, Possible Alternative Routes for Further Connectivity in the Mekongs Region* , 402

[38] ADB, *Transport and Trade Facilitation in the Greater Mekong Subregion*, 55

[39] Ishida Masami, Industrial Estates, Ports and Airports and Connectivity in the Mekong Region, 2011. p. 1

behind in terms of the number of containers and passengers. For example, the deep sea ports such as Laem Chabang Port in Thailand and Tien Sa Port of Danang in Vietnam have become major international ports.

Figure 1: Ports and Airports in GMS

Telecommunication interconnection

GMS countries have developed the GMS telecommunications backbone, and accomplished the optical fiber interconnection of the telecommunications systems, particularly in Cambodia, Lao PDR, and Myanmar. At the same time, the GMS countries also have been implementing their respective telecommunications sector reform. Initiating development of the GMS information superhighway network (ISN), and the fist stage of ISN has been accomplished [43]. However, besides these achievements, a number of approaches have to be implemented to realize the long term goal of subregion cooperation, including improving telecommunication infrastructure in GMS countries, increasing the involvement of private sector, enhancing market access and integrated and strengthening the institutional structure and policy framework.

Grip interconnection

Besides transport infrastructure, GMS countries also have tried to establish grip interconnection to achieve a fully interconnected power system in 2025. At present, in terms of infrastructure construction for grid interconnection, "*the only high voltage cross-border transmission line within the GMS is the line from Lao PDR to Thailand. Work on the first high voltage transmission line between Cambodia, Lao PDR, China, Myanmar, and Vietnam and several other cross-border initiatives are ongoing*"[40]. However, there are still issues and challenges need to be addressed [41] to expanded cooperation, including broadening cooperation from electric power to energy, addressing social and environmental impacts of hydropower projects more effectively [42] and improving policy framework.

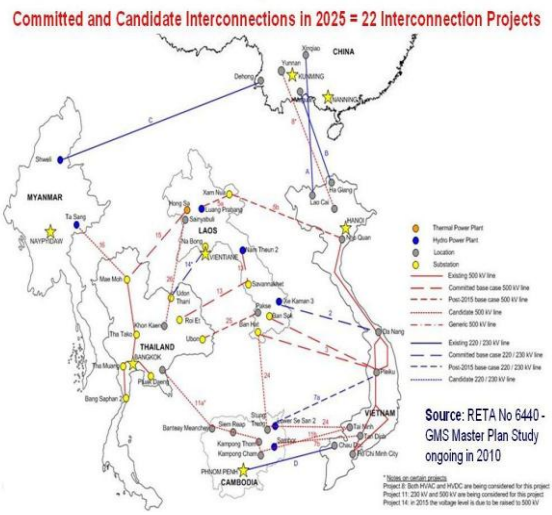


Figure 2: Expected GMS Power Interconnection in 2025

[40] Yongping Zhai, Energy Sector Integration for Low Carbon Development in Greater Mekong Sub-region: Towards a Model of South-South Cooperation", ADB. 2010. p. 4

[41] Proposed by The Regional Power Trade Coordination Committee (RPTCC) met in Sanya, PRC on 16-18 May 2007

[42] ADB, ADB's midterm review of the strategic framework of the Greater Mekong Sub region, 2007. p 19-20.

[43] Ibid, p. 21-22

Tax Incentives and Tools

Tax incentives and tools are vital components of many governments' investment promotion strategies. Different investment incentive policies have come into force to speed up industrial development. In principle, the primary objective of incentives is to influence investment decisions by either directly affecting the potential profit streams of projects or reducing the risks attached to it. Investment incentives include fiscal measures such as reduced tax rates on profits, tax holidays, import duty exemptions and accounting rules allowing accelerated depreciation and loss carry forwards for tax purposes. These incentives play an important role in attracting investment, nurturing domestic production and encouraging firms to expand supply. They can help diversify the economy and move from the heavy reliance on customs and commodity taxes often found in developing countries to greater reliance on the formal economy, including a diversified tax base. More directly, in fast-changing high-tech fields such as Information and Communication Technologies, they can also encourage investment, build local capabilities and promote technological transfer[44]. Therefore, policy-makers have used a range of different tax incentives and tools to attract investment in the broad economy, as well as specific sectors.

Country		Tax holiday	Corporate income tax	Import Duty and other taxes	Others	Land use
Cambodia		Up to 9 years	Standard: 20%	Tax exemption: import of equipments, construction materials and production inputs	Custom duty exemption on the import of machinery, equipment for construction of public services infrastructure.	Lease(Up to 99 Years)
China		Exemption for 2 years and reduction for 3 years (local portion).	Standard: 25% 15% preferential tax rate.	exempt from import duty and customs-levied import tax; export overseas exemption;	Financial support ; The traffic fee incentives: the traffic regulation fee will be levied at a 20% to 35% discount	Depend on the permission
Laos	**Z1**	Up to 10 years	Standard:20%	Exemption of import duties and taxes on equipment, spare parts, vehicles directly used for production, raw materials	Custom duty for plant/ equipment, raw materials will be exempted.	Lease (Up to 50 years)
	Z2	Up to 8 years				
	Z3	Up to 4 years				
Myanmar		Manufacturing: 5; High-tech : 8	Standard: 15%. 50% for the second 5 years;	Free trade on export; Custom duty free on import commodities.		Lease(Up to 60 years)
Thai land	**Z1**	3 years	Standard: 30 %.	50%reduction on machinery; 1 year exemption on raw material		Ownership or lease
	Z2	7years		Exemption on machinery; 1 year exemption on raw material.		
	Z3	8 years;	50% reduction in income tax rate for an additional 5 years	Exemption on machinery; 5 year exemption on raw material.	Double deduction on public utility cost;	
Vietnam		Up to 4 years	Standard: 25 % 10% in 15 years: EZ, HTZ; 10%: E&T, Health, etc	Raw materials, machinery and equipment in preferential sectors and locations		Lease (Up to 50 years)

Figure 3: Tax incentives and tools in GMS countries, ***Source: doing business in Asia and interviews in field trip***

In many countries, government policy has sought to attract multinational companies with their large resources of 'hot' capital with specific subsidies and incentives. Especially for some Asian countries, in the last century, were among the first to pioneer the use of fiscal and export incentives in reduced taxes or tax waivers to specific groups of investors to build comparative advantage.

[44] Meeting of Experts on "FDI, Technology and Competitiveness", March 2007, Philippe BIGGS, UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT.

In terms of the GMS countries, investment incentive policies differ from country to country (see table X). Especially for Cambodia, Laos and Vietnam-as transitional economies, these countries require substantial amounts of investment to transform their economies to meet the economic, social, and other development goals. The effects of incentive policies on firms' decisions to invest in SEZs will provide a basis for establishing the economic rationale for FDI incentives and SEZs. Compared with Cambodia, Thailand, Viet Nam, the Lao PDR, and Myanmar, PRC has relatively lower investment incentives, and narrower in scope and fewer preferential policies. The tax incentives and land use policies in Cambodia, Viet Nam, the Lao PDR, and Myanmar, not only are of longer duration, but also cover a broader range; therefore, the policies will be more attractive in the short run and will have a stronger effect.

Governance

GMS-ECP

GMS-ECP is coordinated at different levels. At the policy level, the GMS Summit guides GMS-ECP. GMS leaders set GMS priorities in their triennial meetings. Biannual Ministerial Conference provides the overall support and coordinates the sub-regional cooperation.

At the operational level, sectoral Working Groups (WG) and Forums at national level are established to undertake the program implementation including the 'hardware' infrastructure and the accompanying 'software' agreements and reforms at sectoral level[45].

GMS Senior Officials' Meeting undertakes annual review of the WG, and if necessary, makes modification & recommendations. SOM reports to the summit through the Ministerial Meeting.

The GMS-EC Government National Coordinating Committee monitors and assesses the functioning and implementation of the GMS-ECP. The Committee reports to Senior Officials' Meeting (which is represented by the various sectors), the Ministerial Meeting annually, and the GMS Summit (represented by Prime Ministers triennially).

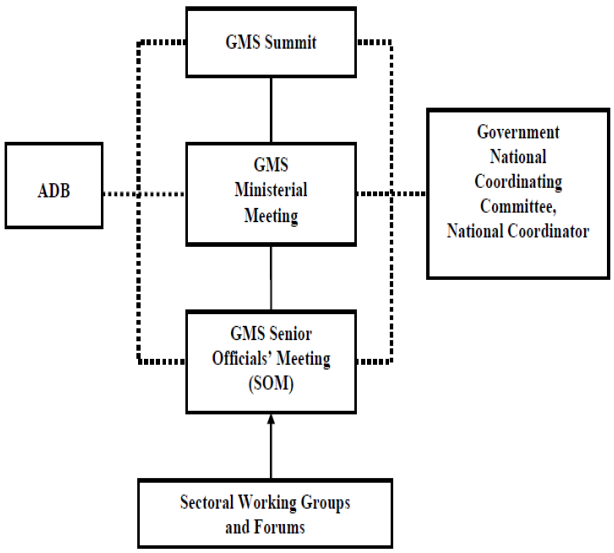


Figure 4: Governance model

ADB coordinates the GMS-ECP, and provides administrative, logistical, financial and technical support to member countries.

CBTA

Since the early years of GMS road infrastructure discussions, it was obvious to GMS member countries that physical road infrastructure is a necessary but insufficient step for significant flow of goods through borders[46].

Member countries during the second Subregional Transport Forum meeting in 1995 requested introduction of 'soft' infrastructure in the form of reforms to remove barriers to free movement of goods and people. The insufficiency of cross border movement was a result of bottlenecks at the border areas of GMS countries including; inspection at the border of the country being exited and another at the country entered; different office hours at the borders, and

[45] UNESCAP, *ECONOMIC COOPERATION AND REGIONAL INTEGRATIONIN THE GREATER MEKONG SUBREGION*,14

[46] Efficient cross border movement of goods in GMS is more than alternative to conduct trade; GMS countries are building their development plans around the premise of development of trade through infrastructure development. Thus, economic performance and competitiveness becomes a function of successful CBTA implementation. Successful CBTA is also important to enhance social ties and mutual respect at border areas, which is a factor towards stability in GMS. Since CBTA is a factor in connectivity, competitiveness, and community, successful CBTA implementation is one major step towards the realization of the GMS 3C's objective.

thus, longer waiting time; trucks having to unload their goods at the border, where domestic trucks picks up the load into their country, etc.

CBTA covers the important non-physical facilitation in cross-border road transport. This includes; allowing through permits the movement on specific routes of vehicles, goods and license recognized drivers; using single-stop and single-window inspection to reduce transaction time by providing advance and clear information on clearance; providing customs transit, and guarantee system to avoid costly transhipment, and; enhancing CBTA effects by increasing CBTA checkpoints[47]. CBTA is one of the five thrusts in the GMS strategic framework to achieve regional development.

Three GMS countries, namely Laos, Thailand, and Vietnam signed trade facilitation agreements in 1999 after studies have been undertaken to identify barriers to free movement of goods and people. Cambodia, China, and Myanmar followed in 2001, 2002, and 2003 respectively.

The institutional setup in support of the monitoring and implementation of CBTA at the national level include National Transport Facilitation Committees. Officials/front line workers of relevant ministries (including customs, transport, health, immigration, etc) operate at the borders. At a regional level, the GMS CBTA Joint Committee oversees the CBTA progress. ADB facilitates CBTA meetings during implementation, helps update CBTA legal instruments, assist CBTA financial mobilization, and provides institutional capacity building for CBTA management[48].

To date CBTA main agreements, containing the main principles, have been ratified by the six GMS member countries. However, only four countries ratified the twenty annexes and protocols, which contain the technical details of time-and site-related issues (ADB 2011).

In 2011 six borders were already implementing CBTA; single stop inspection, and customs transit pilot were introduced on Lao Bao (Vietnam) – Dansavanh (Laos) cross-border in 2005 and 2009 respectively; single window inspection, and customs transit pilot were introduced on the Mukdahan (Thailand) - Savannakhet (Laos) cross-border in 2006 and 2009 respectively, and; single window inspection was started on; Hekou (China) – Lao Cai (Vietnam) cross-border in 2007. The full implementation of CBTA is scheduled to take place by 2013.

In addition, customs transit, road permits, and temporary admissions system pilot operations are progressing on the EWEC in accordance with CBTA road map. Goods, trucks, and drivers can go through Vietnam, Laos and Thailand on the EWEC. Goods transit without having to reload thanks to operators guaranteeing transit goods/containers[49].

CBTA has challenges despite its progress according to plan. ADB acknowledges the emergence of problems that constrain the current implementation of CBTA[50]. Ratification of annexes by all countries has not yet taken place. The second challenge is the full implementation of the CBTA. CBTA is still not incorporated in the national laws of GMS countries. In addition, there is also lack of sense of ownership of CBTA at national level. At the local level, the capacity of the local border authorities is weak, and the role of the private sector in complementing CBTA progress is missing.

---

47 ADB, *Greater Mekong Subregion Cross-Border Transport Facilitation Agreement* , 2

48 ADB, *Greater Mekong Subregion Cross-Border Transport Facilitation Agreement, 4*

49 ADB, *Implementation of GMS Cross-Border Transport Agreement (CBTA), 7*

50 ADB, *Greater Mekong Subregion Cross-Border Transport Facilitation Agreement,* vi

1.3 Regional Integration Analysis

There are a number of critical characteristics about the kind of regional integration which has been developed in the GMS and broader region, including economic growth and markets. Asia's growth, esepcially East Asia's, did not occur in national isolation and was at least partly achieved based on the region's advantages. Lessons were learned as economies developed, particularly Japan which largely led the way. Japan was critical to establish networks throughout the region – as we will see this also included Thailand. As the economies progressed, this trade and interdependence multiplied. It is from this background that it is clear that the region's economies are now well connected through their markets, trade and financial flows. These connections, in and of themselves, speak more to interdependence rather than any form of regional integration. However, with this interdependence, a need for cooperation has arisen. These issues have already had cause to bring leaders together, including after the Asian Financial Crisis. The impacts of this on ASEAN were already raised – the crisis prompted increased cooperation in ASEAN, forcing the organisation, and its members, to evolve to deal with the situation. The increasing interest in the region and potential moves towards regionalism, come as it has gained prominence in the international system due to its growth. The approach in Asia so far has been described as 'pragmatic and cautious'. Improving markets has been the focus while institutions have such have had less attention. However, in order to deal with markets and economies, increased intergovernmental dialogue, often in the form of forums has been occurring. Steps such as this have prompted discussion calling the increasing integration towards regional economic cooperation and a form of 'open, outward-oriented regionalism'[51].

Broadly, regionalism can be described as the “structures, processes and arrangements that are working towards greater coherence within a specific international region in terms of economic, political, security, socio-cultural and other kinds of linkages.”[52] Dent goes on to describe the processes that lead to regionalism: micro-level processes, and public policy indicatives. The first arises from 'regional concentrations of inter-connecting private or civil sector activities' – called regionalisation. The second includes free trade agreements and other state-led economic cooperation and integration resulting from intergovernmental dialogue.

To examine for the approaches of ASEAN and GMS, it is apparent the different ways of approaching the issue. ADB is seen as a “relatively flexible, activity-based program”[53] while ASEAN typically has much more of a “top-down” focus with its emphasis on agreements and the common adoption of rules such as the reduction of tariffs. The philosophy behind economic corridors was that speeding up the process of regional economic cooperation could occur by working at the local level of countries and taking a “bottom-up” market-oriented approach[54]. At stake with this contrast is whether the two approaches collide rather than complement. ASEAN's policy of respecting sovereignty makes achieving common policy agreements difficult.

Essentially, “regionalism is thus more of a policy-driven, top-down process while regionalisation is more of a societal-driven, bottom-up process.”[55] Despite the steps towards integration, more are needed in order to manage the region's growth including more coordinated policies.

---

[51] ADB, Emerging Asian Regionalism, p8

[52] Dent, Christopher. East Asian Regionalism, Routledge. 2008, p.5

[53] Bafoil and Ruiwin, 2010, p.106

[54] Bafoil and Ruiwin, 2010, p.80

[55] Dent, p.5

Implications for the report

ADB has said regionalism should be pursued as a way of achieving goals which cannot be done on national or global level including: providing new regional public goods; managing spillovers among economies; exercising Asia's influence in global economic forums; liberalising trade and investment; adding value to national policy making. However, despite potential gains from regional integration, there are also concerns, particularly for poorer and less developed countries such as Cambodia. More developed countries such as Thailand, are typically expected to benefit from increased integration as they are better placed to take advantage of trade flows. But this economy too may face firm movement to utilise other comparative advantages in the region – such as lower labour costs. This report will tease out what the implications of regional integration are for the case studies.

Towards better understanding the regional integration that has occurred, it can best be identified as moving towards economic regionalism, particularly with ASEAN's focus on economic growth and economic-focused agreements. ADB's GMS programme, from a different approach, is also focused on enhancing economic growth. Additionally, regional integration and its various forms are often used to enhance development. With this in mind the report will examine the various mechanisms for growth at work in the region: particularly Special Economic Zones or Industrial Estates and FDI.

Special Economic Zones, as they are called in Cambodia, and Industrial Estates, as they are called in Thailand, have been associated with growth for many years in Asia. The next part will go into more detail on the specifics of the zones, but suffice it to say that they are a dedicated area which has more liberal laws than the country it is located in. The zones relations to regional integration are such that ADB has specifically encouraged the use of zones to enhance growth and also oriented infrastructure around the zones and vice-versa. “SEZs are seen by the ADB as a useful tool to attract investments, create jobs, and boost industry competitiveness, which, in the end, should result in economic growth.”[56] It is described as one of the major components of ADB's plan and the economic corridors, locating the SEZS at nodes on the network of infrastructure.

Zones also provide a vehicle for investment. FDI has been key reason for Thailand's growth achievements. The zones are aimed at providing an ideal investment climate such that FDI can flow in bringing its manifold advantages, including capital. For capital-scarce Cambodia this is critical. Thailand has seen flow-ons to growth and also technology. But FDI, as this report will show in Thailand's case, can be tricky to harness for the maximum benefits of technology and knowledge management gains, especially for local firms and labour. However, this report views FDI has a necessary factor for growth, particularly as stated in the case of Cambodia. The specifics of FDI and its history and implications in the case studies will be developed further, but it is discussed here to illustrate its importance in enhancing growth to aid regional integration.

[56] ADB,

1.4 SEZs as a vehicle for growth and investment

As we mentioned above, to achieve regional integration, ASEAN and GMS initiatives have made significant progress and brought benefits and influences to GMS countries, including economic growth, poverty reduction, industrialization, diversification in economic sectors, enlarging production base, improvements in infrastructure, trade and investment facilitation, transport facilitation, energy and so on. Among all the factors relevant to Thailand and Cambodia's performance in regional integration, to make the analysis more specific, we would like to focus on Industrial Policy and the Industrial Estate/Special Economic Zone (SEZ) Policy in both countries. Because we believe that these issues are not only crucial for individual country, but also important for regional integration. They are crucial for us to understand the two countries performance in regional integration and economic development, and identify the main challenges and opportunities for future regional integration and economic developments.

Industrial Policy

Industry Policy is basically a set of instructions, laws and regulations which are formulated on the basis of the requirements and priorities of an economy by the ruling power in the government. This policy decides the course of action on different sectors of the industry of the economy.

Usually, a country develops its industrial policy according to its development strategies and its endowments. It merits examination as it is a key strategy for modernisation and technical innovation that improves a country's economic status but additionally has implications for sectors, and institutions. As globalization and regional cooperation became the main stream of contemporary world, transport costs decreased between neighbouring or even distant countries. Thus, greater connectivity through regional integration or globalization to a neighbouring country or even a distant country must also be considered when a country develops its sectors and specialisations. Particularly for Thailand and Cambodia, their industrial policies represented the nature of these two countries individual positions within the context of regional integration and their different goals, which are upgrading for Thailand and diversification for Cambodia.

More importantly, the outcomes of these industrial policies proposed by the governments also have influences on the regional integration and globalization. Although industrial policies are more national level issues, it is unavoidable that these targets set by industrial policies will definitely affect the neighboring countries by increasing competition or cooperation, so that they will reshape the relations and integration within the region. Meanwhile, the neighboring regions or countries may also have to find new strategies or actions to readapt such changes. For example, should Cambodia's main comparative advantage be low labour costs, it will not be in competition with Thailand (which has higher labour costs and is focused on higher value-added components). As such, an investor can place different parts of production in each country – key to this will be connectivity between the countries and it will be in both countries' interest to cooperate for improved regional integration. The inverse would be that should both be aiming for higher value-added components, there will be increased competition. Hence, industry policies, whether targeting industry upgrading or diversifying, not only influenced by the status quo of regional integration, but also can reshape the situation.

Industrial Estates and SEZs

Besides the industrial policies, industrial Estates and SEZs are related to industrial policies, and they are also playing an important role in regional integration.

The United Nations definition of Industrial Estates (IEs) points to four characteristics: 1) A large site developed to a plan 2) Served by infrastructure and services 3) Sale and lease of factory buildings for manufacturing purposes 4) Controlled development for the benefit of occupants and wider community[57]. The World Bank defines them as: "Industrial estates are specific areas zoned for industrial activity in which infrastructure such as roads, power, and other utility services is provided to facilitate the growth of industries and to minimize impacts on the environment."[58] While SEZ is a generic term that covers recent variants of the traditional commercial zones. The basic concept of a special economic zone includes several specific characteristics: (a) it is a geographically delimited area, usually physically secured; (b) it has a single management or administration; (c) it offers benefits based on physical location within the zone; and (d) it has a separate customs area (duty-free benefits) and streamlined procedures (World Bank 2009). In addition, an SEZ normally operates under more liberal economic laws than those typically prevailing in the country[59].

SEZs are often treated as an innovative topic in development economics, city-wide free zones with goals and methods not too different from those employed in modern zones were in place in Gibraltar and Singapore as early as 1704 and 1819, respectively. The rapid proliferation and economic impacts of special economic zones (SEZs) have been documented in numerous studies. By some estimates, there are approximately 3,000 zones in 135 countries today, accounting for over 68 million direct jobs and over $500 billion of direct trade-related value added within zones[60].

Industrial Estate/SEZs policy is not just about the industrial estate or SEZs, and it has to connect with other relevant factors and policies. The overall performance of industrial estate doesn't only depend on the location or management efficiency, it also dramatically relies on relevant policy incentives, governance capacity and hardware conditions. As policy incentives, land, trade, investment, immigration, labor, tax and other policies are crucial in attracting investors and fostering the development of industrial estate. Furthermore, whether the government has enough capacity to efficiently provide public service, or whether they can implement these policy incentives on the ground critically influence the performance of an industrial estate. Moreover, whether there are enough hardware conditions, including infrastructure connectivity, facilities, market access, and labor supply are crucial for the success of an industrial estate. Moreover, industrial estate usually becomes the concentration of industrialization, which may realize clustering or economic of scale. Hence, the government would give more privileges or preferential

---

[57] Natacha Aveline-Dubach. "The Role of Industrial Estates in Thailand's Industrialization, New Challenges for the Future", in Patarapong Inatarakumnerd, Yveline Lecler (eds), *Sustainability of Thailand's Competitiveness: the Policy Challenges*, Singapour, ISEAS, Singapore, 174-208. 2010. p.175

[58] World Bank, Environment Department. 1995. "Industrial Pollution Prevention and Abatement: Industrial Estates."

[59] World Bank, "Special Economic Zones", 2008, p9.

[60] Ibid, p.7.

treatment to industrial estate. For example, according to Cambodia's Law of SEZ, SEZ gets much better public services in terms of OSS[61] and custom clearance, and special tax incentives. Last but not least, how the industrial estates are operated, what the main trade and investment flows are, why investors choose to invest in these industrial estates also provide the evidences for the extent of regional integration.

In GMS countries, SEZs (IPs) are regard as a useful instrument to attract investments, create jobs, and boost industry competitiveness, which, in the end, should result in economic growth. China, Thailand, Cambodia, Laos and Vietnam have integrated SEZs (IPs) development as part of national economic development strategy. Moreover, the creation of SEZ is one of the major components of the ADB's Action Plan towards the realization of "economic corridors."

This report will provide analysis of Industrial estate/SEZs policy and some important industrial policies of Thailand and Cambodia in terms of physical resource, incentives and governance. The analysis will allow for identifying the crucial constrains and opportunities for the development of industrial estate and industries in Thailand and Cambodia. Furthermore, the report investigates to what extent Industrial Policy, including Industrial Estate/SEZs, could influence Thailand and Cambodia's performance in regional integration. The team will propose some relevant policy recommendations to help the two countries to improve its performance in accelerating regional integration and economic development.

FDI, Investors, and Value Chains

FDIs can play a role in the economic growth of countries. They bring capital, employ workforce, enhance production, and exports. However, countries too dependent on FDIs can suffer economic problems resulting from FDI decisions, such as relocating, liquidating, etc.

Regional integration is important vehicle to increase FDI. The creation of one single economic entity with a larger market and potential can have large direct and indirect effects on the whole local economy. Industrial Estates/SEZs and regional integration are mainly in the interest of private companies. For the companies of emerging economies such as Thailand and Vietnam, FDIs located just over the border in poorer countries such as Laos and Cambodia can benefit from access to a cheap labour force and the available cheap land. It is also common practice for companies to move a factory across borders in order to benefit from the preferential treatment that poor countries temporarily receive through international trade agreements, such as in the case of a Cambodian garment company that has free market access to the United States, Canada, Japan and Australia. Most importantly for China and Japan, as the big player in the region, we will therefore expect to research their investment involvement in Thailand and Cambodia.

What's more, regional integration can also encourage the formation of regional value chains and constitutes a learning platform which can lead to improved competitiveness at the worldwide level (ECLAC, 1994). Multinational firms' participation and investment in the region would encourage the creation of regional and sub-regional value chains. These value chains within the integration process is based on trade and FDI, that is seen as a modality by which firms vertically and horizontally integrate separate economic activities located in different countries in order to capture a set of transactional benefits derived from placing these activities under common ownership.

[61] One Stop Service

It is unquestionable that, industrial policy, SEZ/IE, FDIs and value chains, are also important in relation to regional integration. Thus, the performance of industrial estate/SEZs, reflecting the different dimensions, could be important criteria in assessing the level of regional integration. Although industrial estate to some extent is only individual and micro case within a country, our team believes that it can provide better understandings and evidences for the extent and situation of regional integration, and it is also very helpful in defining main constraints for regional integration by summarizing common problems of different industrial estate.

1.5 Why Cambodia and Thailand

The research is to understand the status quo of regional integration in GMS, and identify the most important driving forces for further integration. Hence, it is crucial to make a comparative case analysis from GMS country samples, and we believe that Thailand and Cambodia would be very suitable and helpful in achieving our research goals due to their economic performance, location, strategic position and potential improvement.

Significant differences in development level provide better understanding of the issue

Among the other countries within the GMS, Cambodia is one of the LDCs, with small population and limited market capacity. Its Per Capital GDP is the lowest one within the region, while Thailand's one is the highest. During 2003 to 2008[62], Cambodia's economic growth got averaging 10.3%, with a record high of 13.3% in 2005. While Thailand was the country with the highest GDP and human index, and almost the lowest GDP growth rate in the region, which is regarded as the most developed country and becomes the development model in the region. Thus, such significant different positions in development level in the two countries can provide us a more comparative and clear understanding about the individual economic development level's role in realizing regional integration.

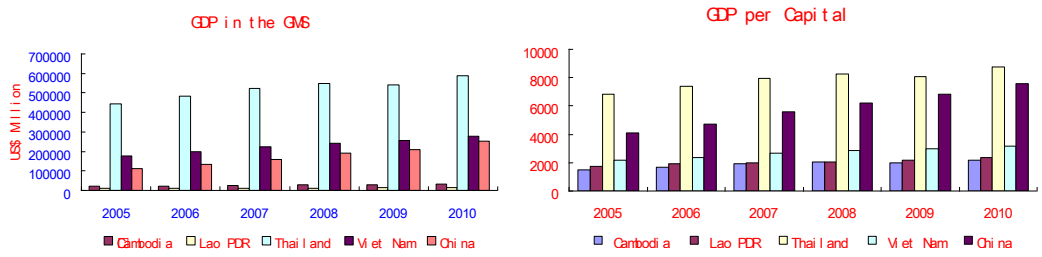
Indicators	Thailand	Cambodia
Income Level (World Bank Classification)	Upper middle income	Low income
GNI per Capita (US$)	$4105 (2010)	$750 (2010)
Population	69.1 million (2010)	14.1 million (2010)
Population (%) below national poverty line	8.1% (2009)	30.1% (2007)
Literacy Rate (% of people ages 15 and up)	94% (2005)	78% (2008)
Unemployment Level (% of total labor force)	1.2% (2009)	7.1% (2004)
Merchandise Trade (as % of GDP)	118.6% (2009)	111.5% (2010)
GDP Growth (3 year outlook)	2008: 2.5% 2009: -2.3% 2010: 7.8%	2008: 6.7% 2009: 0.1% 2010: 6.0%
Tertiary School Enrolment	46% (2008)	8% (2008)
Informal Payments to Public Officials (% of firms)*i	No data available	61.2% (2007)

Figure 5: Comparison of Socio-Economic Indicators: Thailand and Cambodia

Source: World Bank open data

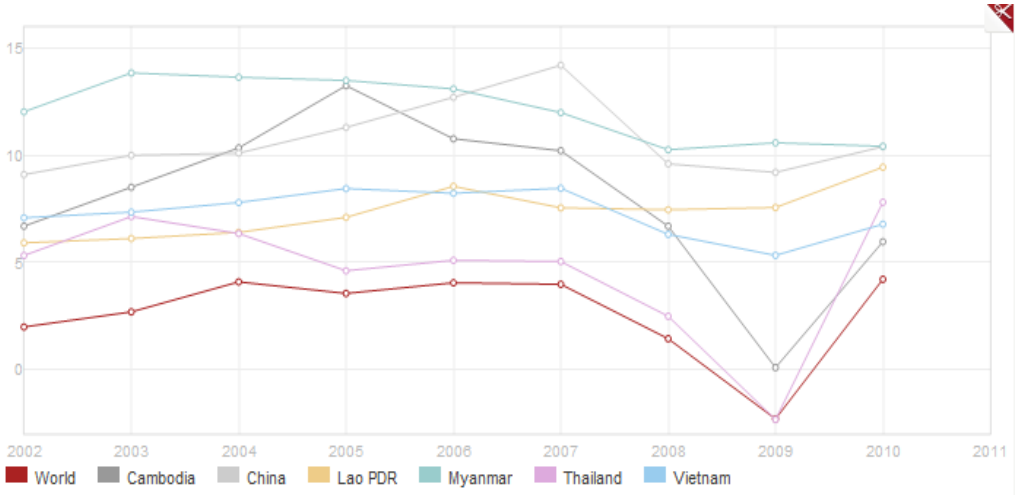
62 Except 2009 and 2010, which were significantly influenced by international financial crisis

Figure 6: GDP and GDP per capital in GMS



Source: ADB and China yearbook

Figure 7: GDP growth rate in GMS



Source: World Bank open data

Similarly geographical location and physical connectivity with neighbouring countries help us in identifying the common and collective problems

Geographically, Thailand and Cambodia are both located at the downstream areas of Mekong River, and the middle of south region in GMS. They are both connected with the other GMS countries by South Economic Corridor oriented by ADB since 1992. From east to west, Cambodia is well linked with Vietnam, Thailand, and Myanmar, and same is Thailand. Meanwhile, both countries have privileges according to their locations since they are the linking points between neighboring countries, Cambodia is the link point between Thailand and Vietnam, while Thailand is the link point of Cambodia and Myanmar. Both of them have sea ports, although Cambodia's port in Sihanouk Ville is quite smaller than Thailand's ones, it brings potential benefits and privileges for Cambodia in terms of future development. This similarity in geographical location and physical connectivity not only provide us better information in identifying common and collective problems in the region, but also reduce the influences of geographical location on their performances in regional integration.

Memberships of ASEAN and GMS and active involvements in regional cooperation make them more important in finding out the main constraints for further regional integration

Thailand and Cambodia are the members of both ASEAN and GMS. Particularly, Thailand is one of the founding members of ASEAN which joined in ASEAN in 1967, while Cambodia became the last member of ASEAN in 1999.

Now, the two countries' regional cooperation activities include a new regional grouping referred to as "ASEAN Plus Three," which brings in China, Japan and South Korea to the regional grouping. Furthermore, both countries are actively involved in regional cooperation, including joint development initiatives under the "Mekong Economic cooperation Strategy" among Cambodia, Laos, Myanmar, Thailand and Viet Nam; the Cambodia, Laos and Thailand Emerald Triangle; and the Viet Nam, Laos and Cambodia development Triangle, etc. For instance, the Government of Cambodia sees GMS regional integration program as one of the key pillars of its development agenda. Due to the assistance from ADB and other donors, Cambodia was involved in a total of nine loan projects with a combined ADB loan amount of $418 million and it has also participated in 128 RETA projects with ADB funding amounting to $61 million. Thus, both countries' practices in regional cooperation bring more useful and important information to find out the main constraints for further integration in GMS.

Thailand as a model and competitor

Thailand experienced significant economic growth and development during the 1980s and 1990s, largely reliving on foreign direct investment and its low-cost base[63]. It began industrialising based on an import substitution strategy until the 1980s when export-led industrialising began. The Board of Investment (BOI) was created and an incentives scheme began and infrastructure in the form of Industrial Estates were created, initially in the Bangkok and then in regional areas with the aim of boosting development. Although the Chinese model of SEZs is the most widely recognised, Thailand's industrial estates infrastructure actually predates China's models. Thailand's developments resulted in an increase in FDI and firms congregated around the areas established, especially around Bangkok. It was assumed that the involvement of foreign investors and ensuing technological transfer would lead to long-term competitiveness for Thailand[64]. This has generally not proved to be the case. In particular, any innovation was restricted to the process rather than whole-sale innovation or new products and processes. This then holds implications for Cambodia and whether the same lesson potentially applies in that country. Is it poised to capture technology transfers and harness them for the country's own development? For how long can Cambodia rely on its low-cost base? After the 1997 Asian economic crisis, Thailand was affected and its policies required a re-examination. In particular, Thailand can no longer rely on its low-cost comparative advantage. Meanwhile, the impacts of globalisation and the value chain have become apparent such that Thailand must consider the loss of labour-intensive industries to competing countries. At the same time, it must look to competitors such as South Korea, Taiwan, Malaysia and Indonesia by seeking to value-add to products[65]. This shake-up and the extent of Thailand's success have implications for Cambodia as well.

Analyzing Cambodia provides opportunities in identifying its development path according to Thailand's successful experiences and its own context in achieving regional integration

With a small but fast growing domestic market of over 14 million people, although Cambodia has emerged as one of the safest places and most attractive economies in the region, it is obviously that Cambodia still falls far behind of Thailand. There are dramatic needs for better actions and programs to enhance the economic and social development in Cambodia. Hence, after looking through the development path of Thailand and summarizing its successful experiences, it is critical for Cambodia to find out the useful and referential experiences from Thailand and

63 Sustainability of Thailand's Competitiveness: The Policy Challenges, p.1

64 Ibid, p. 4

65 Ibid, p.5

identify its own development path according to its own context. Besides that, as a LDC, Cambodia may face a very unique fate in terms of regional integration, concluded on the basis of "Dependency Theory"[66], which is that Cambodia may be impoverished during the process of regional integration, and other richer countries, such as Thailand and China, will achieve more at the expenses of Cambodia, Laos and Myanmar. For example, the increasing regional trade and the economic corridors are at the expense of the already poorest countries, such as Cambodia and Laos, and in favour of the richest ones, China, Thailand and Vietnam. Therefore, by using Cambodia as a case study, this report will obtain the unique understanding in terms of local development, and identify what really matters for Cambodia in avoiding becoming a "Victim" in regional integration process, which we believe depends on Cambodia itself, particularly its capacity building in governance, while not the implementation of"protectionist" policies and to pursue this kind of "stop-and-go" policy (Openness and CBTA blockages) since they can not resolve the problem fundamentally.

[66] Dependency theory is a body of social science theories predicated on the notion that resources flow from a "periphery" of poor and underdeveloped states to a "core" of wealthy states, enriching the latter at the expense of the former. It is a central contention of dependency theory that poor states are impoverished and rich ones enriched by the way poor states are integrated into the "world system."

Chapter II: Thailand

Bangkok skyline

Introduction

Industrial development is important in economic development. It has a share in economic growth, employment, and income generated by other sectors through linkages with the industrial sector (UNIDO 2005 in Pansuwan pp25). Kaldor (1957) suggested that differences in development stages can be explained by the levels of technology adopted. Gerschenkron (1962) studied technology gaps and showed that laggard economies have great potential to absorb the accumulated knowledge created by technology frontier economies. Through using the accumulated technology, lagging economies can reach technological frontiers through a 'catch-up' process. Furthermore, the absorptive capacity is a key for successful catching up (Gomulka, 1971; Cornwall, 1977; Maddison, 1979; and Abramovitz, 1979)[67].

Technological upgrading can enhance productivity, leading to higher growth (Palit, 2006). Productivity is important when costs (labour/setup/ land) in neighbour economies become more competitive. FDIs is one way through which technology is incorporated at the firm level. In relation to value chains, technological capabilities and government support are key factors for developing domestic firms to establish themselves at the high –end of value chains[68].

Countries are considered technologically capable (or not) depending on their technological development. Developing countries usually learn through importing technology. Domestic firms increase their productivity through using indigenous technologies and adapting the imported technologies.

The first stage of technological progress is acquiring the 'know-how'. For FDI dependent economies, this can take place through spill-over effects through the interaction of domestic enterprises with FDIs. However, domestic firms in developing countries have two challenges; to enter the value chains, and to move upward in the chain. This is a result of the capabilities of the domestic firms in terms of learning and upgrading.

Initially, in least developed countries, economic development requires structural change to enhance productivity by mobilizing capital and sourcing labour[69]. This is typically done through the low interest loans, tax incentives and improving infrastructure and skills.

Later stages of development require upgrading through learning and linkages. This involves improving efficiency, capacity, innovation and linking upstream and downstream economic activities.[70] However, each industry has differences in technology and in skills needs.

Thus, states have often adopted ways of developing industry, whether manufacturing, agriculture, or tourism. The ways states achieve this is typically called industrial policy[71]. This can be done through either functional policies such as macroeconomic policies or sectoral policies.

---

67 Kraemer-Mbula. E, Wamae.W (2010) 'Innovation and the Development Agenda', OECD, pp 40

68 Palit, A. (2006) 'Technology Upgradation through Value Chains: Challenges before BIMSTEC Nations', CSRID, pp 2

69 Whitfield, Lindsay and Ole Therkildsen. "What Drives States to Support the Development of Productive Sectors? Strategies ruling elites pursue for political survival and their policy implications", DIIS Working Paper 2011:15. 2011, p.7.

70 Whitfield p.7

71 Whitfield p.8

The investment climate is also critical to understand in terms of how private investment is attracted. The investment climate emphasizes relations between business and state to understand why investors are encouraged to establish and continue business.

A number of models have been theorized to understand development and the institutions and factors underpinning them, largely in order to replicate developmental success in different countries. The success of Japan and Northeast Asian countries was explained by the Developmental State theory which speaks to focused intervention by the state. However, this has since been revised to include an understanding of state-business relations, institutions, and politics. Two new approaches resulted: The business-state relations approach and the political survival approach[72].

The business-state relations approach is more relevant to examining Bangkok and Cambodia, given the nature of the countries but also the field work. In this approach collaboration is required – "alliances of political elite, industry actors and bureaucrats working together to solve problems for growth and investment. They can be general, but are often industry specific. Such relations require institutionalized access to the state by industry actors – formally or informally.. These coalitions or networks help to solve collective action and coordination problems, facilitate the flow of information and increase the predictability /reduce uncertainty for entrepreneurs." [73] .. However, collaboration should not degenerate into collusion or rent-seeking relations with negative effects on economic performance.

Thailand Economic Development:

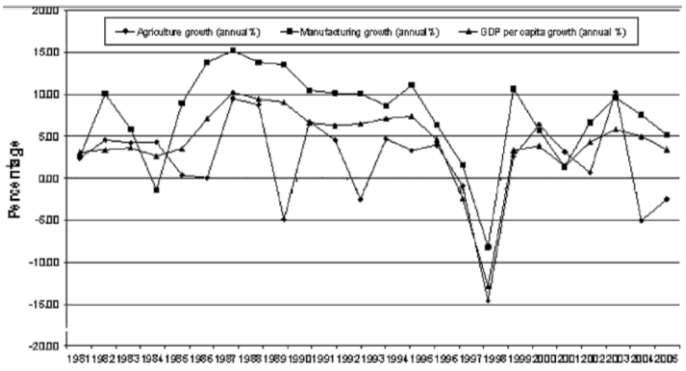


Figure 8: Economic growth in Thailand between 1980-2005,

Source: Apisek Panuwan and Jayant Routray (2010)

Industrial development was crucial in Thailand's impressive economic growth. The increase in industrial activity was coupled with an increase in economic growth and per capita income. Between 1980 and 2005 the share of manufacturing industry in GDP increased from 23 per cent to 39 per cent. In addition, manufacturing industry activity was increasing by 13 per cent annually on average. This was reflected in a significant increase in per capita income from US$ 820 (1983) to US$ 2,990 in year 2006, making Thailand a middle income country. As of 2011, Thailand is an upper middle country.

Development Phases:

Thailand had three development phases, beginning in the 1950s. Initially it modernised its public administration and expanded its infrastructure, while exploiting natural resources. The 1970s saw the country continue to industrialise as demands for commodities grew.

[72] Whitfield p. 14

[73] Whitfield p.13

Between 1959-1970 industrial development was aided by the Thai-Chinese businessmen who were able to harness investments from the Chinese diaspora[74]. These businessmen had close relations with the government and often incorporated members of the civil service on company boards.

Between 1970-1985, Thailand continued to improve institutions such as BOI and diversify its economy. However, initially it was not seen to be as attractive for FDI or MNCs compared with Singapore or even Penang, Malaysia[75]. The country began to focus on export promotion. However, its industrial policy was still said to be poor and subject to domination by some business groups[76]. The idea of industrial estates as a vehicle to attract foreign investment, similar to those in Malaysia and Indonesia at the time, was promoted and the IEAT was created although development was slow. Thai-Chinese businessmen continued to dominate in this phase in Thailand however Japanese firms were becoming bigger players on the global scene.

Between 1986-1996, Thailand's economy was growing strongly, capitalising on good macroeconomic policy and FDI regulation changes. During this period, East Asia also experienced its rapid rise to the world stage and the world's economy went through a significant phase of globalisation. The reduced competitiveness of Japan's exports forced companies, especially automotive and electronics, to look elsewhere to produce. This led to increased investment in Thailand as an export base.

Thailand achieved growth post 1997 financial crisis. However, new challenges were arising in the form of inability to move upper in the value-added ladder. This is a consequence of the unpreparedness of institutions to fulfill the expected roles in upgrading. Both macro-level (exchange and interest, labor market) and micro (firm level technological and organizational progress) policies were not attended to in the previous stages, thus creating the challenges Thailand faces today.

Emergence of the Industrial Sector:

During the 1960s and 1970s Thailand adopted Import Substitution (IS) approach to economic development. Thailand's development strategy resulted in balance of payment deficits due to high raw material imports for local production. To fix the deficit, Thailand policy shifted to promote international companies producing in Thailand for export purposes only.

During the same period of Thailand's new policy, investors in neighbor countries (Japanese, Koreans, Taiwanese) were already seeking export bases outside their countries that could allow them achieve competitiveness in lobour-intensive production. labor costs were rising in those countries, and their home currencies

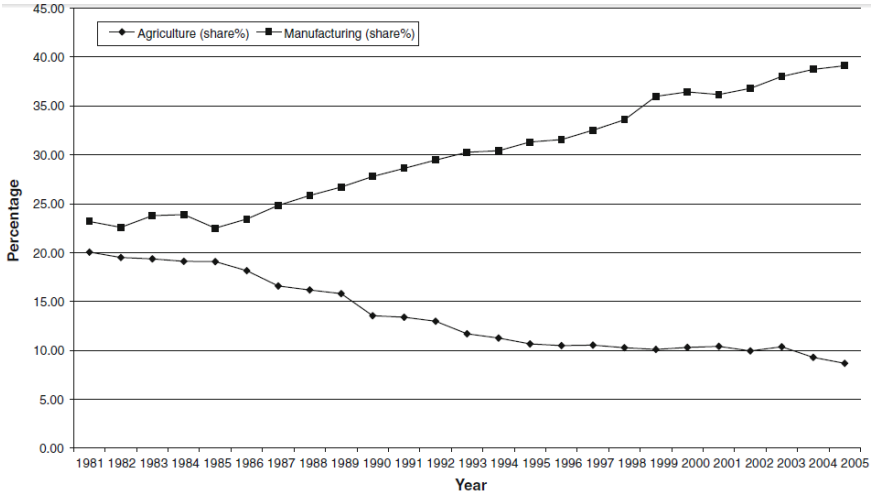


Figure 9: Structural Change in Thailand Economy. *Source: Apisek Panuwan and Jayant Routray (2010)*

[74] Intarakumnerd, p23

[75] Intarakumnerd, p25

[76] Simon 1996, Tambunlerchai 1993, cited in Intarakumnerd p.27

appreciated, making it difficult for those economies to compete in intentional trade.

Thailand policy and neighbor countries economic strategies led to significant influx to Thailand of export-only FDIs. However, despite the initial intention of manufacturing for exports, the domestic manufacturing sector (and output) in Thailand experienced growth. The manufacturing sector was gaining significant importance in the Thai economy.

Eventually, local and foreign investors were driving the manufacturing expansion in Thailand. The industrial expansion led to workers moving from the agricultural to the industrial sector, especially in industries that benefited from international trade, such as clothing, and footware.

Percentage Share of All Activities	
Sector	
Industry	37.2
1.1 Food and Sugar	2.8
1.2 Textiles	2.8
1.3 Metal & Non Metalic	4.4
1.4 Electrical Appliances	13.1
1.5 Machinery & Transport Equipment	3.3
1.6 Chemicals	5.8
1.7 Petroleum products	-0.1
1.8 Construction Materials	0.3
1.9 Others	5.0
Financial Institutions	6.9
Trade	17.4
Construction	10.0
Mining & Quarrying	5.5
Agriculture	0.8
Services	4.1
Investment	0.3
Real Estate	18.6
Others	-0.9
Total	100

Figure 10: Net Flow of FDI in Thailand by Sector 1970 - 1995

2.1 General framework

2.1.1 History

Industrial Estates in Thailand

In 1972 the Industrial Estate Authority of Thailand (IEAT) was created as an agency with a mandate to develop industrial estates regionally.

Today, Thailand has 34 IE in Thailand, either owned or managed by IEAT. IEAT also build IE jointly with the private sector[77]. In 2004, there were 30 IE, of which 21 were developed jointly with the private sector. The IEs were evenly spread, with only 7 IE in Greater Bangkok Region, 12 IEs in the central region, and 11 IE in remote regions. The smallest IE is 80 hectares according to the law.

The IEs are classified into General Industrial Zones and Free Zones, with the Free Zones reserved for export manufacturing only. Free Zones are part of the IE which is fenced and thus domestic market is segregated. The majority of IEs have access to airports or seaports. Sixty to seventy percent of the IE is allotted for factories.

IE Location and Resources:

Most IEs are grouped in the following three areas:

Bangkok Area: The first group is those IE in or very near to Bangkok city. This includes IE in Bangkok, Chachoengsao, and Samut Prakarn. Industrial Estates in this group benefit from proximity to Bangkok Port, both airports, and the city center. Transport and communications are also convenient. However, congestion is a problem.

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

Source: IEAT 2010, in SUPATN p.63

Ayutthaya: Estates in this region are also close to Bangkok city (65 kilometers). IEs in this group are also close from facilities: Ayutthaya is 26 km to Don Meuang Airport; 75 km to Suvarnabhumi International Airport, and; 75 km to Bangkok Port. IEs can use Don Mueang Toll Way from Ayutthaya to Don Meuang Airport to transport their freight. IEs can also reach Bangkok Port using the same route, connecting at First Stage Expressway that takes them to Klong

[77] Supatn, *Industrial Estates, Ports, Airports and City Transport in the Greater Bangkok Area for Promoting Connectivity in the Mekong Region* ,57

Toey seaport. Aside from rush hours, when congestion is high, the express route allows transportation at all time of the day[78].

Eastern Seaboard Area: The Eastern Seaboard is a major industrial Zone. This group is made of IE in Chonburi and Rayong areas. The IEs benefit from two deep-sea ports (Laem Chabang and Map Ta Phut). In addition, One Stop Service (OSS) is provided at the seaports. The Suvarnabhumi Airport is less than 50 km from Chonburi and less than 100 km from Rayong[79].

Freight transport from IEs in this area is made smoother through the various highways developed, such as Sukhumvit Highway, Bypass, Motorway and other connecting rural highways. Main highways have at least four lanes, and vehicles travelling on those highways are less compared to urban areas. Thus, shipment to and from IE in this group is very efficient[80].

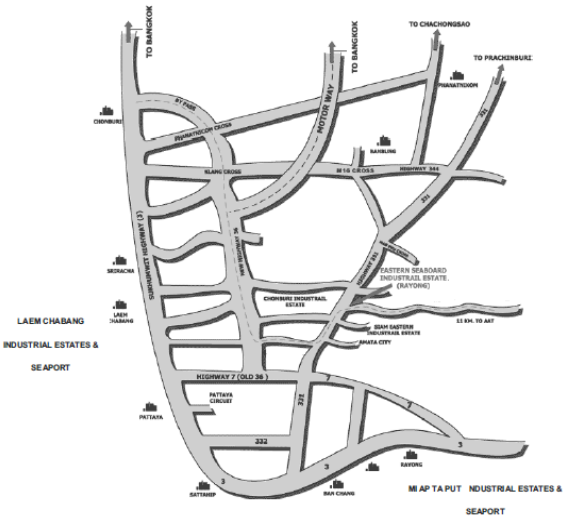


Figure 12: Transportation and key destinations from Chon Buri and Rayong IEs

Source: SUPATN, p. 66

IEs Specialisation:

Various productions are allowed to take place in a given IE. However, many IEs also specialize:

Electronics & ICT: those industries characterize Ban Wa High-Tech in Ayuttthaya IEs, Sinsakhon Printing City, and Samut Sakorn IE.

Automotive: Laem Chabang is an automotive IE. Laem Chabang Port has one terminal dedicated for car exports, and special arrangements are made for the automotive producers. Consequently, automotive companies are significantly present in Laem Chabang and Eastern Seaboard.

78 Ibid, p.64

79 Ibid, p.64

80 Ibid, p.66

Heavy Industry: heavy industry is concentrated in the Eastern Seaboard as a result of proximity to the port- a proximity that saves higher shipping costs of heavy products. Besides, the heavy industry achieves cost effectiveness through bigger shipments offered by Laem Chabang and Map Ta Phut that have deep waters.

Petrochemicals: Map Ta Phut IE hosts agro-industry and petro investments. Originally this estate was developed to serve the fertilizer and petrochemical industries, and thus accordingly the infrastructures were developed.

Jewelry Business: Gemopolis IE in Bangkok near International Airport specializes in Jewelry production. Gempolois also serves are trading center and wholsales spot for jewelry products.

Incentives:

Thailand classifies the whole country into three categories. IE in the different zones offer different privileges to FDIs: Zone 1, made up of Bangkok and 5 nearby provinces offer three-year corporate income tax credit; Zone 2, made up of 11 central provinces, provided seven-year holiday within IE compared to three-year holiday outside IE, and; Zone 3, the rest of the country, mostly remote regions, and have better package to encourage investors establish their businesses in those regions[81].

In addition to tax holidays FDIs operating within IE get access to the land, benefit from the readily available infrastructure (though not all IE provide this), benefit from government other incentives, and are supported by the estate developer in relation to start up approvals and local issues that could be a barrier due to the local language/culture[82].

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

Figure 13: Investment incentives in Thailand

Source: USAID

Free zones have additional incentives relative to general industrial zones. The Free Zone incentive package includes machinery, import/export and input material tax exemption or reduction. In addition, it is possible to own a land, remit foreign currency to home country, or bring overseas staff into the Free Zone (ch2 pp56). In addition, customs

[81] Ishida, *Industrial Estates, Ports and Airports and Connectivity in the Mekong Region*, 7

[82] Ibid, p5

officials check the imported part and the exported parts, and thus, the product is not inspected by the customs at the boarder/ ports again once the products are sealed[83].

Electricity and Water Supply Authorities at the provincial level provide IE with the services. The charges are the same all over the country. Wastewater systems usually cover all customers in large IEs, while medium-sized IEs don't have similar capacity. Wastewater charges range between $0.20 and $0.80 for each cubic meter, while maintenance is between $0.05 and $0.80[84].

At Voltage of (KV)	Demand Charge (Baht/kW.)			Energy Charge (US$/kWh.)	Total (US$/kWh)
	Peak	*Partial*	*Off Peak*		
69 kV. And Above	224.30	29.91	0	1.6660	0.05-7.06
22-33 kV	285.05	58.88	0	1.7034	0.05-8.96
Less than 22 kV.	332.71	68.22	0	1.7314	0.05-10.45

Figure 14: Electricity fees

Peak: 06.30 PM – 09.30 PM daily
Partial: 08.00 AM – 06.30 PM (excess demand over Peak Recorded on Peak period)
Off Peak: 09.30 PM – 8.00 AM daily
Monthly Service Charge: US$7.13

Source: SUPATN, p.68

Water Volume (m^3)	Areas	
	Laem Chabang (US$)	Other Areas (US$)
0-10	0.52	0.39
11-20	0.61	0.48
21-30	0.70	0.58
31-50	0.80	0.67
51-1000	0.88	0.76
>3000	0.86	0.73

Figure 15: Water tariffs

Source: SUPATN, p.68

[83] Ibid, p.6

[84] Supatn, *Industrial Estates, Ports, Airports and City Transport in the Greater Bangkok Area for Promoting Connectivity in the Mekong Region,*67

2.1.2 Geography

Industrial estates in Thailand established under or in coordination with the Industrial Estate Authority of Thailand (IEAT) generally have access to basic infrastructure, from road and rail to water and power, and relatively cheap land and infrastructure. However, private managers of industrial authorities often have to organise and fund a large section of this infrastructure depending on their relationship with IEAT.

The majority of industrial estates locate near the ports, airport and/or Bangkok. In particular, the Eastern Seaboard has been critical to the location of estates, in terms of infrastructure and incentives. Most of Thailand's car manufacturing and petrochemical industries are located in the Eastern Seaboard. Here, Laem Chabang, Thailand's main container port, is located 185km from Bangkok while Map Ta Phud, which mainly has bulk and liquid cargo, is also nearby.

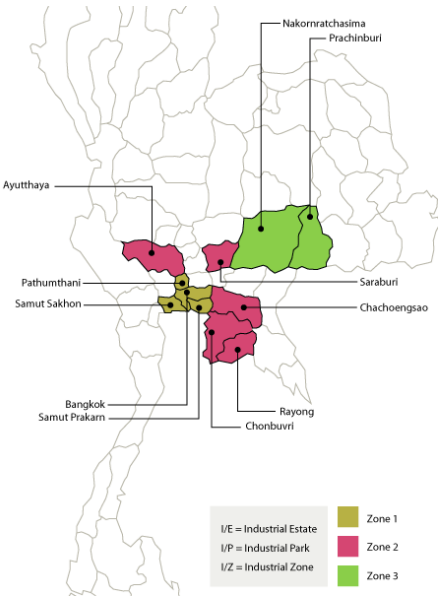


Figure 16: Locations of zones

The Eastern Seaboard now also connects to the Southern Coastal Corridor which additionally makes the impacts of linkages to Cambodia and back to Thailand significant. The BOI official said Thailand was best positioned to take advantage of economic corridors. However, the official said SEZs were not likely to happen anytime soon.

Figure 17: GMS Economic Corridors

The BOI official said the regional strategy and decentralisation policy aimed to send investment to poor areas, largely through providing incentives based on Zones. "However, most of those businesses in Zone Three are on border with Zone Two," the official said[85]. "But you have to be near the resources and infrastructure."

2.1.3 Resources

Cheap labour had been one of the key factors in Thailand's development and its attractiveness for investment. However, this is no longer the case and cannot continue to be relied upon. Firms can look to other countries in the region for lower wages and the general consensus is that Thailand must upgrade its education and technical knowledge to improve its industrial development[86].

In terms of school education, a level of universal primary education has been achieved in Thailand. However, secondary education is increasingly important for the labour force but here Thailand's policies have been lacking. The government focused on higher education and instead missed the secondary school policies. The result has been a less skilled work force with about 75 per cent of workers in manufacturing in Thailand unskilled[87]. In Malaysia, however, this number is 49 per cent. Thailand has taken steps to improve high school education, including by increasing the compulsory age of attendance and providing free access to fourteen years of education(including six of secondary). However, there is a lag effect with this policy as that most recent step was only taken in 2004. But questions remain over education. While admitting that Thailand's school students scored low in science and maths, the official said this was only in comparison with China. Meanwhile, a school for students gifted in maths and science had been established as well as a vocational school – the Thai-German Tech School. The BOI official said Thailand trained a lot of engineers and information technology specialists[88].

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

The BOI official said a significant amount of training was done within Thai factories. Despite competition over labour between the countries, the BOI official said Thailand often helped other countries with skills training and a budget is set aside for such – largely for good inter-country relations. The official denied the existence of a labour shortage and said any shortage could hardly be met by neighbouring countries, such as Cambodia who only had a population of about 14 million. With the minimum wage expected to be 300 baht/day from next year the BOI official said firms were saying they intended to move. Indonesia for example, offered a bigger labour force and had garment-making skills. While recognising that Thailand's labour wages had risen, a BOI official said Thailand still had a better investment climate than some other regional countries such as Myanmar[89].

86 Intarakumnerd, p.78

87 World Bank Productivity and Investment Climate Surveys, cited in Intarakumnerd, p. 80

88 Authors' interview

89 Authors' interview

2.2 Industrial policies and actors

2.2.1 Industrial policy

Thailand was not successful in moving up the value-added chain after the impressive restructuring from traditional agriculture to labor-intensive manufacturing[90]. The stagnation on the 'ladder of comparative advantage' was a result of barriers such as the very low education quality, microeconomic policy that created rent seeking, and weak infrastructure in the country[91].

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

Figure 18: Technological and Innovative Indicators

Source: Technology Upgradation through Global Value Chains: Challenges before BIMSTEC Nations (2006)

The government have only benefited from employment generation and restructuring trend contributed by FDIs. Little attention was paid to the technological contribution and features of FDIs in Thailand. The linkages between FDIs and domestic firms were overlooked. This all resulted in lack of capacity building of manpower, knowledge transfer, and R&D capabilities.

The ICT deepening Thailand undertook has not been accompanied by technological deepening. The quality of the scientific institutions also does not support technological advancement. The lack of sheer qualified manpower hindered acquiring the 'know-why' which is above the 'know-how' in technological development level. Thus, the gap between the use of high-tech assembly (through FDI foreign technology) and generating new technology hinders Thailand's aspiration on the upper-ends of the global value chains. Another factor negatively affecting efforts towards the upper end of value chains is the role of R&D at the firm level, which involves implementation of imported technologies, rather than increasing the absorptive capacities that could lead to innovation and upgrading.

Upgrading Strategy:

Weaknesses in the industrial sector identified by Thai government include low technological level, lack of supporting industries, insufficient managerial skills, lack of skilled workforce, and a concentrated industry in Bangkok region[92].

The restructuring thus emphasized: enhancing industrial productivity and upgrading processes; upgrading technological capacities; improving product design and development; attracting FDIs in technology-for-the-future industries; develop labour skills in selected industries, and; support SMES[93].

The Thai government identified four factors through which the Plan will be implemented. The Japanese and the private agencies are invited to contribute through those factors:

---

90 Brimble , *Foreign Direct Investment: Performance and Attraction- The Case of Thailand*,10

91 Flatters in Brimble, *Foreign Direct Investment: Performance and Attraction- The Case of Thailand*, 11

92 Inoue, *Future Prospects of Supporting Industries in Thailand and Malaysia* ,9

93 Ibid, p.13

a) Long-term soft loans. This allows relocation, new machinery investment and improved processes;
b) Knowledge distribution by experts that will be useful for industrial employees, and also in firms obtaining loans;
c) Tax allowance as in incentive for relocation of FDI into rural areas, and;
d) Training to be able to use the new technologies, processes and machinery.

The targeted sectors are: food and animal feed; footwear and leather; wooden products and furniture; pharmaceutical and chemicals; rubber; plastic products; ceramic and glassware; electrical appliances and electronics; automobile and parts; germs and jewelry; iron and steel, and; petrochemicals[94]. One criticism is that the restructuring plan encompasses 13 industries, which raises the question of the delivery capability. The BOI official said there had been some innovation in some sectors, mainly agriculture and automotive where the country's strong industries were[95]. Some MNCs had established research centres for specific components such as Western Digital and Samsung.

2.2.2 Industrial Estates

A number of historical factors are critical to the development of Thailand's industrial estates. Originally foreign ownership rules and an idea to create economies of scale restricted industrial areas to limited spaces. The creation of the IEAT led to the establishment of more estates and more sustainable use of resources and dedicated infrastructure. However, these remained on the outskirts of Bangkok prompting the regional development strategy which has had limited success. The Eastern Seaboard was later developed, after gas was discovered in the Gulf of Siam, and industrial estates began to congregate around the improved infrastructure in this area along with access to the ports. Railway services began and highways were constructed along the coast between Laem Chabang and Map Ta Phut to Bangkok. IEAT developed two major estates and BOI allocated zone 3 incentives. The improvement in the region at this time occurred at the same time as Japanese companies were looking for lower cost locations and the area was now worthwhile investing in. It was in this context that Amata was established. Meanwhile, automotive industries also sought out the location due to congestion in Bangkok and the zone 3 incentives.

The success of Industrial Estates in Thailand is mainly attributable to access to resources rather than any specific incentive scheme. They face a number of significant challenges in terms of 'ease of business' or governance, and a lack of place-based policy. The lack of success of the One-Stop Shop, in that it only covers a small percentage of procedures, is indicative of the load carried by estate managers in order to provide ease of business to investors. AMATA covers the majority of processes.

In terms of incentives of the zones, this acted mainly to draw businesses to those areas that were at the limit of what was possible to maintain access to resources while gaining the incentives. This meant that businesses aligned along the borders of zones, for example, to gain zone 3 incentives but being on the border with zone two to better access Bangkok or a port. This pointed to the lack of success for regional development, which is also supported by industrial estate managers commenting on needing access to Bangkok for staff purposes.

---

94 Thamavit and Nakamora, ."AFTA and Industrial Restructuring in Thailand", 112

95 Authors' interview

The estate locations also indicate the importance of resources, which AMATA officials highlighted. Specifically access to Bangkok, the airport and port were crucial. However, the lack of access to other complementary facilities, such as a university, created challenges particularly for innovation. The lack of a place-based policy, which built on an area's attractive for business based on its resources through complementary government policy, posed issues for labour and for spillover and cluster effects occurring. These may well further incentivise businesses to solve these problems themselves by leveraging the good infrastructure in the region to move certain sections of a process elsewhere.

Despite this, at least one interviewee commented that SEZs can provide a solution for organising value chains or regional integration[96]. He said a key issue of SEZs was access to the market and linkages were required for such. However, he said strategies for such were often led by investors such as Chinese and Japanese. He cautioned that Thailand's industrial estates were not SEZs.

2.2.3 Institutions

The Board of Investment (BOI)

The effective promotion and regional dispersion of industrial development were key factors to the success of industrial development in Thailand. The Board of Investment, created in 1966 as the body responsible for promoting investment, played a significant role in the decentralization and development of industrial policy in Thailand.

Dispersion

BOI after the revision of Investment Promotion Act (1972, and later 1977) promoted private investment in remote regions through providing more generous incentive package for operations in certain provinces towards spreading out industrial development activities. Categorizing the country into three zones , with regions furthest to Bangkok offering more incentive packages to that offered by Bangkok, helped in the spread out IEs[97]. Prior to this, firms would operate mainly in Bangkok Metropolitan Region (BMR) as a result of the developed infrastructure there. The shipping and air ports were critical for importing raw materials and machinery required for production under the Import Substitution regime[98]. Now there are three times more Industrial Estates outside of Bangkok Metropolitan Region compared to those within.

Strengthening the Local Firms

The 100 per cent ownership provided to foreign firms, supported the development of local firms in Thailand. Backward linkages increased in the 1970s promoted by export-oriented American semiconductor corporations.

By the second half of the 1980s, BOI policy was leniently protecting the local industries while supporting export-oriented manufacturing. Japanese electronic/electric joint ventures were promoted by BOI, only if 80 per cent of production was exported. For some product lines, 100 per cent export was required if there was local producer[99].

---

96 Authors interview

97 Details of the incentive different regions offered are discussed in the Industrial Estates section.

98 Pansuwan, "Policies and Pattern of Industrial Development in Thailand", .28

99 Jun Tsunikawa, "*Fostering Supporting Industries in Thailand*", 8

BOI promoted industries included the agricultural (processing), chemical, electronic, mechanical, metals, ceramics and others[100]. BOI approach was more focused on industrial widening instead of industrial targeting or deepening.

During the same period, incentive structures were rationalized in order to phase out inefficient production. Structural adjustment was introduced to further support exporting industries. Resource based and labor intensive production were promoted [101].

In the 1990s, BOI pushed for competitiveness of local firms through equal eligibility for BOI investment privileges and production of FDIs for local markets[102]. BOI continued to support industries through increased linkages between local firms and FDIs

Creating Linkages

Through the years the role of BOI in the export promotion strategy moved away from regulating foreign investment into becoming a modern service center for investors. Various departments/units within BOI such as BOI Unit for Industrial Linkage Development (BUILD), and Investment Service Centre and Marketing Division were established to links local suppliers with large companies and support subcontracting, and provides information on investment opportunities.

BOI Unit for Industrial Linkage Development (BUILD) worked closely with local and foreign forms. BUILD supported local firms through capacity building, and advising on the state agencies which local firms can reach to for services. In addition, BUILD supported foreign firms procurement of intermediate goods for local firms.

The success in linking local and foreign firms is attributed to a comprehensive database that allowed BOI to match local supporting industries with assembling FDIs[103]. The business-line level data made it possible to engage in significant matching of local part suppliers and producers.

Outreach programs and publicity, including Vendor-Meets-Customers for automotive and electronic industries, factory tours, workshops and tradeshows domestically and abroad supported, all supported visualize the opportunities, including linkages, investors can have in Thailand[104].

Partnership

When Japanese firms in the 1980s were not able to find qualified local suppliers (for instance moulders), BOI attended to Japanese firms needs by; sending officers to Japan to promote the needed investments; increasing the number of applications for Japanese smaller firms that would bridge the gap, and; reducing the minimum investment requirements for those smaller firms, and providing tax benefits[105]. Such flexibility and swiftness in finding solution to investors' needs played an important role in the growth of industries in Thailand.

---

100 WB, p.18

101 Pansuwan and Routray , "Policies and Pattern of Industrial Development in Thailand", 29

102 The minimum requirements to receive BOI benefits seems to favour FDIs

103 Jun Tsunikawa, "*Fostering Supporting Industries in Thailand*", 10

104 Jun Tsunikawa, "*Fostering Supporting Industries in Thailand*", 14

105 *Jun Tsunikawa, "Fostering Supporting Industries in Thailand", 8*

2.2.4 Investors

China

China's influence[106]: China's influence can be seen on a number of fronts, additional to the economy, including culturally. The head of a Thai business school said that the Chinese government had been using institutes to promote Chinese language while the influence of Thai-Chinese had already permeated culture. This could be seen in the continuation of links between the two countries and businesses. For example, the Thai Oil Company, which seeks to consolidate a relationship with the Chinese government, ensures its' staff goes to China and study the language which helps with maintaining connections. CP group has been held up as an example for its success and expansion in China.

Meanwhile, at the level of Chinese businessmen in the GMS, their network provides business advantages within Chinese businessmen within in the GMS or in China. He described these businessmen as being well-integrated into the GMS community and often marrying locally and adopting their new country's nationality. He claimed this similarly impacted China's decisions in the area such as encouraging aid to Thailand during the flood.

Thai/China government relations [107] : Despite greater integration between the countries at the business level, government-to-government relations still have tension. The business school speaker claimed that although China was attractive in terms of its market, Thailand had resisted the larger country's advances on a number of occasions. For example, in a discussion about truck movement over borders, about three years ago, Yunnan had asked for the licences for trucks coming from their province into Yunnan. Thailand delegates said this was a discussion that needed to be had at the national level. While there are differences in capacity and decentralisation between the GMS and the two provinces, the example also indicates Thailand's willingness and capacity to negotiate its interests. However, it also causes friction for Yunnan and Guangxi who are unable to have discussions at provincial levels as the other GMS countries are typically more centralised. These issues cause more friction for Yunnan coordinating with GMS countries, whereas Guangxi has focused on links with Philippines, Singapore, Indonesia, Malaysia and Vietnam where

Profile: Thai-Chinese Investors

There is certainly a clear influence by China and Chinese investors in Thailand, but the category of Thai-Chinese must also be considered. Thai-Chinese are widely attributed as also playing a dominant role in the business community. A number of interviewees we spoke to were Thai-Chinese and provided an indication of their position both within business but also government.

One individual could trace his family's background back seven generations to China where his family had been one of the wealthiest in his area. His family possessed a fleet of ships which enabled them to be able to expand into South East Asia. In particular they were able to use this fleet to undertake a protective role for Thailand and brought weapons to the country.

After China became more inward looking, this family managed to maintain links to Thailand and South East Asia. He claims that of Thai people, about 40 per cent have Chinese ancestors. "Chinese investors come to Thailand before moving to other areas," he said. "So it's very easy for China to do whatever it needs," he said, referring to the possibility of using this heritage for business links.

➢ *continued next page.*

106 Authors' interview

107 Authors' interview

discussions are more fruitful. The result for the GMS is clearly evidenced in transport again – with railway lines in the GMS a width of one metre while in China it is 1.44m. Despite this, he later described Yunnan and Thailand as having a good relationship.

Strategy[108]**:** He said China's strategy was different for Yunnan and Guangxi. The Chinese government perceived Yunnn as its connection with the GMS while Guangxi connected with ASEAN. The interviewee said other countries mainly had a reactive strategy towards China. He said China was mainly interested in joining the GMS to benefit from linkages rather than aiding development.

China, however, did not share the same idea of industry corridors that Japan did*(see Japan section below)*. The Chinese government's strategy revolved more around having access to different oceans. One of their strategies had been to establish more of a farm sector in Thailand which materialised with Thailand lending land to China. Other strategies involved extensions of Guangzhou-like businesses and establishing a market for Chinese products in Thailand. The problem for Thailand with this is it involves the direct import of Chinese products rather than making some of the products in Thailand. This is not to say the strategy has been a failure and there is significant economic growth at the border with China. Although the focus is mainly on agriculture, Chinese companies are also interested in projects involving hydro power and mining. The BOI official said Chinese investment was big scale, such as chemical industries. Differences in investor strategies saw Japanese industry in Thailand focused on electronics, technology and food processing.

China's strategy[109]: He was frank when he discussed his opinion of China's intended gains from participating in such associations and in the region in general. "We are one of the colonies of China – indirectly," he said, asserting China's plans relied heavily on access to the ocean while their strategy is to continue their GDP growth. He claims this growth would not be possible without expanding business beyond China's shores. "Now they can only grow through colonialism," he said. The tell-tale sign of China's 'colonialism' is infrastructure. "In everything in China does – road/train/sea – it's through infrastructure," he said. "China's three dead provinces have no sea access. Most logically, and previously, went through Vietnam." However, he says relations between China and Vietnam have deteriorated thus jeopardizing

Profile continued:

The inheritor of this family position, with close links to China and Thailand, was educated in the US and only returned to Thailand twenty years later. Here is family had established a factory that mainly dealt in components for end-products such as two-way radios. Since his return he has established himself as a law maker and advisor to the government and expanded the family business. Both have benefited from the contacts and links the family inherited and continue to develop.

The business has expanded into other sectors. He told a story of visiting Guangzhou after city officials claimed it would become the 'kitchen of the world'. There he negotiated for supplying food products to the region – "you can't become the kitchen of the world without our food". Now one food processing factory has been established and another two are on the way.

The businessman continues to develop relationships between Thailand and China. Meanwhile, he is part of a number of associations including a Government-to-Government group between Thailand and China. The board reports directly to the government and he says has always been chaired by those with Chinese ancestors.

108 Authors' interview

109 Authors' interview

infrastructure links. Even in Laos plans for a bullet train have been halted as China wanted the condition that 50,000 Chinese be employed to construct the line. He claims such conditions, that Chinese are employed for projects, are typical of the way that the country operates. The implication of the deterioration of such projects is that China accessing the ocean through Thailand is more likely.

While relations between Thailand and China are close, especially at the government level, they are not without problems. This businessman said that relations at the business level were very competitive. Furthermore, the period when China was more inward looking, allowed Japan and Japanese investors to make in-roads. He claims Japanese investors comprised about 80 per cent of the market at one point. While local businesses gained technology transfer, the businessman claimed the majority of the profit went back to Japan. On technology and technology transfer with China, he said that Thailand and China were on a similar level. Where previously Thailand would have invested in European companies for high-tech products such as the first model of Bangkok's sky train, the second generation is produced in China – although by a European subsidiary – China Siemens. However, he says Japanese investors look for particularly stable and transparent investment climates.

Japan

The Japanese automobile industry began its overseas operations in 1960, starting with operations in Malaysia, Taiwan and Thailand. This initial start was due to the region's proximity to Japan and a lack of local competitors[110]. (Thailand has never adopted a strategy of supporting a local automobile manufacturer)[111]. Typically these operations took the form of manufacturing subsidiaries. Due to Thailand's early policies of import-substitution and restrictions of foreign ownership, most Japanese companies established small knockdown plants. The electronics industry took a greater interest in South East Asia in the 70s due to the appreciation of the yen, and moved its labour-intensive processes to the region. These were generally concerned with low-end products.

Generally, the automobile industry in South East Asia was less a priority up until the 90s compared with other manufacturing zones and markets such as the US. Additionally, there was a lack of support from other sectors or clusters in Thailand. More recently, South East Asia is being seen as an important market for automobiles but additionally a convenient and established location from which to serve the market of China[112]. However, the issue of skills shortages has continued to reoccur with the common complaint now that technological universities do not train enough engineers to expand higher quality production.

These major actors also have their own visions for the value chain in the region. What the ADB describes as economic corridors, a business school interviewee said Japan saw as "industry corridors".[113]He described this as the segmentation of different parts of the process according to countries: "...from Bangkok-PP-Ho Chi Minh, like that Bangkok takes textile, Cambodia makes garment, and it's packaged and exported in Vietnam." He said corridors between Bangkok and Hanoi would be automotive industry corridors because of the investment in that sector in both Hanoi and Thailand. He said that Japan had a comprehensive Asia development plan and the capacity to

110 Intarakumnerd, p210

111 Intarakumnerd, p217

112 Intarakumnerd, p.210

113 Authors' interview

develop such corridors with their multinational companies. He said the movement of these goods could not be described as a value-chain as such because there was no value-added to the products between cities.

Investors impact on the value chain

An interviewee[114] had doubts about Thailand's capacity to upgrade and move up on the value chain and said success in this area would depend on investors. Within the automotive industry most of the suppliers are joint-ventures led by Japanese. However, it is difficult for the value chain to develop in the automotive industry because the wages and car assembly aspects are expensive. The supplier is already well developed and there is no equivalent other supplier to take over that function. He said developing a value chain in agriculture and food production was more likely.

In acknowledging the location of firms within the region, the BOI official[115] said Thailand had seen some industries moving to neighbouring countries. "The camping gear market for example goes to Cambodia as it doesn't require high skills. Other countries don't have the yarn," the official said. The main issues result from producing downstream, where Thailand had an advantage. In response to firms moving away to labour costs, the BOI official said Thailand would focus on high-end products such as nano-technology in garments. The BOI official saw Indonesia and Malaysia as Thailand's key competitors, but said good marketing based on Thailand's investment climate could trump competitors.

The business school interviewee[116] cited Thailand's higher skilled labour market as an advantage. Additionally, it had more developed infrastructure than its immediate neighbours, and it had a medium-sized domestic market. Finally, it had a long history with Japan and that country's investment into Thailand. It can also provide some level of guarantee and stability to investors despite political environment.

114 Authors' interview

115 Authors' interview

116 Authors' interview

2.3. Case Study: **Amata** City Industrial Estate

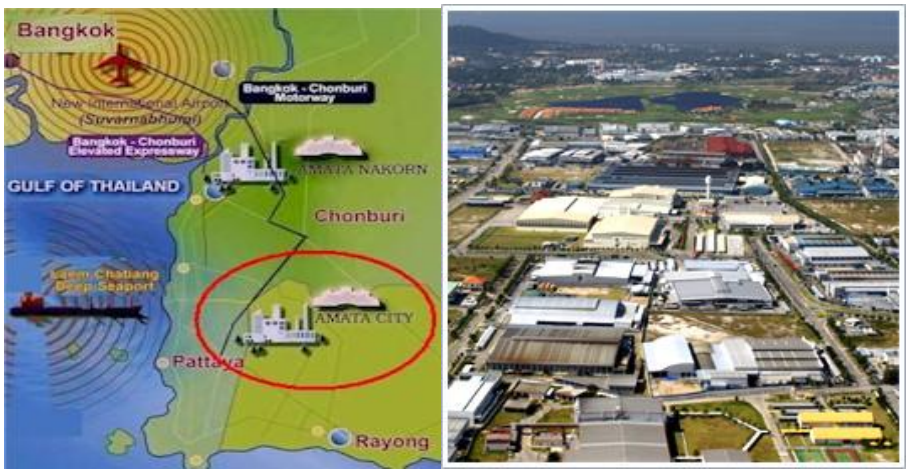


Figure 19: Amata City location (source:http://www.business-in-asia.com/amata_industrial_estate.htm)

Figure 20 : Amata City warehouses (source: http://www.amata.com/eng/corporate_history.html)

Findings

Amata Corp is a Thailand's main industrial park developer and manager with estates in both Thailand and Vietnam. It first established Amata City in 1995. Initially, companies in Thailand had to be a joint venture. Company officials said they were originally drawn by the location and the developed it and worked with the authorities to do so. Investors from Taiwan were the first to be interested followed by Japanese businesses. However, the site began shortly before the Asian financial crisis and although company officials said the industrial sector remained stable, investment generally dipped and didn't recover until after 2000.

Basic facts

- Established June 5, 1995
- Number of factories to date: 116
- Total area to date: 1,353 ha (3,383 acres, 8,456 Rai) ***(clarify: website facts says 1,603 ha (4,007 acres, 10,108 Rai) and(112 factories of different stages completion)***
- Major industries: Automotive, Electronics, Consumer Goods, Light Industry
- Featured partners: Siemens; Electrowatt; Unocal; PTT; Itochu; CP Group; PS Gardens; PCS Security etc.
- Location: 114 Km east of Bangkok, on Highway No. 331 in Rayong province, on the Eastern Seaboard of Thailand. Bangkok International Airport: 142km. Bangkok New Int. Airport 99Km. Laem Chabang Deep Sea Port: 27Km
- Resources: located close to a deep-sea port and other infrastructure.
- Incentives: Zone 3 entitlement – the maximum tax privileges.
- Industries (all factories to date): (Consumer Goods include clothing, accessories, furniture, packaging for consumer products. Services, utilities and infrastructure project are not counted)
    - 1. Steel/ Metal/ Plastic (32.17%)
    - 2. Automotive (24.35%)
    - 3. Cons. Goods, Healthcare (18.26%)

After 2001, legislation was passed allowing 100% foreign owned companies – something Amata officials said was a comfort for investors. "We said you don't need to worry about management culture. Just come and enjoy infrastructure,'' one official said. From 2000 to 2004, following the recovery in growth and opening of the market to foreign owned companies, Amata said they saw a big increase in the number of companies coming to their industrial estate.

Innovation: In terms of how the park can be described, Amata said they were at 2nd tier supply but were confident that 3rd tier would follow. Currently, about 60-70 per cent of products go outside the park for additional processing. For example, a spark plug typically undergoes additional processes while only white goods export directly.

Amata companies key sectors are rubber, automotive, electronics, food and services. But Amata officials are wary that the estate's current success could disappear quickly if innovation doesn't occur. "In five years this park could be haunted without uniqueness – you can build a factory within eight months," an official said. While Amata has multiple sectors, they commented that most car factories are located closer to Bangkok.

They said they were trying to make the estate more innovation based. Currently, most companies buy technology but Amata Science City has been established. Now about three to five per cent of companies have innovation. "It's mainly process-innovation. We know we can't push whole-scale innovation. We know the government can't. First we need to upgrade products." An official provided the example of Buildstone tyres, where staff at Amata Buildstone changed the ingredients of the tyre and had success and suggested it to Japan. But the example indicates the difficulty in the innovation process as even to conduct testing on the product the staff had to drive 80km to the university where the test ground is located. Amata officials are studying the innovation business model in order to inform the Thailand government.

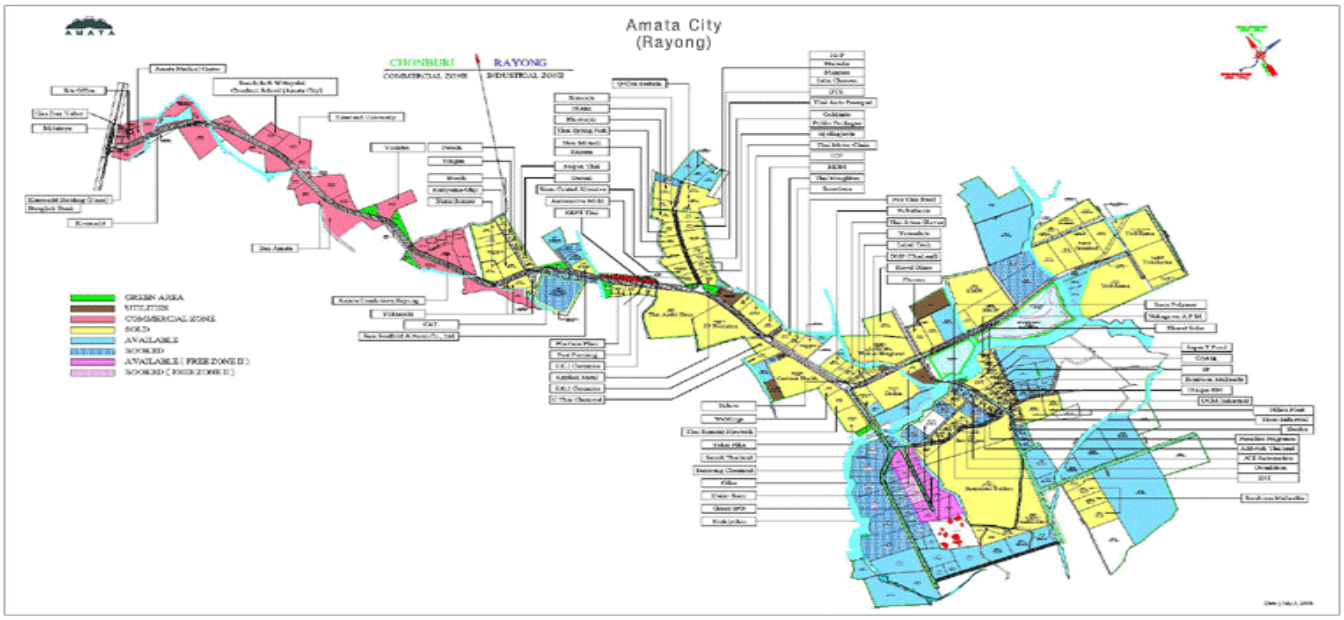


Figure 21: Master Plan of Amata

(source: http://www.amata.com/eng/industrial_amatacity_plan.html*)*

Incentives/governance: Although industrial estates such as Amata are promoted as having a "one-stop shop", a service provided by BOI for bureaucratic paper work related to companies, the estate managers said the service only covers about 30-40% of processes. Requirements including everything from registering buildings and expatriates, construction licences (from the municipality) and certificates from the Ministry of Industry. Officials said there was no "cross-functional work", referring to the lack of capacity of BOI to encompass the various processes which are

actually handled by multiple different departments. “BOI is under the Ministry of Industry so they can give a certificate – a tax incentive,” one official said.

“It took three years to create a law to create a new super body (BOI) – and it’s factional between ministers.”

The issues continue with the lack of clarity on regulations. For example, since 2000, companies have to apply for an Environmental Impact Assessment (EIA) under the Ministry of Natural Resources. “But there are no clear regulations. It’s more of an agreement with private sector and government – it goes under a committee. As innovations occur, they bring new policy.”

Nevertheless, Amata managers were confident companies would “get used to” Thai culture and regulation. In the meantime, the estate managers try and coordinate much of the paper work on behalf of companies in the park.

Resources: The park is well located in regards to resources with both a deep sea port and an international airport nearby. “So it’s a natural boon and there is enough growth,” an official said. However, there was clear indication from Amata managers that the park was not supported by any kind of “place-based policy” from the government. Although the park is relatively near to Bangkok, the airport and port, given traffic conditions it is not possible for staff to commute to the estate which makes it less attractive as a work location. Also, related industries are not nearby.

“Ideally, we want to create a community so people can send their kids to school,” an official said. “What we dream is a city”.

Legally, Amata recognises such a dream is beyond their jurisdiction and lies with municipality. However, they have set up a deal for a 100-bed hospital; they already have a theatre and a school for 1,300 kids. But families are still reluctant to come and the school is expensive for most workers.

“We do what we can but we can’t provide a community, a sense of belonging,” the official said.

Subconclusion Amata: Amata has made the most of its location and in filling the gap in service for its clientele. It now comprises seven per cent of the country’s GDP. It attributes its success to government support, a strategic location, multinational customer profiles and professional management.

2.3.1 Investment climate

The investment climate is the "fundamental socio-economic framework in which firms operate"[117]. It involves economic and trade policies, regulation and financial markets, and resources including labour and infrastructure. A better investment climate improves business returns and can impact absorption of technology and innovation. Two rounds of the World Bank's Productivity and Investment Climate Survey (PICS) have been conducted in Thailand in 2004 and 2007. These assess two sets of indicators: those based on infrastructure and those based on perceptions. Given the longer time frame involved in infrastructure development, the main difference in the surveys was a poorer perception of Thailand's climate – most likely to be due to the political crises. In 2007, 38 percent of firms cited political instability as a major constraint – second only to a shortage of skilled labour which 39 percent saw as one of the biggest issues. Tax regulations and 'bureaucratic burden' were also highly ranked as issues. Other issues included: weak macroeconomic environment and inadequate access to finance; and quality, price and reliability of infrastructure. By comparison, Thailand placed 17th out of 178 economies for ease of doing business in a 2011 report – down from 15th in 2008[118]**.** However, it was still ahead of most other countries in the region, with Malaysia the closest at 18th. Singapore topped the rating. Of particular note are ranks for particular indicators where Thailand ranks 78 for 'Starting a business' and 100 for 'taxes'. By comparison Malaysia was 50 and 41 respectively. Cambodia ranked 138. What reports on investment climate indicate is that infrastructure is but one of several factors important to a firm and it may not be the most critical – certainly feedbacks from firms indicate such in Thailand.

2.3.2 FDI

FDI's role in development is expected to create new trade possibilities and introduce new technologies, knowledge and managerial experience[119]. There is also a strong relationship between FDI, innovation and exports[120]. Firms that export are expected to be larger, have more foreign equity and be more innovative.

FDI had a limited role in Thailand until the late 1980s and MNCs established mainly to access domestic Thai markets or to take advantage of resources and infrastructure for infrastructure. The latter was represented by petrochemicals, garments and electronic components. Between 1986-1996, Thailand's growing economy and improved investment climate, including FDI regulation changes, encouraged MNCs to view Thailand as an export base. This occurred in a context of increased globalisation and the reduced competitiveness of East Asian companies, especially Japan.

---

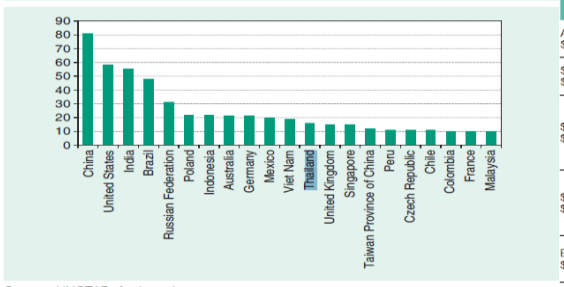
117 World Bank, Investment Climate, p1

118 World Bank, Investment Climate, p12. ; World Bank, Ease of doing business rank, 2011.

119 Intarakumnerd, p.20

120 Wignaraja, Ganashan, "Foreign Direct Investment, Innovation, and Exports: Firm-Level Evidence from People's Republic of China, Thailand and Philippines" ADB. 2008. p.1

Figure I.19. Top host economies for FDI in 2011–2013
(Number of times the country is mentioned as a top FDI priority by respondent TNCs)



Source: UNCTAD, forthcoming a.

Table A. Distribution of FDI flows among economies, by range,[a] 2010

Range	Inflows	Outflows
Above $50 billion	China and Hong Kong (China)	Hong Kong (China) and China
$10 to $49 billion	Singapore, India and Indonesia	Singapore, Republic of Korea, India, Malaysia and Taiwan Province of China
$1.0 to $9.9 billion	Malaysia, Viet Nam, Republic of Korea, Thailand, Islamic Republic of Iran, Macao (China), Taiwan Province of China, Pakistan, Philippines and Mongolia	Thailand and Indonesia
$0.1 to $0.9 billion	Bangladesh, Cambodia, Myanmar, Brunei Darussalam, Sri Lanka, Lao People's Democratic Republic, Timor-Leste and Maldives	Viet Nam, Philippines and Islamic Republic of Iran
Below $0.1 billion	Afghanistan, Nepal, Democratic People's Republic of Korea and Bhutan	Mongolia, Pakistan, Sri Lanka, Cambodia, Bangladesh, Brunei Darussalam, Lao People's Democratic Republic and Macao (China)

[a] Economies are listed according to the magnitude of their FDI flows.

The breaking-off of the electronics components sectors while conducting assembly elsewhere allowed companies to reduce costs and control quality. Investors were looking for trade openness, access to international markets, a cheap but skilled labour force and FDI-friendly regulations. The FDI regulation changes referred to earlier involved: increased promotion by BOI; the implementation of zones and incentives; and zone incentives that allowed foreign ownership outside Bangkok and/or exporting more than 80 per cent of their product. However, different rules applied to industrial estates under IEAT. The chart "FDI's role in East/South East Asia" shows the changes in FDI into Thailand that resulted and compares to countries in the region. Japan's FDI into Thailand in 1998 amounted to 30 per cent, the same amount as originated from NIEs[121].

Although Thailand had a setback during the Asian Financial Crisis, most businessmen said it had recovered and begun to grow again from 2000 when increased investment occurred again. Recent figures on FDI, from UNCTAD, shows it remains an attractive place for FDI. In about 2001, BOI allowed for 100 per cent ownership in foreign ownership in non-export-oriented companies and made changes to zoning restrictions[122].

FDIs by Sector:

The manufacturing sector accounts for 80 per cent of all the investments, of which 54 per cent is in machine and transport equipment. 60 percent of approved investments are export oriented manufacturing. There is some indication FDIs are moving away from mass manufacturing, as a result of cheaper setup and labor costs in neighboring countries such as China and Vietnam. FDIs inflow in Thailand in the mass manufacturing has dropped by 20 percent in the last five years. However, the evidence is conflicting: Rising production and wage costs in China has led to global MNCs looking to move low-cost manufacturing to other destinations, including to ASEAN countries[123]. China has instead been trying to attract FDI into its high technology sectors and services. This has implications for Thailand's attempts to move into high technology sectors and poses issues of whether it is competing with China in these areas. Interviewees in Thailand frequently commented on the improved technology and capacity in China. Meanwhile, Thailand has also begun investing in neighbouring countries such as Lao[124], indicating its rise, but also the increase of its own wage costs. FDI in Thailand are also declining in chemicals sector due to the presence of strong domestic firms that serve domestic and foreign markets.

121 UNCTAD

122 Intarakumnerd, p.45

123 UNCTAD, p71

124 UNCTAD, p71

		Share of Net Flow of FDI by Sector											
		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 p	2010 p	Average
1	Industry												
2	Food & sugar	3.3	3.1	0.6	5.1	6.8	(0.4)	1.1	1.2	2.0	3.8	8.8	3.2
3	Textiles	(0.1)	2.1	1.3	1.2	0.8	1.2	(0.1)	0.7	0.3	1.1	1.0	0.9
4	Metal & non metallic	(2.9)	7.5	7.6	5.0	9.7	3.4	3.3	4.8	0.7	0.7	1.0	3.7
5	Electrical appliances	18.3	19.5	6.3	6.3	16.1	14.0	10.2	3.7	17.6	2.0	9.9	11.3
6	Machinery & transport equipment	23.5	11.4	18.8	12.7	25.9	21.0	13.3	12.1	15.4	53.9	9.7	19.8
7	Chemicals	14.5	3.4	9.8	5.7	7.8	7.2	1.6	(1.4)	5.8	6.4	8.6	6.3
8	Petroleum products	1.2	3.6	(1.4)	1.8	0.3	(1.1)	3.1	3.9	(6.0)	4.4	4.2	1.3
9	Construction materials	1.9	0.0	0.9	(0.2)	0.9	0.3	0.1	0.3	0.1	0.2	0.2	0.4
10	Others	5.6	8.1	10.1	8.9	8.0	7.0	5.7	10.7	43.3	14.0	20.5	12.9
11	Financial institutions	4.6	(3.6)	2.0	(0.5)	4.5	23.8	23.7	17.9	3.7	(23.7)	(3.2)	4.5
12	Trade	1.8	21.2	19.6	16.2	3.6	4.6	7.7	5.8	0.5	7.3	11.4	9.1
13	Construction	(0.0)	0.1	0.6	0.8	1.4	0.5	(0.8)	0.4	(0.4)	0.5	(4.6)	(0.2)
14	Mining & quarrying	(9.6)	15.0	4.2	5.3	4.0	(1.8)	2.0	8.3	(0.0)	12.3	6.9	4.2
15	Agriculture	0.0	(0.1)	0.1	0.5	0.1	0.2	(0.0)	0.0	0.1	0.2	0.1	0.1
16	Services	16.2	3.0	21.7	7.0	6.1	5.0	6.8	10.9	5.7	(4.8)	4.4	7.5
17	Investment	3.5	(0.7)	(18.4)	7.0	(4.8)	2.6	20.8	3.1	0.1	0.0	0.1	1.2
18	Real estate	2.4	1.4	2.0	2.4	(6.9)	0.7	2.4	11.7	13.7	16.2	12.4	5.3
19	Others	16.0	5.0	14.4	14.6	15.6	11.7	(0.9)	5.8	(2.5)	5.6	8.5	8.5
20	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

Figure 22: Share of Net Flow of FDI by Sector

Source: Own calculations based on Bank of Thailand data, 2012

FDIs for Export Markets:

Thailand plans to become a production center for export markets. As a result, 60 per cent of approved investment is directed towards exports. In terms of sectors, 90 per cent of registered investments in electric and electronic products are for export purposes, after which come minerals and ceramics with 89 per cent. Light industries and textiles export-oriented investment are estimated at 81 per cent. The most locally demanded FDI production is mainly machinery and metals, and chemicals (including papers). FDIs production serving Thai market is increasing for the various sectors (except for textiles/ light industry, and minerals). On the other hand, manufacturing, by local firms and FDIs, for both domestic and foreign markets in the metals and machinery and metal products sector include that of office machinery, computing, automotive, and electronic parts.

CP Group Profile

CP Group is one of few Thailand companies of this size, with a presence in 17 countries, about 280,000 employees, and occupying a leading position in China. The company started in agriculture, mainly with plant seeds and used experts to improve its product. It provides an interesting example of an MNC from Thailand and it's regional strategy while also highlighting relations and linkages.

The company established itself in China 30 years and has become a household name – if under a different name mainly for marketing purposes to the Chinese consumer. The interviewee said that the company's strategy had been not to dominate Thailand and so had focused on expanding internationally. CP Group began this process more than 40 years ago by operating a branch in Taiwan, with a market of about 68million. The company's strategy towards China had been to ensure its presence provided local benefits. "They must benefit," he said. "We bring in new technology. The first is local - income, employment." He said more than 100,000 people now working for the company in China.

However, its strategy is limited by regulations and environments in some countries in the region. India requires businesses to be 100% locally owned. Vietnam doesn't have international credit. Since the Philippines changed regulation, CP group started there. He said the company was considering Myanmar as the country made improvements. The company also has a presence in Indonesia, largely because of the size of the market there.

The company is focused on conducting research to further innovation of its products. CP group has more than 1000 research centres outside Bangkok. Meanwhile, he also praised the level of Chinese technology. The company is also establishing schools such as a Chinese College.

FDIs by Country:

Bank of Thailand records show that FDIs in Thailand come from at least 53 countries. The sources for FDI into Thailand are mainly regional – from ASEAN, Japan, China, and the Asian NIEs. During the period, 2005-2010, Japanese FDIs in Thailand represented almost one third of all FDIs in the country. During the same period, ASEAN FDIs in Thailand accounted for 20.9 per cent of all FDIs, of which Singapore accounted for 17.3 per cent. Chinese FDI in Thailand makes 4 per cent of all FDIs.

Overall, Japanese firms still lead manufacturing FDI, now as in the 90s, due to the automobile and electronics sectors they are involved in. Thailand is seen as having used FDI to become a leading electronics exporter[125]. However, it is seen to have built its export experience from experience and learning imported technologies which resulted from FDI. Japanese FDIs in Thailand produce electronics, textiles and transport machinery. On the other hand Japanese outsourcing in Thailand is likely to be in the medium-end functions that need less technical skills (compared to high value-added production) which Thai domestic firms possess.

[125] Wignaraja, p.1

2.4 Assessment

Large scale capitalism started as state was enlarging in size, creating opportunities for money generation and rent seeking. This allowed for the emergence of investor capitalists (tied to their state official positions). The capture of natural resources and the follow of cheap labour lead to economic activities in specific areas. In addition, the state provided the infrastructure (roads, etc) near those activities.

Thus, the emergence of new capitalist class, the follow of public and private investment projects to places were exploitation was happening, and state ownership of areas, all lead to emerging locations of IEs. IE was one way through which the state hands was overseeing capitalism.

2.4.1 Institutions

BOI Spatial Approach:

BOI zoning policy (categorizing the country into three zones) was important in dispersing IEs in different regions. Thailand IEs in different zones enjoyed privileges in terms of tax and non-tax incentives, in addition to BOI local level support (customs, labour, etc).

In addition, IEs were located near important ports and multi-lane road infrastructures helped investors decision to locate outside Bangkok Metropolitan Area. The rise of some areas such as the eastern seaboard region is also attributed to discovery of oil, and other related activities, thus brining to attention and IEs to that region.

Export Zone Privileges:

FDIs operating in Export Zones received generous packages, including ownership of the land, and bringing own overseas staff, and family members. Exported goods were inspected only once, at the export zone exit, near their production facilities. This made investors lives easier since BOI at the zone level facilitated the logistics.

Sequencing:

In addition to the zoning policy, BOI sequencing policy was important in economic development of Thailand. During the different phases, BOI was also playing a role strengthening the domestic firms, and linking them with MNCs. Without this gradualism, and guidance of the industry, performance (at least of domestic firms) would unlikely have achieve the success it did.

Macroeconomic Policy:

The government macroeconomic policy provided important incentive for increased production. Non-floating (undervalued) exchange rate policy adopted by Thailand Central Bank, and relaxed environmental regulations permitted increased FDI flow and production. In parallel to Thailand's macro policies, other Asian developed countries search for bases outside their home countries helped increased FDIs and production in Thailand.

The focus of Thailand was on economic growth rather than development, thus allowing for environmental degradation and overlooked labour decent work practices- issues that would be of concern today. However, the effect of GDP growth rather than overall development, is being felt now, in terms significant inequality, and with unskilled labour that can meet the challenges of upgrading the economy.

Thus, industrial development in Thailand happened at the 'right' time benefiting from different factors beyond the country's control as well as policies, which would be challenged today, as result of new processes such as globalisation, FDIs and trade agreements. This limits replication prospects of Thailand's development model.

Financial Sector:

The banking system is relatively developed, and contributed in private sector development in Thailand. Up until the crises, over 90 finance companies, 15 banks and 12 credit unions existed. In addition, there are sector-specific banks such and financial institutions with specialized products, including the Industrial Finance corporation of Thailand and Small Industry Finance Corporation, and credit guarantee for the small industry[126]. The developed the capital market, made of money and securities exchange, allowed for adequate financing for firms in Thailand, and had played a role in Thailand's impressive growth. However, some analysts view that capital market financing is still limited, and SMEs access to financial services can be improved.

Partnership:

BOI created an environment of 'principal –agent' trust'. BOI was honestly and speedily addressing investors concerns. FDIs satisfaction was given high importance by BOI. In addition BOI was approachable, and interacted closely with domestic firms and FDIs. The private sector was actively participating, and helped shape the investment reforms. This relationship based on trust and feedback supported industrial development in Thailand.

Regional Business Start-ups:

Business start-ups increased during Thailand's boom years, from around 11,000 to 40,000 (1985-1995). SMEs elasticity to labour is high. They contributed in employment generation during the growth years. SMEs were supported by BOI, and contributed in the development of SMEs in the different provinces, thus leading to regional and equitable development of Thailand[127].

Labour Market:

Female participation in the labour force is significant, making 43 per cent of employment in 1998. Education level of Thai females, allowed gender participation in the industrial development of Thailand. Urbanization has taken women out of their houses and farms in which they worked to undertake opportunities in services and other activities.

[126] Somjay, "Entrepreneurship in Thailand", 4

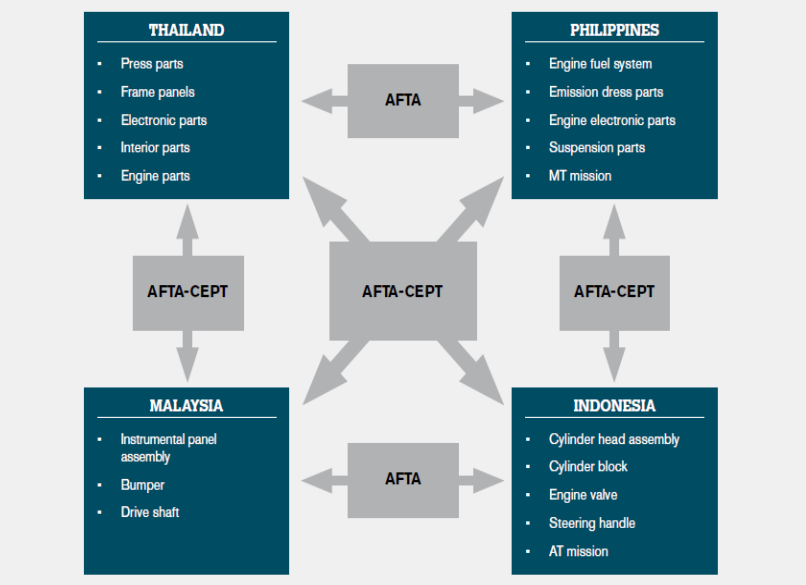
[127] SMEs in 1997 made 80 per cent of the industrial establishments, and emploed 32 per cent of all employed in Thailand. However, their contribution to value added is relatively small. However, due to low productivity and the 1997 financial crisis, SMEs suffered in Thailand. The1998 upgrading strategy included SMEs.
Thailand SMEs Bank provides credit to SMEs, with a vision of To be the Bank that helps builds a Thai entrepreneurial society .

In addition, abundant labour, through moving from agriculture to industry kept wages low. The hard-working nature of the people, obedience promoted in the education system, and cultural norms to obey officials contributed in labour exploitation in production. This was in parallel with globally diffused manufacturing knowledge (and brought by MNCs to Thailand). Unlikely high value-added activities, manufacturing did not require high skills[128].

2.4.2 Value chains

A global value chain is the geographical separation of activities in a firms process – often called vertical specialisation. The concept has evolved, alongside globalisation, and where previously the comparative advantage of a country was considered, now the emphasis is on a country's comparative advantage in a particular task[129]. A supply chain, while related, refers to the sourcing, procurement, conversion and logistics – including dealing with suppliers and intermediaries[130].

Complementary parts supply system of an automobile assembler in ASEAN



Note: the ASEAN Free Trade Area - Common Effective Preferential Tariff (AFTA-CEPT) is a cooperative arrangement among ASEAN member states to reduce intra-regional tariffs and remove non-tariff barriers.

Source: Hiratsuka (2010).

Firms follow two strategies in Thailand: either vertical specialisation or horizontal diversification of production[131]. The electronics industry lends itself to vertical specialisation and when MNCs entered the Thai market, labour-intensive low-end products were worked on. The automobile industry in Thailand, by contrast, has followed the strategy of "build-where-you-sell".

Conditions: The conditions needed for the establishment of a global value chain include:

- Infrastructure: transportation (land, sea, air), telecommunications, finance and insurance.
- Shipping and containerisation: Particularly, a port's ability and capacity to capture major shipping lines. Thailand's container port traffic was less than that of Malaysia and Indonesia in 2009[132].
- Air transport: for time-sensitive products.
- Information and communication technology (ICT): communication is vital for the various stakeholders involved in the chain.

128 Walsh, John. "Thailand's inadequate response to the 2008 Economic Crisis: Implications for Vietnam and other countries entering the East Asian economic model", 38

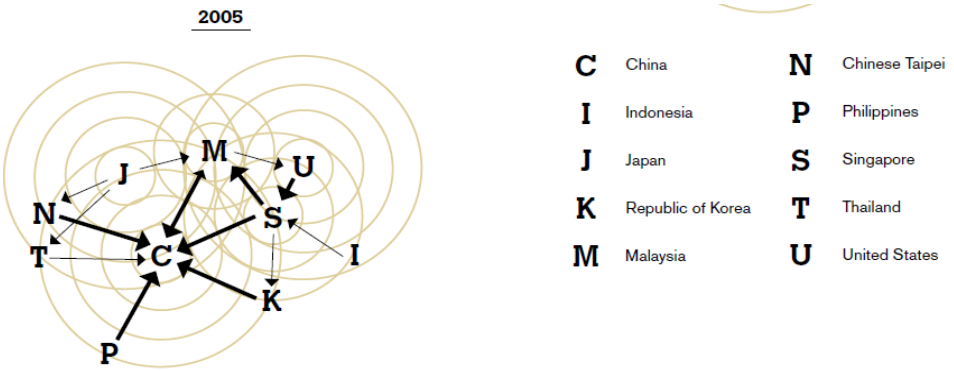
129 WTO and IDE-JETRO, Global value chains, p. 4

130 WTO and IDE-JETRO, p.14

131 WTO & IDE-JETRO, p. 18

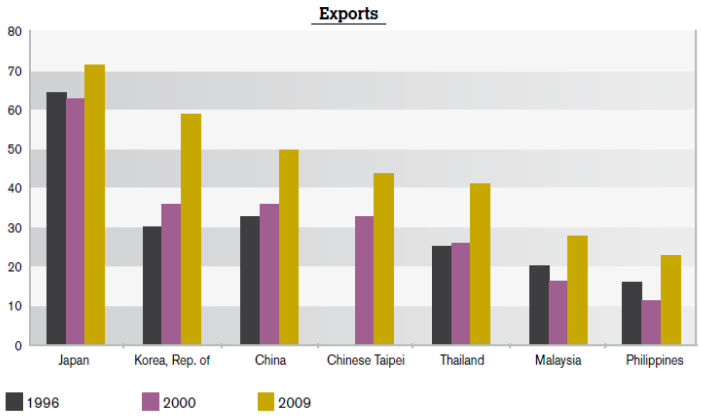
132 World Development Indicators Database

- Border logistics: the possibility of firms becoming involved in the supply chain is impacted by cost and time spent at borders.



Source: IDE-JETRO.

Ultimately, Thailand's place in value chains has been limited. Even in 2000, supply chain graphs by IDE-JETRO only show a connection to Japan and no other countries in East Asia. By 2005, this also included China. However, comparable countries such as Malaysia were more integrated(see figure above)[133]. However, given the difficulty of tracking intermediate goods, much nuance in Thailand's place might be lost – the opposite figure indicating Thailand's share of high complexity intermediate goods is more encouraging. But regardless constraints remain. Foreign manufacturing firms have often been constrained by skills shortages, specifically higher-skilled staff. This additionally affects local firms and prevents their development and as such their ability to serve as supporting industries in the lower tiers. Across some sectors, especially electronics, the share of domestic content to import content has grown. But figures pointing to the export value of products leaving Thailand are all relatively low[134].



2.4.3 Good Governance

Corruption in Thailand has been found to be especially prevalent. A Transparency International report(2011), rated Thailand 80 out of 183 countries and 3.4 out of a possible 10(10 indicating very low corruption)[135]. A government official[136] denied what other interviewees had said about a large amount of business being conducted informally. The official said most businessmen wouldn't talk without lawyers, especially MNCs. However, ADB has recognised

133 WTO & IDE-JETRO, p77

134 WTO & IDE-JETRO, p105

135 Transparency International, 2011

136 Authors' interview

that there is a large section of unrecorded informal trade, by small businessmen, in and between the GMS[137]. It was estimated that this could be between 30-50% on top of recorded trade.

One interviewee clearly presented some of the conflicts of interest involved in business and government. He has been a businessman in Thailand for many decades, continuing the family business[138]. Meanwhile, links to the government and the on-going regional cooperation. For example, he says he bought land on the border of Thailand and China and he personally passed a bill for the land to be made an SEZ. The approximately 150ha will become a depot for transport to aid with the transfer of goods over the border because of differences between driving sides – essentially capitalising on border inefficiencies which he maintains.

Meanwhile, he is part of a number of associations including a Government-to-Government group between Thailand and China. The board reports directly to the government and he says has always been chaired by those with Chinese ancestors. But he said many business practices in Thailand remain informal and involve a degree of corruption. "It's a way of life in China and so in Thailand also," he said. "We don't want it eventually but it's been there for 1,000 years and will be for 1,000 years."

However, in the 2012 experts comment by World Bank, it was noted that Thailand had been taking steps to counter corruption, including with the installation of information technology systems, such as the e-Revenue system. The Independent National Anti-Corruption Commission (NACC) has been established, NGOs such as Transparency Thailand are gaining track, and social media is being turned to.

The stability of Thailand's government has had an impact on perceptions of the country's investment climate. Interviewees concurred with such findings[139]. It was also said to affect the border zones: "On the border between Thailand and Cambodia, that conflict is between government and corporations and the Ministry of Foreign Affairs... There is a pilot project road between Thailand, Laos and Vietnam – but not between Cambodia. Cambodia is left-hand side drive and Thai is right-hand side drive. Plus there's customs - we don't allow our gov officers to cross the border so there's no one-stop." More specifically on government relations, it was commented that there were good relations between some comparable ministries and agencies in both Thailand and Cambodia. The same interviewee quoted, attributed the issue to conflict over resources in the Gulf of Thailand: "There is no political will. The government is interested in the Gulf of Thailand."

2.4.3 Regional Integration

<u>GMS-Trade:</u>

[137] Cited in Jayant, p15

[138] Authors' interview

[139] Authors' interview

The end of socialism in GMS countries neighbouring Thailand brought about new era of cooperation in the region. Thailand trade with GMS member countries has increased significantly during the GMS-ECP. Trade between Thailand and CLMV increased on average by an annual 23.5 per cent between 1990 and 2005.

Thailand's export to CLMV increased at an annual average of 31.2 per cent between 1990 and 2005, with Thailand-Vietnam trade accounting for nearly half of Thailand-CLMV trade. The other half of Thailand exports made 25 per cent, 66 per cent and 20 per cent of Cambodia, Laos and Myanmar imports respectively in 2005[140].

CLMV share of Thailand's overall trade is small (less than 5 per cent). However, the share has increased from 1 per cent in the 1990s to almost 4 per cent in 2000s. In addition, two countries in GMS are among the top ten destinations of Thailand exports: China was ranked third in Thailand highest exports in 2007, and; Vietnam was ranked ninth. The growth rate of Thailand exports to GMS is surpassing that of ASEAN[141].

Thailand export growth surpasses imports in CLMV. However, Thailand is still considered an important purchaser of some GMS countries. For instance in 2005 Thailand imported nearly 30 per cent of Laos exports, and 45 per cent of Myanmar's.

Social Development:

The development of the border communities through the increased economic activity associated with GMS-ECP is likely to limit laxity in border regions. Human trafficking, and associated spread of epidemics, a current problem in Thailand, is likely to be more controlled with the development of border areas.

Neighbouring Country Cooperation Development Committee (NCCDC) is the ultimate responsible body for GMS-EC in Thailand, and deals with CBTA and other GMS-ECP challenges. The Committee is chaired by the Prime Minister and contains relevant ministries (represented by ministers or senior officials), and three private sector representatives. The National Economic and Social Development Board, under NCCDC, coordinates national implementation of GMS-ECP. The Board develops the plans, and work with departments relevant to GMS-ECP and ADB.

NCCDC holds close relationship and interaction with government agencies at the central level. It hosts meetings to update relevant departments with information from Senior Officials' meetings, and provide progress information of GMS-EP projects[142].

At the provincial level, the local authorities receive implementation plans through the Department of Local Administration of the Ministry of Interior. However, there is inefficient bureaucracy and lack of information dissemination mechanism between central and provincial levels; Information dissemination is delayed at the central level, which affects the implementation, and; implementation at local level is delayed, and sometimes starts only after local authorities have been sent reminders from central authorities[143].

140 TSUNEISHI, "Thailand's Economic Cooperation with Neighboring Countries and Its Effects on Economic Development within Thailand",3

141 Cheewatrakoolpong, "Towards a better understanding of the political economy of regional integration in the GMS".2

142 Cheewatrakoolpong, "Towards a better understanding of the political economy of regional integration in the GMS", 17

143 "Towards a better understanding of the political economy of regional integration in the GMS", 18

However, despite NCCDC efforts toward regional integration, the progress is considered slow. An interviewee suggested, “If you look at the map, it can be done; but in practice, because of the institutional weakness, it is difficult to cross. Cross border-CBTA, is totally a failure.” [144] However, he still cautioned that the government was taking steps towards CBTA. “They are pushing it CBTA at the moment. A final paper said that the main difficulty of CBTA is the local government - they don't want it.” Despite the paper saying the issue was due to local government, responsibility for the issue lies at the national level to allow trucks in. Meanwhile the central government also lacked capacity for developing policies that ensure CBTA’s effective implementation by border authorities. “So that's the disconnect - the internal structural problem for each country. It is not difficult to make an agreement.” Additionally, there is a high turnover of staff at the border – about every one or two years. He said ensuring good cooperation between Thailand, Cambodia and Vietnam was the first and easiest step but extending the system to China and to the Asian Economic Community (AEC) was difficult which faced similar institutional weaknesses. Most said the possibility of an AEC by 2015 was unlikely and 2020 was now being touted. Indonesia however is pushing 2030 as the date.

144 Author’s interview.

Chapter III: Cambodia

3.1 Introduction

As mentioned at the beginning of this report, making a comparative analysis is crucial to establishing a better and more comprehensive understanding about the issues. Therefore, after using Thailand as a more developed case in the region, this report would like to put Cambodia as the less developed case because of the significant development gap between them. After the country was reunited in 1993, Cambodia's economy has seen rapid economic progress in the last decade. In 2010, Cambodia's GDP reached US$30.18 billion and achieved a 6 per cent growth rate. However, its per capita income, although rapidly increasing, is still the lowest in the GMS. In addition, as a LDC, the economy is characterized by a very small and less developed industrial base and a large agricultural sector, which has always been the backbone of the economy. The main domestic activity on which most rural households depend is agriculture and its related sub-sectors. Manufacturing output is varied but is not very extensive and is mostly conducted on a small-scale and informal basis. The garment sector is almost the only manufacturing industry in Cambodia, benefiting from the Most Favored Nation (MFN) and Generalized System of Preferences (GSP) privileges granted by the US and EU. And the service sector is heavily concentrated in tourism, trading activities and catering-related services. Moreover, most the neighboring countries in the region, such as Thailand and Vietnam are more developed than Cambodia in many fields, and to some extent, Vietnam and Laos are the main competitors for Cambodia in terms of trade and investment due to the similar comparative advantages and endowments. Therefore, the state capacities of Cambodia are quite weak within a very hostile environment which was contributed to by Cambodian historical legacies and an economic surrounding with competitors.

According to related theories, the Industrial Policy of a country is its official strategic effort to encourage the development and growth of the manufacturing sector of the economy to "stimulate specific activities and promote structural change". Given the situation of Cambodia's capacities and environment, Cambodia's core industrial policy is to focus more resources on, and provide more incentives to, attract investment into those sectors, where Cambodia has comparative advantages as thrust areas for export promotion.

Therefore, as part of industrial policies, Special Economic Zones (SEZs) becomes a key bridge for Cambodia to attract FDI by establishing better combination of policies incentives, infrastructure and facilities. According to the literature, an SEZ is a generic term that covers recent variants of the traditional commercial zones and normally operates under more liberal economic laws. The Royal Government of Cambodia recognizes that SEZs are an important part of the country's economic development because they create an investment climate conducive to the enhancement of productivity, competitiveness, national economic growth, export promotion, employment generation. Therefore, in 2005, Cambodia passed sub-decree 148 and formally introduced SEZ in Cambodia. Until now, 21 licenses have been granted by the government and there are six zones are under operation and 15 zones being implemented.

This paper believes that SEZs are crucial in terms of understanding regional integration and identifying the key constraints for further development for Cambodia. Besides that, the research team obtained more first-hand information and experiences about zones by visiting three different SEZs in Cambodia during the field trip. Thus, it would be more interesting and helpful to focus the analysis and reflection on SEZs in the Cambodia case study. In addition, the status quo of industrial sectors and economic reforms are also important to establish a broad and representative picture of Cambodia's capacities in terms of strategy development, economic reform, FDI attraction and sector-specific policy formulation. Therefore, this part will start with the presentation of the general picture of Cambodia which results in the needed economic reforms mainly brought by foreign investors. Then, the report will focus on the result of the two features, which is a very particular policy "SEZ Policy", to better construct the analysis and reflection.

3.2 Industrial sectors

The Cambodian economy has experienced rapid growth for the last two decades. The gross domestic product (GDP) has multiplied four times from USD 2.8 billion to USD 11.2 billion during 1994-2010, with an average annual growth rate of approximately 9.05 per cent. The growth rate of the industry sector per annum was 13.2 per cent during 1994-2010. Despite the high growth rate, the macroeconomic performance is considered poorly diversified and the main source of growth is concentrated mainly in four sectors: agriculture, garment, construction, and tourism.

Cambodia's endowment structure is characterized by a relative abundance of natural resources and unskilled labour and a scarcity of human and physical capital. Its main industrial sectors include garments, food manufacturing, construction, electricity and mining. Therefore, it is crucial to present the general picture of Cambodia's sector-specific industrial policies to establish a comprehensive analysis, and obtain relevant knowledge about economy diversification in Cambodia. In order to see whether and how Cambodia's government is working on industrial diversification, the report will analyse in-depth the garment, construction and agriculture (agro-industry) sectors according to their contributions on economy growth.

3.2.1 Garment

Garment, as nearly half of the industrial sector, is one of the most important industries and accounts for 70 per cent of Cambodia's exports. It has been the main growth engine for Cambodia. The employment in this sector rose rapidly from only 18,700 people in 1995, reached its peak at 335,000 in 2007[145]. Therefore, Cambodia should pay more attention on garment industry and develop related strategies and policies to achieve better performance. However, Cambodia's government has not yet developed very efficient and feasible strategies to accelerate the further development of garment industry. Cambodia's garment industry still "*lacks other related industries such as fibre, dyeing, subsidiary materials, etc. in the supply chain of the garment*."[146] Although Cambodia's natural conditions are suitable for cotton production, there is virtually no local textile manufacturing which can reduce 80 per cent cotton cost from import. These factories remain at a level of sewing factories, focusing on offering Cut-Make and Trim (CMT) services, only 25 per cent of the enterprises are involved in full garment production from fabric to CMT to packaging and shipping to abroad, and Cambodia's competitiveness in the global garment market is rated as very weak[147]. There is no clear evidence that the government is trying to diversify garment sector by extending related industries from only sewing to fibre and dyeing among others.

	1995	2000	2005	2006	2007	2008	2009	2010
Number of Factories	20	190	247	290	292	284	243	262
Employment (thousand)	18.7	162.4	283.9	334.1	335	324.9	278.4	319.4

Figure 23: Garment sector employment (Unit: Thou)

Source: Ministry of Commerce of Cambodia
Note: The number of factories indicates the "effectively operating" factories, not the registered ones.

[145] Ngov, Penghuy. ASEAN Economic Integration and Cambodia's Industrial Policies, 2011, p. 79
[146] Vathana Duong TE, Joosung J. LEE and Donghu Hahn, Cambodia's Industrial Growth Strategy and the Role of Social Enterprise-With focus on Garment Industry , p. 1
[147] Ibid.

	2001	2005	2006	2007	2008	2009	2010
USA	840.9	1546.1	1847.17	1956.53	1908.33	1512.62	1853.85
EU	323.33	503.1	601.04	654.25	689	644.71	809.48
Japan	9.21	23.5	29.37	28.5	25.17	44.56	86.47
ASEAN	1.86	2.29	2.56	3.18	10.76	6.92	9.91
Others	26.91	178.3	218.7	296.44	352.93	356.51	463.64
Total	1202.21	2253.29	2698.84	2938.9	2986.19	2565.32	3223.35

Figure 24: Cambodia's Garments and Textiles Export (Unit: Million USD)

Source: Ministry of Economy and Finance of Cambodia

3.2.2 Construction

In addition to the garment sector, the construction sector has been booming since 2002 at an annual average level growth rate of 15%, accounted for 7% of GDP and 0.7 point of GDP growth over 1998-2007[148]. Among industrial sectors, construction accounted for 27% of the industrial sector and 33% of the investment in the sector. Construction of infrastructure, accommodations, business and shopping centres flourished in the capital city of Phnom Penh and its surroundings, creating lots of employments and rapid increase in GDP. However, in late 2008, together with the international financial crisis, the construction sector in Cambodia was influenced. Many planned constructions were forced to delay or downsize, which are due to two main reasons, first is the capital constraints for the supply side, while the second is the reduction in market demand, particularly for condominium. The construction business, especially in Phnom Penh, began to recover in 2010 after both the world and Cambodian economy improved. Cambodia's construction projects are mainly implemented by foreign companies, and only a small fraction of construction materials are manufactured locally, such as simple bricks, other important materials, such as concreted pipes, slabs and panels, and galvanized iron steel, are imported. With regards to further development, Cambodia's National Strategy Plan (2009-2013) made it clear that continued rehabilitation and construction of physical infrastructure would be one of the four strategic "growth rectangles" for Cambodia, including transport infrastructure, water, energy, power grids, and IT. Thus, construction will still be one of the most important sectors in Cambodia's economy for future decades.

3.2.3 Agriculture (Agro-industry)

The Cambodia government also regards agriculture as another strategic "growth rectangles" and proposed to enhance these aspects: "*(1) improved productivity and diversification of agriculture; (2) land reform and clearing of mines; (3) fisheries reform; and (4) forestry reform.*" As one of the four development pillars, agriculture accounted for 35% of GDP in 2009, and approximately 60% of the population relies on the sector for their livelihood. Therefore, the development trend of this sector has a significant implication for poverty reduction and economic performance of Cambodia. The agriculture in Cambodia is driven mainly by the production of crops and is dominated by rice. According to the World Bank (2009), 80% of farmers grow rice, 60% of them for subsistence. Rice plantation covered 2.8 million ha in 2007, which is equivalent to two thirds of arable land and 90% of cultivated land in Cambodia. The production of rice grew from 4 to 7.2 million tons between 2000 and 2008, 80% increase in 8 years. As the domestic consumption of rice in Cambodia is around 3 million tons, this means that there is a surplus of about 3-4 million tons of paddy rice in Cambodia for export, including 2 million tons milled rice surplus.

In order to make full use of this rice surplus, the Cambodian government adopted the "Rice Policy"[149] in 2010, which aimed at improving paddy rice production and milled rice export. In order to develop the "Rice Policy", the government and relevant research bodies accomplished the assessment on rice circulation, including production, collection, trade

[148] Ngov, Penghuy. ASEAN Economic Integration and Cambodia's Industrial Policies, 2011, p. 80

[149] "Policy Document on Promotion of Paddy Rice Production and Export of Milled Rice", adopted by Cambodian government in 2010

facilitation, and market expansion; identified the key constraints and problems for these processes; developed relevant policies measures to address the key constraints and problems on the basis of Cambodia's context; and established clear working targets in terms of different processes. After one year of implementation, the outcome of this policy was quite good, according to an interview with a WB economist. Within one year, the export of milled rice reached 100,000 tons from 20,000 tons. In 2009, the milled rice were exported to 14 countries, while in 2011, the market reached to 32 countries. Cambodia is competitive in milled rice due to the lower price and similar quality comparing to Thailand, Vietnam and Africa. However, the biggest constraint for Cambodia in developing processing rice was the lack of capital, Cambodia attracted some investors and established some good milling factories, most of them are join ventures of Chinese and Cambodian investments. Actually, the "Rice Policy" is the only sector-specific industrial policy which was highly evaluated by the ADB and WB economists during the interviews.

3.3 Economic reform

The general picture of Cambodia shown above indicates a need for economic reforms which are mainly brought by foreign investors. Since the creation of the Law on Investment (LOI) in 1994, Cambodia started its efforts towards attracting FDI to the country. There was also a transition from a centralized planned economy to a market economy. Therefore, there are important policies proposed and implemented by Cambodian government, which were mainly economic reform policies, included the privatization of State-Owned Enterprises (SOEs) and the attraction of FDI as the core policies.

3.3.1 Privatization of SOE

The main objective of the privatization of SOEs[150] was to reduce the government's fiscal burdens in supporting the enterprises and attract FDI to supplement the devastated domestic industry. As Cambodia's SOEs were relatively small in size and in technology accumulation, the privatization process was carried out rather smoothly. As one of the core economic policies was to make Cambodia transform from a centrally planned economy to a market-oriented economy, the reforms of SOEs have played a significant role in Cambodia's economic history.

The stages of privatization of SOEs in Cambodia can be divided into two phases. The first phase happened in the late 1980s and continued to 1993. "*During this phase, Ministries simply privatized their own enterprises under their direct supervision, negotiating the terms of sales/leases and brought the revenues directly into the Ministries' budgets*"[151]. The second phase started in 1995, and its target was to tighten and centralize control over the whole process by an "*inter-ministerial privatization committee under the leadership of the Ministry of Economy and Finance*"[152].

Before the privatization, there were 187 SOEs in Cambodia. By the end of 2000, 160 SOEs had been privatized, of which 139 were leased to the private sector, 12 transformed into joint-ventures, and eight sold outright and eight liquidated[153]. In 2007, there were 17 major SOEs operating in Cambodia with a total market capitalization of 6,195,887 million Riels (approximately 1.5 billion USD), 14,251 employees, and 1,503,257 million Riels (approximately 375 million USD) total revenue[154].

The privatization of SOEs was a necessary policy choice for the country to move from a planned to market economy, and the process itself was considered successful, because the actual existing period of SOEs' operation during the planned economic system was quite short and the scale of SOEs was relatively small.[155]

3.3.2 Attracting FDI

Encouraging private and foreign investor participation is the most important priority for the Cambodian economy development. Recognizing the successful development experiences of other countries in the region, where FDI has played an important and crucial role, Cambodia is determined to attract as much FDI as possible for the country. In August 1994, the National Assembly passed the Law on Investment (LOI), signifying the beginning of the liberal foreign investment regime in Cambodia. The law allowed FDI firms to engage in most sectors of the economy and to have 100% ownership. Only a few sectors have some constraints for FDI in terms of conditions, local equity participation, or prior approval from the relevant authorities, including the manufacturing of cigarettes, movie production, rice milling,

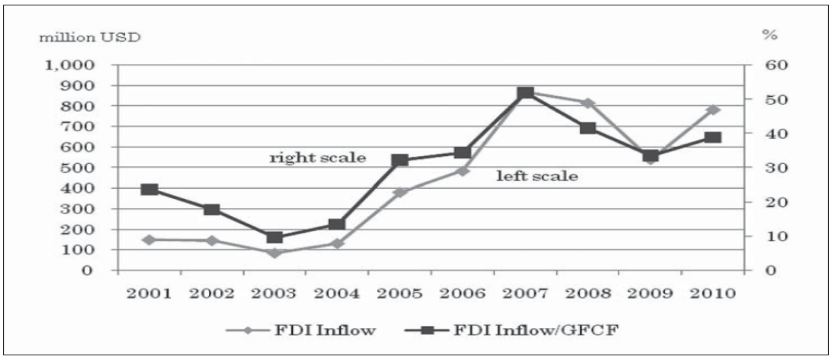
150 Ngov, Penghuy. ASEAN Economic Integration and Cambodia's Industrial Policies, 2011, p. 83-84
151 Ibid
152 Chuon Naron, Hang, "Policy on State-Owned Enterprises", 2008
153 UNCTAD, An Investment Guide to Cambodia, 2003, p. 74
154 Ngov, Penghuy. ASEAN Economic Integration and Cambodia's Industrial Policies, 2011, p. 83-84
155 Ibid

exploitation of gemstones, publishing and printing, radio and television, manufacturing wood and stone carvings, and silk weaving. Comparing to China's three Laws and relevant Acts about FDI, Cambodia's LIO is quite aggressive, which reflects the strong political will towards attracting FDI to boosting domestic development.

In 2003, the 1994 LOI was amended to "*limit discretion, improve transparency and reduce administrative burden, as well as increase state tax revenues*"[156]. According to the amended LOI, the corporate tax was raised to 20% from 9% for all projects, except for natural resource businesses, which was raised to 30%, and 9% or 0% for existing and tax exempted qualified investors. Furthermore, reinvestment of profits and repatriation of earnings was tax-free according to the 1994 LOI, while under the 2003 amended LOI they are now subject to taxation.

As indicated in Figure 28, FDI inflow into Cambodia was very low from the 1990s to the 2000s. Starting from 2004, the annual FDI inflows rose rapidly, making a 10-fold increase from its low level in 2003 and reaching its highest level in 2007. However, due to the 2008-2009 international financial crises, this increasing trend was interrupted. FDI inflows into Cambodia in 2009 dropped to 539 million USD from 815 million USD in 2008. In 2010, the FDI inflows recovered a little bit because of the slowly recovery of FDI in the global level, and almost arrived the similar amount of 2008. By September of 2011, the Ministry of Commerce (MoC) and the Council for the Development of Cambodia (CDC) approved 1,736 projects worth US$38.51 billion in total.

Similarly, the ratio of FDI inflows to gross fixed capital formation also started to increase from 2003, reaching 51.9% in 2007, indicating the increasing significance of foreign investment in the Cambodian economy. Although the ratio of FDI inflows to gross fixed capital formation reduced dramatically due to same reason in 2008 and 2009, its average ratio during 2001-2010 accounted for 29.6%, and almost twice that of Vietnam's 17.1% during the same period. However, this phenomenon also provides the strong evidence of the underdevelopment of domestic investment, so that Cambodia had no choice but to rely on foreign capital and technology to achieve economic and social development targets. Thus, Cambodia's government had no position in selecting FDI by its natures and long term targets; even they knew it is important for scientific and rational industrialization.



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

Figure 25: Trend of FDI and FDI-Gross Fixed Capital Formation Ratio

In terms of the country of origin of investors to Cambodia, China ranked the first, followed by South Korea shown in Figure. Investment from China during 1994-2010 totalled USD7.7 billion and was allocated among many sectors, mainly including garments, textiles, industrial parks, infrastructure, and hydropower. Investments from China are strategic and a large portion of which directly contributed to the basic infrastructure development of the country. FDI inflows from South Korea were USD2.9 billion during 1994-2010. Their main investments are in real estate development, the banking sector, and construction.

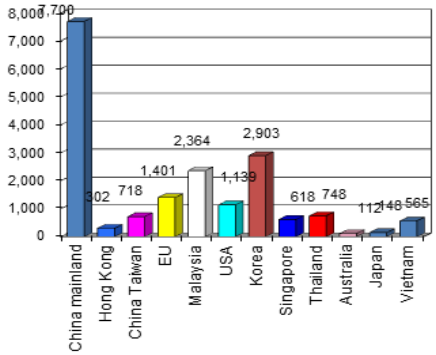


Figure 26: Investment Trends by Country in Cambodia 1994-Oct2010[157]

156 UNCTAD, An Investment Guide to Cambodia, 2003, p. 74

157 Source: Council for the development of Cambodia

3.4 Investors

As the big players in the region, both China and Japan investment play a significant role in socio-economic development in Cambodia particularly, especially in infrastructure and human resources development. Because of the historical and political reasons, Cambodia has stronger economic relations with China (see figure 1). Recent years, Japanese investors increased the investment in Cambodia because of the political relations between the two countries and investment environment changes in Cambodia. It is hard to avoid the conflict of interests between China and Japan in Cambodia, but from Cambodian perspective both China and Japan have good will to help Cambodia to get out of poverty rather than competition to gain political interests.

3.4.1 Chinese Investment in Cambodia

In the history, bilateral relations of Cambodia and China dated back to 13th century. These two countries practiced tributary type of international relations. Khmer Kingdom sent tributes to China which was regarded as the centre of universe. The inflow of Chinese people into Cambodia since early provided a people to people linkage. These ethnic Chinese bring with them culture and traditions which are latter integrated into significant part of Cambodian culture. Chinese-Cambodians play an important role in the Cambodian commerce and business sector as well as being dominant in the Cambodia's political scene. They also have very strong links with Guangdong, Hainan, and southern part of China.

The modern Cambodia-China relations started from 1950s after Cambodia gained independence from France. The first meeting between Sihanouk and Zhou En Lai in 1955 at Bandung non-aligned movement meeting marked the beginning of the modern relations between the two countries. Diplomatic relations between China and Cambodia started from 1958. Since 1990s, China-Cambodian relations turned to a new phase of development. Leaders of the two countries maintained frequent contacts and exchanges of visits.[158] The relation between China and Cambodia was improved to Comprehensive Strategic Partnership in 2010 under the background of globalization.

As to Chinese, Cambodia can reach loans more easily from China and it is Chinese strategic partner. In China, they have the strategy of “GO Global”, the central government wants to improve capital to go global and encourage investors to go out of China And Chinese investors could get financial support easily due to the government commitment. Moreover, the investors from Yunnan province are active participating investment in Cambodia. The Association for Economic Cooperation and Trade Promotion between Yunnan and Southeast and South Asia (ECTPA) signed an investor facilitation cooperation agreement with Chinese Chamber of Commerce in Cambodia, aimed to seek business opportunities in the country.

China was the biggest investment country in Cambodia. According to the reports of the Council for the Development of Cambodia, from 1994 to October, 2011, there have been nearly 400 Chinese investment projects in Cambodia with the accumulative investment of more than 8.8 billion U.S. dollars. Meanwhile, the bilateral trade between China and Cambodia was 12.95 million dollars in 1992 and increased to 2.5 billion in 2011.Cambodian Prime Minister Hun Sen hailed the Chinese government for encouraging her potential investors to Cambodia, saying the Chinese investment here was hugely contributing to the country’s development[159].

Chinese investment in Cambodia mainly in hydro-power dams, mineral resources, textile and garment industry, banking and finance, tourism and agriculture concentrates on industry. There are more than 20 Chinese firms exploring mineral resources such as metallic minerals, titanium, bauxites, and copper in Cambodia, adding that also hundreds of garment factories in Cambodia are invested by Chinese. Almost 90 percent of the textile industries in Cambodia are owned by Chinese investors. Almost most hydropower plants are invested by Chinese companies. China is also impressed with the

[158] Chheang Vannarith, “ Cambodia: Between China and Japan”,2009, p4.

[159] Dong Qing, “The trade between China and Cambodia in 2011”, 2012. http://www.chinadaily.com.cn/

development of special economic zones in Cambodia and pledged to attract Chinese investors to set up manufacturing factories in the Sihanoukville Special Economic Zone[160]. Many Chinese products could be seen everywhere in Cambodia since it is cheaper comparing with other imported products so it is suitable for Cambodian consumers.

3.4.2 Japanese Investment in Cambodia

Japan started relations with Cambodia much latter than China in the history. The modern relations between Japan and Cambodia started in early 1950s after diplomatic ties established in 1953. However, because of cold war, the relations between the two countries have been improved remarkably since 1990s when Cambodian conflict was resolved and the liberal democratic political system was introduced. In 1996, Japan promised to increase foreign aid and investment in Cambodia. Since then, Japan supported Cambodia in many fields especially conflict resolution and national reconstruction[161].

However, Cambodia-Japan trade volume is lower than Cambodia-China trade volume due to the lack of Japanese investment and trade link between the two countries. Besides, Japanese investors do not have confidence yet in doing their business because of the lack of rule of law and infrastructure. For Japanese investors, they care more about environment, such as market size, investment climate, emerging market, rather than the incentives. According to the reports of the Council for the Development of Cambodia, Japanese investments totaled US $ 250.6 million since 1994 through October of 2011. In recent years, Cambodia and Japan have seen better ties in trade and investments thanks to the two governments' good relations and Cambodia's improving business environment. Meanwhile, Cambodia government also continues encouraging Japanese investors to Cambodia, promising that the country now is full of political stability. Moreover, in order to push bilateral economic relations between the two countries, both governments of Japan and Cambodia signed an agreement for the liberalization, promotion and protection of investment in July 2008. Because of the two countries' good cooperation in both economics and politics, Japanese investments in Cambodia have increased by three folds in 2011, from 30 million U.S. dollars in 2010 to 120 million U.S. dollars in 2011. Meanwhile, the number of Japanese companies doing business in Cambodia is increasing: the number of member-company of the Japanese Business Association of Cambodia (JBAC) was expected to rise more than 70-80 companies at 2011.

For Japanese investors in Cambodia, they are more focus on manufacturing industries, and the main potential sectors for the Japanese investment in Cambodia are garment and textile, food processing, agriculture and tourism. Japanese investors have a clear strategy from west to east economic corridor and economic corridor. For Japanese perspective, they called the industry corridors; This Industry Corridors is based on the network and on multinational with suppliers. Japanese investors compare the labor, infrastructure and try to set up the network. This network is feasible because of logistics linkage. Industry corridors have the linkage with the industry pools. They have the idea for example the industry corridors; from Bangkok-PP-Ho chi minh, like that Bangkok takes textile, Cambodia make garment, packaged and export in Vietnam.

In terms of the automotive industry, traditionally, the value chain: similar factories are in the middle, and the suppliers are around 50 kilometers, maximum 100 kilometers. They have large automotives factories in Thailand. Usually, there are components produced in Thailand, and further produced or valued in Laos or Cambodia and then final assembly in Ho Chi Minh City and export. Some companies producing agriculture products prefer to locate near to the raw materials.

While in respect of financial development assistance, Japan has been always the top donor and China is emerging to be main donor to Cambodia as well especially in the last few years. From 1999 to 2010, Japan's ODA disbursements to Cambodia were 3057 million dollars. In the past, Japan is more focus on hardware assistance, but now they have already

[160] Xinhua news, 2011. www.peopledaily.com.cn

[161] Chheang Vannarith, " Cambodia: Between China and Japan",2009, p6.

moved to software. Japanese ODA to Cambodia focuses mainly on demining, peace building, infrastructure development, public institutional strengthening, and human resources development. They provided scholarships for students for technical, education for officials to learn the Japanese experiences even ask them to work in Japan government (for 2 years or 6 months).

Year	Loan Aid	Grant Aid	Technical Cooperation	Total
1999	—	27.62	23.25	50.87
2000	1.53	65.32	32.35	99.2
2001	0.21	79.89	40.11	120.21
2002	7.47	48.46	42.65	98.58
2003	7.96	76.68	41.24	125.88
2004	7.35	38.27	40.75	86.37
2005	4.07	53.10	43.45	100.62
2006	9.50	56.93	39.83	106.26
2007	11.36	62.35	39.84	113.55
2008	4.82	70.21	39.73	114.76
2009	19.94	59.40	48.14	127.48
2010	13.54	80.83	53.10	147.47

Figure 27: Japan's ODA disbursements to Cambodia (Net disbursements, USD million)

Source: JICA

3.4.3 Value Chain

Value chains refer to the full range of activities from upstream to final stage of production, encompassing design, processing, manufacturing, and marketing of a product. The initiative to form global networks is normally taken by leading transnational corporations.

As for Japan, Electronic and automobile industries have been the major driving forces for remarkable economic development. Since 1990s, Japanese investors have already established a comprehensive value chain in automobile and electronic industries in Southeast Asia, such as Thailand, Indonesia. Until now, Japanese cars play a predominant role in Southeast market. However, Japanese faces challenges in its value chain because of the high labor cost and atmosphere calamity in Thailand. Especially, after the worst flooding in 2011 in Thailand, some Japanese investors are considering to invest in Cambodia as the supplier of electronic or automobile industry. As of July 2009, there are several manufacturers in Cambodia, such as Suzuki Motor Corporation. On top of these, Honda's Thai subsidiary invested in Cambodia and has assembled motorcycles in this country. Yamaha is preparing to construct assembly plant in the near future. In addition, according to the CDC report, several of the 2011 investments included electric equipment assemblers, something hailed by economists as Cambodia's ascent up the manufacturing value chain. For example, Japan's Marunix, a supplier of electronic parts to companies such as Sony, IBM and Canon, set up an assembly plant in the Phnom Penh Special Economic Zone last year.

In terms of Chinese investors, they are building a value chain in Apparel industry from China to Cambodia. The textile and clothing industry in China has achieved strong competitive advantages since 1990s. However, now they are facing many challenges including industrial upgrading and new forms of trade protectionism. The constant low-price competition not only affects the bargaining power associated with export earnings, but has also resulted in constant international trade friction over Chinese textile and clothing exports from both developed and developing countries since 2005. What's more, the low-end textile and garment firms in the coastal provinces of eastern China have been under great pressure to meet workers' demands for higher wages as well as the impact of the constant appreciation of

the Chinese currency. In addition, China government has been encouraging and supporting efforts by textile and clothing firms to go global with a series of promotion policies and Special Fund[162].

Therefore, more and more of the Chinese textile and clothing enterprises that have invested in Cambodia have a relatively complete value chain in China. Cambodia has overtaken Viet Nam as the best investment destination for Chinese textile and clothing enterprises in the Asia-Pacific region in recent years. It is showed that the subsidiaries of Chinese textile and clothing firms in Cambodia had been gradually integrating into the vertically-integrated value chain of textile and clothing firms in China, thereby becoming an important node in global textile and clothing value chain. However, the majority of the garment factories in Cambodia have been engaged in the simplest activity on the value chain, with the lowest value addition.

Moreover, both Chinese investors and Japanese investors have established a joint-venture company as zone developers to develop SEZs in Cambodia since 2006. It has been known that Phnom Penh Special Economic Zone is the joint venture between Cambodia and Japan. Japanese investors have the clear strategy to make the core parts produced in Thailand, assembled in Laos or Cambodia, packaged and exported in Vietnam. They set up SEZ to attract a lot of Japanese investors in the zone, and can form a value chain in Cambodia. China government has also been actively promoted the establishment of overseas economic and trade zones. It is hoped that industries with domestic competitive advantages and massive production capability, such as textiles, clothing, electronic appliances, construction materials, non-ferrous metals and processing of agricultural products, will be transferred gradually to overseas economic and trade zones in order to avoid trade friction as well as establish international marketing networks. Form SSEZ perspective, the value chain in garment industry will be established in the Cambodia in the future.

[162] Jinmin Wang, Jiebing Wu and Xianguo Yao, (2008)

3.5 SEZs (Industrial Estate) in Cambodia

3.5.1 Summary

Status quo

As a least development country, Cambodia realized the importance of FDI. The establishment of special promotion zones (SPZs) has been an issue for Cambodia ever since the 1960s. From Cambodia perspective, the SPZs are widely recognized as a major potential contributor to growth and development, since it can bring capital, technology, management know-how, and access to new markets. However, the plan was not realized because the government didn't achieve agreement.

Special Economic Zones (SEZ) was finally introduced in Cambodia for the first time in December 2005. Based on a 2005 sub-decree, 21 licenses have been granted by the Royal Government to develop SEZs until now. Most of them have been developed rapidly along the Southern Economic Corridor, in particular in Bavet at the border with Vietnam, Poipet and Koh Kong at the Thailand border. Metropolitan areas and port cities such as Phnom Penh and Sihanoukville have also attracted more attention from investors. The first SEZ in Cambodia was approved in mid-2005 and developed by the Manhattan International Group in Bavet. Now there are 6 zones are under operation and 15 zones under implementing.

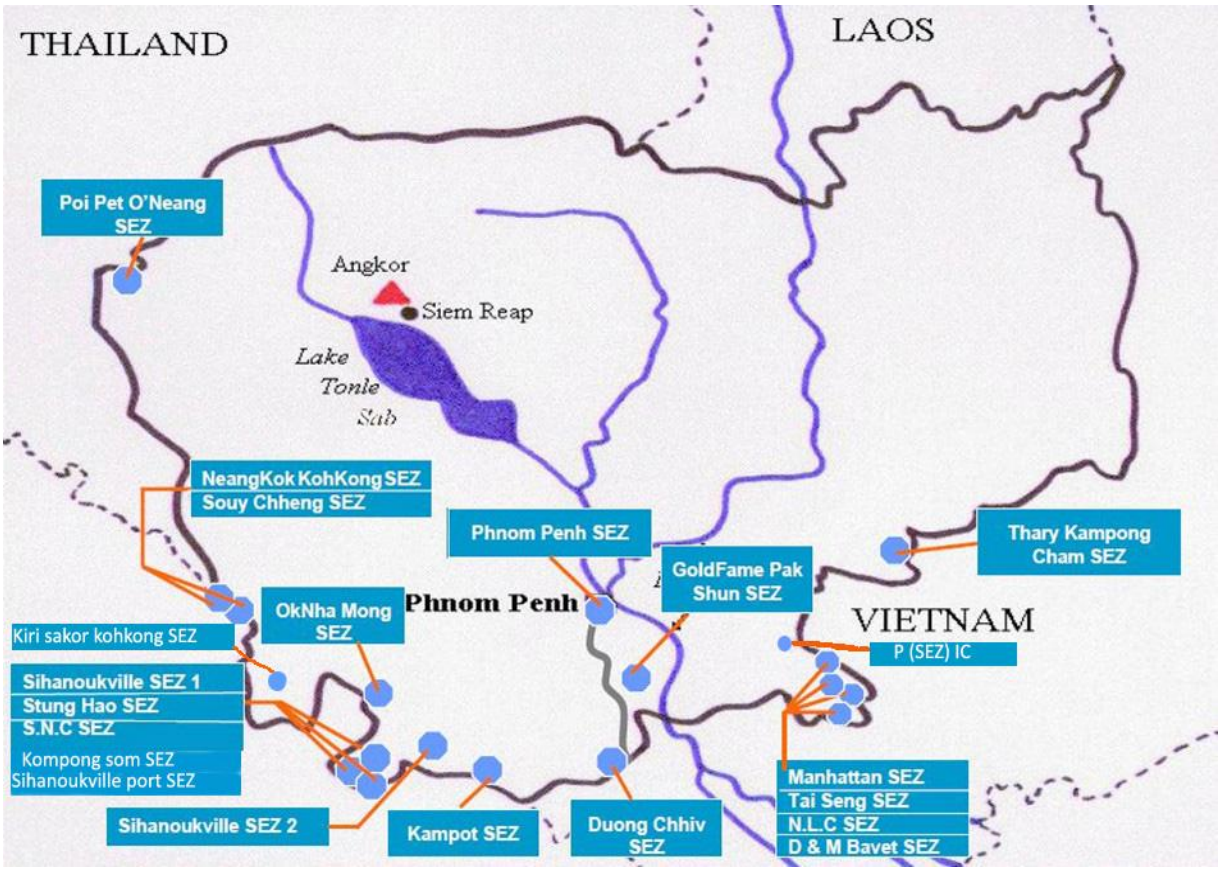


Figure 28: Location of SEZs in Cambodia

No	SEZ	location	Area/capital	Licenses from CDC	Sub-decree
1	Neang Kok Koh Kong SEZ	Koh Kong Province	335.43Ha; N.A	11/2002	10/2007
2	Suoy Chheng SEZ	Koh Kong Province	100Ha 14 million	11/2002	Not yet
3	S.N.C SEZ	Sihanoukville	150Ha 14 million	11/2002	Not yet
4	Stung Hav SEZ	Sihanoukville	192Ha 14 million	02/2005	03/2005
5	N.L.C SEZ	Sray Rieng	105Ha 13million	07/2005	Not yet
6	Manhattan SEZ	Svay Rieng	157Ha 15million	08/2005	11/2006
7	Poipet O'Neang SEZ	Babteay Meanchey	467Ha 15million	10/2005	07/2006
8	Doung Chhiv Phnom Den SEZ	Takepo province	79Ha 28million	02/2006	12/2006
9	Phnom Penh SEZ	Kandal Province	350Ha 68million	02/2006	04/2006
10	Kampot SEZ	Kampot Province	99.6 Ha 15 million	05/2006	01/2007
11	Sihanoukville SEZ 1+2	Sihanoukville	1291Ha 420 million	06/2007	03/2008
12	Tai Seng Bavet SEZ	Sray Rieng	99 Ha 37 million	01/2007	04/2007
13	Oknha Mong SEZ	Koh Kong Province	100 Ha 40million	01/2007	Not yet
14	Goldfame Pak Shun SEZ	Kandal Province	80 Ha 34.4million	01/2007	04/2007
15	Thary Kampong Cham SEZ	Kampong Cham	142Ha 69million	01/2007	07/2007
16	D&M Bavet SEZ	Sray Rieng	118Ha 52.27million	11/2007	Not yet
17	Sihanoukville Port SEZ	Sihanoukville	70 Ha 34 million	02/2008	Not yet
18	Kiri Sakor Koh	Koh Kong Province	1750 Ha N.A	12/2007	Not yet
19	Pacific SEZ	Sray Rieng	107 ha 70 million	01/2009	Not yet
20	Kampong Saom SEZ	Sihanoukville	255Ha 190 million	01/2009	Not yet
21	Stoung Hao SEZ	Sihanoukville	886Ha 128 million	05/2010	Not yet

Figure 29: List of SEZs in Cambodia

Source: Council for Development of Cambodia

Basic concept and condition for an SEZ in Cambodia

According to the "Law on the investment of Kingdom of Cambodia", the Sub-Decree on the establishment and management of the special economic zones define the SEZs and conditions as follows:

Special Economic Zone (SEZ) refers to the special area for the development of the economic sectors which brings together all industrial and other related activities and may include General Industrial Zones and/or Export Processing Zones. Each Special Economic Zone shall have a Production Area which may have a Free Trade Area, Service Area, Residential Area and Tourist Area.

(a) It must have a land of more than 50 hectares with precise location and geographic boundaries.

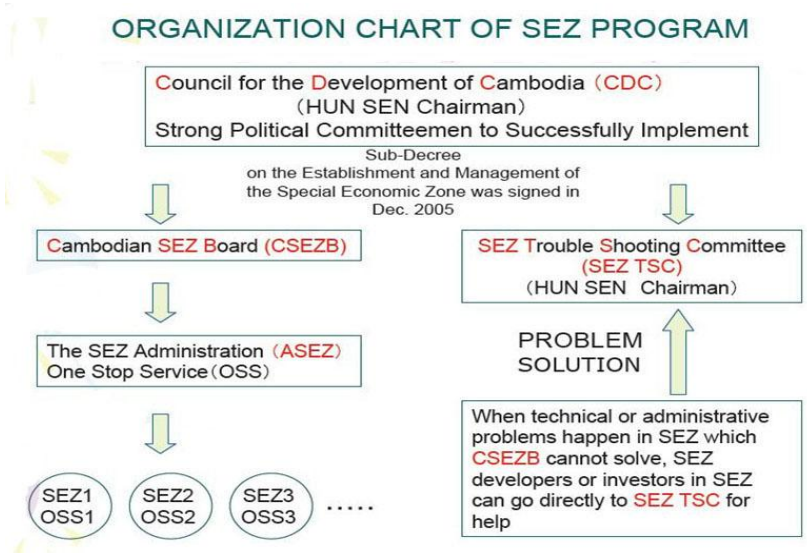
(b) It must have a surrounding fence (for Export Processing Zone, the Free Trade Area and for the premises of each investor in each zone).

(c) It must have management office buildings, zone administration offices, large road network, clean water, electricity, and telecommunications networks, fire protection and security system. Based on each situation, the zone may have land

reserved for the Residential Area for workers, employees and employers, public parks, infirmary, vocational training school, petroleum station, restaurant, car parking, shopping center or market, etc.

(d) It must have water sewage network, waste water treatment network, location for storage and management of solid wastes, environment protection measures and other related infrastructures as deemed necessary.

(e) It must comply with technical requirements, regulations and basic rules on construction, environment and other obligations in the development of Special Economic Zone as defined in the instructions issued by relevant ministries or institutions taking into account the geography and specific size of each zone and pursuant to the existing laws, national and international standards.



Management Framework

After the 1993 election, Laws and regulations on investment in Cambodia are basically designed to encourage investments. The new 1994 Investment Law was therefore enacted, and subsequently another two sub-decrees: the Sub-decree on the Implementation of the Investment Law No. 88 ANKRBK issued in 1997 and Sub-decree No. 53 ANKR-BK on Restriction on Some Sectors of Investment issued in 1999. As the Law on Investment stipulates, FDIs are treated in a non-discriminatory manner except for land-ownership, which is stated in the Constitution, and allowed to invest freely in many areas.

Figure 30: Organisation chart of SEZ program

To govern the SEZ scheme, "Sub-Decree No. 148 on the Establishment and Management of the Special Economic Zone" (the SEZ Sub-Decree) was issued in 2005. In addition, the "Law on the Special Economic Zones" has been drafted by the CDC in 2008.

Council for the Development of Cambodia (CDC). CDC is the sole and One-Stop Service organization responsible for the rehabilitation, development and oversight of investment activities. In 1990s, the Kingdom of Cambodia undertook a program of reform to promote private sector investment when they recognized that the real economic growth necessary to achieve the country's developmental goals lies in the development of a healthy private sector. As part of this reform program, CDC was established in 1994 according to the Law on Foreign Investment in the Kingdom of Cambodia. This law made the CDC as the highest decision-making level of the government for private and public sector investment. It is chaired by the Prime Minister and composed of senior ministers from related government agencies. On 29 December 2005, "Sub-Decree No.147 on the Organization and Functioning of the CDC" was issued to restructure the organization of the CDC and a new wing of the CDC called the "Cambodian Special Economic Zone Board (CSEZB)" was established to manage the SEZ scheme. The Cambodian Investment Board (CIB) and the Cambodian Special Economic Zone Board (CSEZB) are the CDC's operational arms for private sector investment. CIB deals with investment projects out of special economic zones (SEZs) and CSEZB takes charge of investment projects in SEZs. They review investment applications and grants incentives to investment projects meeting the requirements laid out in the Investment Law. This

law streamlined the foreign investment regime and provided generous and competitive incentives for direct private sector investment[163].

"Sub-Decree No. 148 on the Establishment and Management of the Special Economic Zone "apply to all activities of relevant ministries or institutions of the Royal Government of Cambodia, Zone Developers and Investors in the Special Economic Zones permitted to invest and have obtained Investment Incentives and guarantees from the Cambodian Special Economic Zones Board and the Special Economic Zones Administration. The Management Structure of the SEZs sees figure 10. Relative responsibilities are as follows:

Cambodian Special Economic Zones Board (CSEZB) refers to the Cambodian Special Economic Zones Board under the authority of the Council for the Development of Cambodia which is established by a Sub-Decree. CSEZB is in charge of the development, management and supervision of the operations of the Special Economic Zones.

The "Special Economic Zones Trouble Shooting Committee (SEZ TSC)", which is located at the CDC, has a duty to promptly settle all issues occurring in the SEZ, whether pertaining to technical or legal aspects, or issues under the joint jurisdiction of ministries or institutions and beyond the competence of the SEZ Administration or the CSEZB. It has the further duty to be a mechanism to receive any complaint, and find solutions to such complaints filed by Zone Developers as well as by Zone Investors.

Special Economic Zone Administration refers to the State administration management unit which is the "One-Stop Service (OSS)" mechanism at the site of the Special Economic Zone and set up by the CSEZB in order to be permanently stationed in each SEZ. OSS has the duties to approve and issue permits, licenses and registration to the Zone Investors, including the approval of incentives, pursuant to the full authority delegated by the line ministries and institutions, and to address all requests related to the management competence of the State, concerning investments in the zone.

Zone Developer refers to a Cambodian or/and foreign natural or legal person, who implements the Qualified Investment Project, and permitted to invest in the development of physical infrastructures in the zone, and organization of business, services and ensuring the safety and security of the Zone Investors.

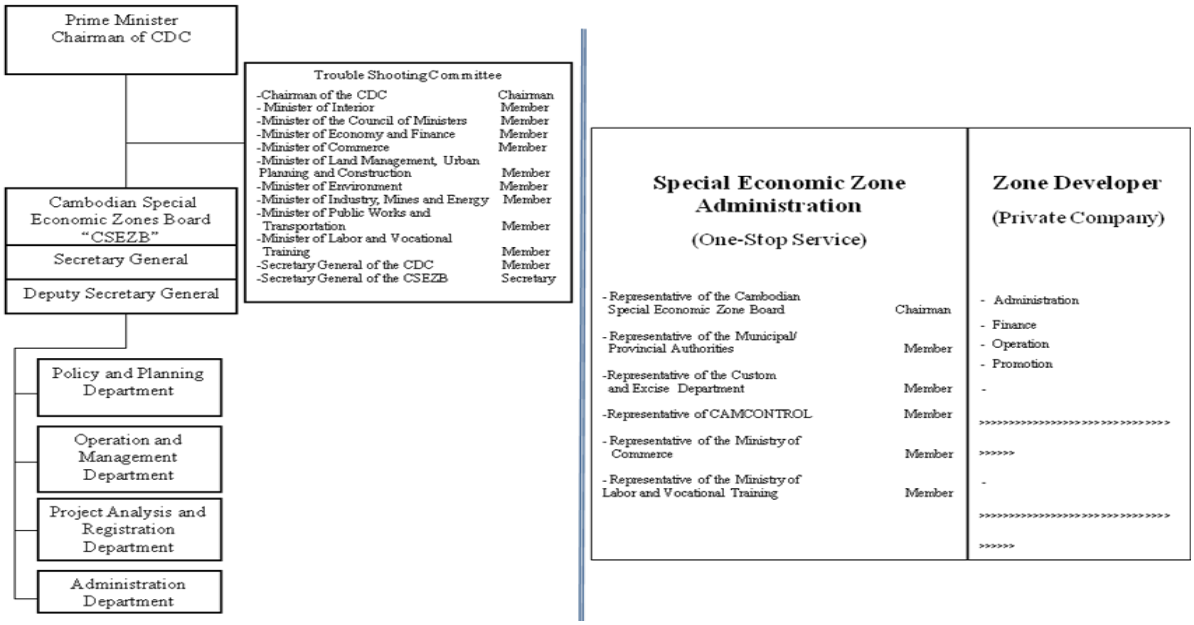


Figure 31: Structure at CDC and at each SEZ

[163] Website of Council of development of Cambodia

Tax Incentives and tools

Cambodia has adopted a number of laws and regulations to improve its open economy and encourage foreign investment. Currently, Cambodia offers investors one of the most liberal investments regime and tax incentive scheme in Southeast Asia. Below are some key incentives:

General Incentive entitled as a QIP

Under the Law on Investment (Article 2 and 6, "Amended Law on Investment"), the investor can receive a Final Registration Certificate (FRC) and enjoyed general Incentive entitled as a QIP (Qualified Investment Project)

Receive profit tax exemption or use special depreciation (selective)

1. Profit tax exemption: Tax holiday period is composed of "Trigger period" + 3 years + Priority period (Maximum total 9 years);
    a. "Maximum trigger period" is the first year of profit or 3 years after the QIP earns its first revenue, whichever sooner.
    b. "Priority period" is determined by the Financial Management Law (max. 3 years).
2. Special depreciation: 40% special depreciation allowance on the value of the new or used tangible properties, which are used in the production or processing.

Incentives in the SEZ

The Cambodian Special Economic Zones Board examines and provides incentives to all Special Economic Zones in the Kingdom of Cambodia. Based on "Sub-Decree No. 148 on the Establishment and Management of the Special Economic Zone" (the SEZ Sub-Decree),

Beneficiary	Incentives
Zone developers	- The exemption period for the Tax on Profit shall be provided for a maximum period of 9 years, in compliance with article 14.1 of the Law on the Amendment to the Law on Investment. - The import of equipments and construction materials to be used for infrastructure construction in the zone shall be allowed and exempted of import duties and other taxes. - The Zone Developer shall receive custom duty exemption on the import of machineries, equipments for the construction of the road connecting the town to the zone, and other public services infrastructures for the public interests as well as for the interests of the zone. - The Zone Developer may request, under the form of a temporary admission (AT), the import of means of transport and machineries used for the construction of the infrastructures in accordance with the laws and regulations in force. - - The Zone Developer may obtain a land concession from the State for establishing the SEZ in areas along the border or isolated region in accordance with the Land Law, and may lease this land to the Zone Investors.
Zone investors	The same incentives on customs duty and tax as other QIP shall be entitled. - The Zone Investor entitled to the incentive1 on Value Added Tax (VAT) at the rate of 0% shall record the amount of tax exemption for its every import. The said record shall be disregarded if the Production Outputs are re-exported. In case the - Production Outputs are imported into the domestic market, the Zone Investor shall refund the amount of Value Added Tax as recorded in comparison with the quantity of export.
Common	- Zone developers, investors or foreign employees have the right to transfer all the income derived from the investment and salaries received in the zone to banks located in other countries after payment of tax. - The Zone Developer and the Zone Investor are entitled to obtain the investment guarantees as stated in Article 8, Article 9 and Article 10 of the Law on Investment in the Kingdom of Cambodia and other relevant regulations. - Non-discriminatory treatment as foreigners, non-nationalization and no-fixing price

Figure 32: Incentives in the SEZs

Special Customs Procedures

It has been decided that the special customs procedures shall be applied to the SEZ (Prakas No. 734 MEF on the Special Customs Procedures to be implemented in SEZ, dated September 11, 2008).

1) SEZ located within 20km from the official border

- For importation: At border check point, only present and provide the duplicated copies of goods and not required to submit customs declaration. No customs seal shall be affixed. The goods shall be transported through the Seamless Route. At SEZ gate, submit Customs Summarized Declaration. Customs officers shall preliminarily verify the identification of involved staff, mean of transport and related documents then allow the goods to be transported to investor's premise. Importer can use the imported goods without the presence of customs offices.

- For exportation: The customs procedure must be conducted in the SEZ. If no irregularity found, goods shall be immediately released to the border with copy of relevant export documents. At border check point, present the customs export documents to customs officer for verification. If no irregularity found, the goods shall be released for export.

2) SEZ not located within 20km from the official border

- For importation: Applying the National Transit Procedure. Containers must be sealed by customs officers.

- For exportation: The customs procedures must be conducted in the SEZ and the container be sealed before shipping out to border.

Incentive on VAT Exemption

Extended without specific time limit by the Prime Minister's Notation on Letter #2128 SHV (MoEF) dated on 2 March 2010 of Ministry of Economic and Finance on the request to continue the temporary suspension of VAT for the investors in the Special Economic Zones. The imposition of VAT shall be automatically suspended for the following. This incentive shall not be applied to the immovable property development project in the SEZ.

-The construction materials, production equipments and materials to be imported by Export-oriented QIP in SEZ.

-The construction materials and production equipments to be imported by Domestic Manufacturing QIP in SEZ

-Products produced by QIP in the SEZ, which will become the production input to other QIP in the same SEZ.

Other unusual advantages to international investors

a) 99-year lease of land for foreign individuals and companies, the lease is renewable for another 99 years, and transferable

b) No restrictions on international currency transfer and remittance

c) 100% foreign ownership for any business

Comparison of three SEZs

Dimension	Phnom Penh SEZ	Sihanoukville SEZ	Port Authority Sihanoukville SEZ
Operating since	2008	2008	Under construction
Size	360 hectares	178 hectares	70 hectares
Location	Inland (near capital)	Coast (Sea Port)	Coast (Sea Port)
No. of investors	36	17	3 under negotiation
No. of operating firms	19	13	34 anticipated
Nationality of Developer	Japan & Cambodia	Chinese &Cambodia	Cambodia SOE
Primary nationality of investors	Japanese	Chinese	Cambodian
No. of jobs created to date	15,000	5000	-
No. of jobs anticipated	100,000	100,000	25000 to 30000
Investment to date	$138 million	$100 million	-
Sectors	Garment, footwear, food processing, electrical equipment	light industry, including garment, bags and electronics…	Products using more shipment

Figure 33: Comparison of Cambodian SEZs

Source: Personal interviews

SEZ Name	Land Price (US$)	Utilities Cost (US$)					Major Markets
	Land Price	Land use	Ready built factory	Electricity	Water	Waste water	
PPSEZ	50/m2	50/m2 (99 years)	Leasing 5 years 2.5/m2/year	0.15/kwh	0.30/m3	0.26/m3/ month	Dom Foreign
SSEZ		22-27/m2 for 50 years	Opt.1:0.8/m2/month Opt.2:2.5/m2/month	0.15/kwh	0.25/m3		EU USA
SPSEZ	55-65/m2			0.0025-0.00275/KVA/month			

Figure 34: Utility cost in Cambodian SEZs

Source: SEZs websites and presentations

3.5.2 Phnom Penh Special Economic Zone (PPSEZ)[164]

Figure 35: PPSEZ

Over the past decade Cambodia has adapted a wide range of free market policies, with a business-friendly and proactive government seeking to encourage investment and manufacturing in the country. The capital Phnom Penh is strategically located in one of the world's most attractive destinations for your long term and secure investment. To compete in a highly competitive global business environment, the Royal Government of Cambodia has liberalized export policies & licensing and implemented tax reforms providing various incentives to investors. It has also promoted the creation of economic zones – self-contained, fully serviced SEZs providing a range of attractive incentives

[164] PPSEZ website and personal interviews

to their customers. The SEZs are considered growth engines that boost manufacturing, augment exports and generate employment for the country.

Location

PPSEZ is located at the heart of the region's east-west corridor, and along highway NO. 4 connecting to Sihanouk Ville, Cambodia's main sea port providing easy sea access to Japan (via Ho Chi Minh City) and Singapore. It is only 8 km away from Phnom Penh International Airport and 18 km from (30 minutes drive) to the capital city center, where the Phnom Penh port is located (Mekong river port). Furthermore, it also takes advantages of the South Corridor project oriented by ADB which links Bangkok in Thailand and Ho Chi Minh City in Vietnam. In the near future, there will be linkage to the main train line (passing Phnom Penh SEZ) from Phnom Penh to Sihanoukville (Kompong Som) and later Vietnam to offer investors direct access to a global logistics network.

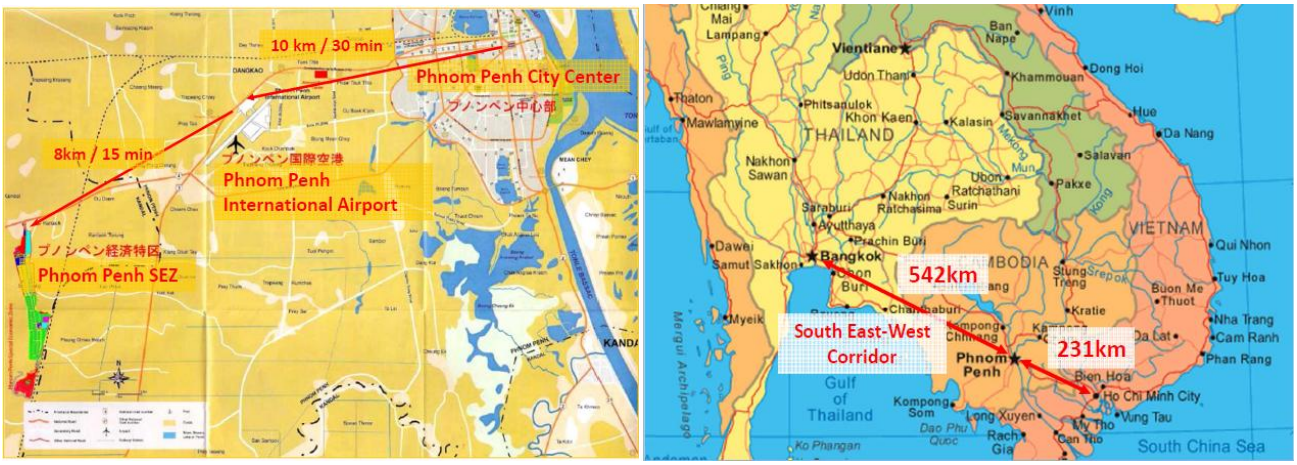


Figure 36: Location of PPSEZ

Developer

Phnom Penh SEZ, as a leading SEZ in the Kingdom of Cambodia and major industrial park, was approved by the Royal Government of Cambodia on April 19th, 2006. It is operated by a joint venture of Lok Chumteav Oknha Lim Chhiv Ho and Zephyr Co., Ltd. (Tokyo, Japan) with a 27 million US dollars' registered capital.

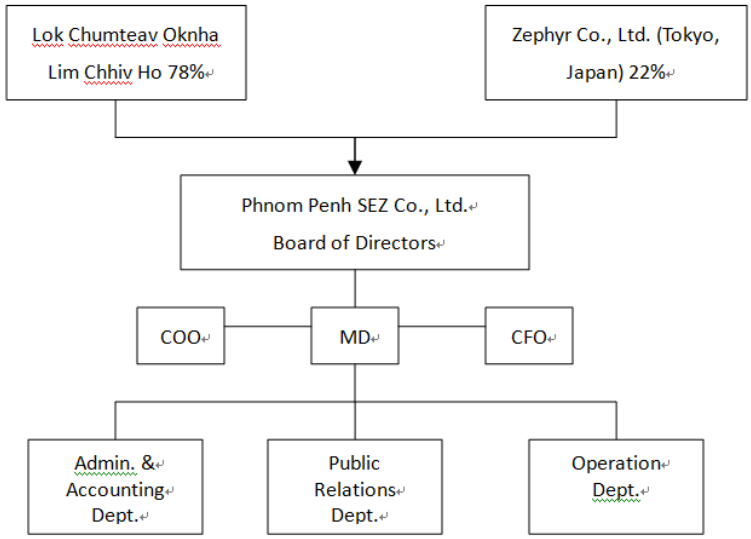


Figure 37: Organisation structure

Facilities

Totaling 365ha, Phnom Penh SEZ is being developed in 2 phases, with phase 1 providing 58 factory lots, and a further 20 ha set aside for residential and commercial development to support and provide the factories, their management and workforce. Currently available factory lots range from 0.4ha to 1.6 ha in size.

In Phase 1, the infrastructure work was completed in April 2008 with independent power station, water purification / sewage treatment plant and

Telecommunication operated every day; in Phase 2, the work started from January 2011. Until now, there are quite sound infrastructural facilities such as roads, generation and distribution of power, water supply, sanitation and sewage systems, flood-safe dike and drainage system, telecommunication networks, dry port, commercial service, residential and leisure units in the PPSEZs, which provide more attractions and conveniences to the investors.

- Industrial land selling price: 45US$/$m^2$
- Industrial land leasing price: 0.50US$/$m^{2/}$Month (Deposit: 6 months of leasing price)
- Factory rental fee: 1.60 US$/$m^2$/Month (Standard Specification)
- Water Supply Cost: 10% cheaper than PPWSA (Est. US$ 0.30/m^3)
- Sewage & Waste Water Treatment Cost: (Est. US$ 0.35/m^3)
- (Calculation Method: based on 80% of purchase water volume)
- Electricity Cost: 10% cheaper than EDC (Est.US$0.15/kwh)
- Infrastructure maintenance Fee: US$ 0.06/m^2/Month
- PPWSA: Phnom Penh Water Supply Authority
- EDC: Electricite Du Cambodge

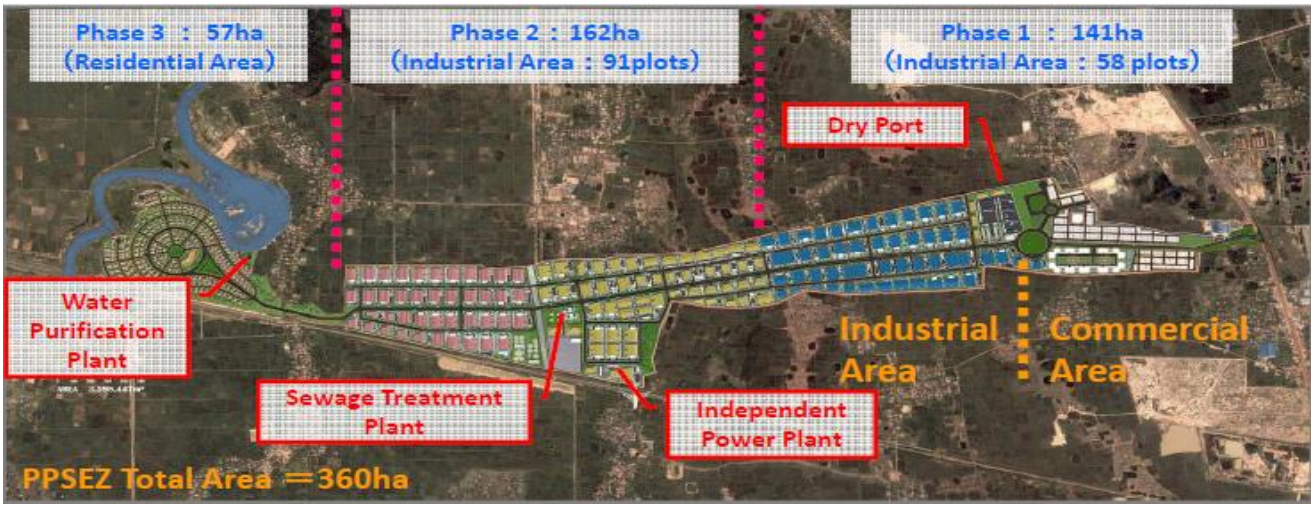


Figure 38: Development Phase of PPSEZ

Source: PP SEZ website

Investment

Until February 2012, 36 investors have established their factories or operations within the SEZ or decided to invest here. 19 of them have already operated, 11 are under construction and the other 6 are preparing their investment applications. Among them, 20 come from Japan, 7 are from China (including Taiwan), and the other 9 investors are from Malaysia, Singapore, Cambodia, South Korean, Thailand and Vietnam. The total investment of the projects is about 140 million US $, and almost three quarters are from Japanese investors.

After the developer accomplished its Phase 1 construction, it faced significant difficulty in attracting investment due to the international financial crisis. Thus, in 2008, the developer built office building and factory workshop for a Japanese shoes company to invite them to come to the SEZ. Because of the success of this company, there are an increasing number of Japanese investors recognizing the investment climate in the SEZ and deciding to invest here. Furthermore, the developer targets on attracting small and medium size companies, which usually spending less time in selecting locations, while the big ones always spend more time due to their complicated procedure in decision making. Moreover,

the developer also takes care of the registration process for investors to facilitate their projects. Hence, the PPSEZ becomes one of the concentrated locations of Japanese investors.

Main sectors

PPSEZ encourages light, medium and labor intensive industries to join Phnom Penh SEZ, such as:

- Mechanical and electrical products destined both for export and the local market
- Light chemical industries
- Garment, shoe and fashion industries
- Food processing and agricultural industries for regional and local markets
- Consumer products (pharma, transportation, packaging etc.)
- Assembly of pre-produced parts to final product for regional and local markets
- Logistics companies

Now in the PPSEZ, the main sectors are garment, shoes, food processing and some other light and labor intensive industries. Meanwhile, there are also a few of companies producing motorcycle, medial device, and small motor. However, they are more about assembly or less innovation oriented production, which are always located in the lower level of value chain.

One Stop Service (OSS)

Companies investing in Phnom Penh SEZ are enjoying a wide range of support from government institutions based on site - minimizing administrative efforts and providing direct access to solutions, particularly for the OSS. The PPSEZ Administration Office (One Stop Service Center) has started operation since 1 September 2008, H. E. Chea Vuthy, the Deputy Secretary General of CDC, is the Chairman of the PPSEZ Administration Office. The OSS services are in partnership with relevant government authorities, including: Council for the Development of Cambodia, Customs & Excise Department, Import Export Inspection & Fraud Repression Department, Ministry of Commerce, and Ministry of Labor and Vocational Training. They are in charge of Investment Application, Import / Export permit, Custom Clearance, Issuance of Certificate of Origin, Work Permit and Support for Labor Issues.

Furthermore, there are more institutional arrangements of Cambodia government to deal with private investment, which could help PPSEZ in attracting more investors. The Council for the Development of Cambodia (CDC), chaired by H.E. Samdech Hun Sen, Prime Minister of the Royal Government of Cambodia, has 2 arms to deal with private investments: firstly, the Cambodia Investment Board (CIB) with 24 provincial/municipal investment sub-committees responsible for investments in Cambodia; secondly, the SEZ committee, chaired by the Prime Minister, responsible for addressing investments in the Special Economic Zones (SEZ). On top of this structure, the investors' feedback, and their input are addressed in a government-private sector forum held every 6 months under the chairmanship of the Prime Minister, with deep interaction of key members of the Royal Government with representatives of the private sector.

Opportunities

Location: easy access to airport, river port, sea port, central location in Cambodia, and better road network with Thailand and Vietnam.

Infrastructure: sound infrastructures, including independent power supply, water supply, sewage system, flood dike system, reliable telecommunication and internet.

Market access: Phnom Penh itself provides a market of 2 Mio consumers within 30 minutes from the SEZ. Moreover, the PPSEZ offers easy and highly profitable access to the Japanese, US and European markets. Most of Cambodia's export

products enjoy duty-free and quota-free (DFQF) treatment by the European Union, Canada, Australia, New Zealand and Norway. Cambodia also enjoys DFQF for more than 8,000 tariff lines in the USA and Japan. Furthermore, the Republic of Korea and China have extended similar treatment for many products from Cambodia, while ASEAN's 6 founding members provide duty-free access for Cambodian products under the ASEAN Integration System of Preferences (AISP). Hence, Producing in PPSEZ for export to the above markets is an economic and fast way for investors to propel their products to the world market.

Labor: Comparing to the other regions of Cambodia, Phnom Penh has more population and better education, which leads to more reliable labor supply and better labor skills. Furthermore, compare to Thailand, the average labor cost in Cambodia is quite low. The minimum wage set by government is only 61$, while Laos is 66$ and Bangkok is 200$.

Sound service: As the SEZ operators, they closely cooperate with all government authorities to create an investor-friendly environment able to accommodate investors at the PPSEZ. They established an international management team from Cambodia, Malaysia, Japan and Singapore to provide assistance in facilitating various investors' local management and work force with different languages and cultures.

In addition to administrative services for set-up and investment registration, they also provide value-added services in legal, accounting, assisting with customs clearance and labor management through relevant government agencies.

Improve service

To train PPSEZ staff to enhance customer-first attitude; to provide full support for investors to facilitate transactions by coordinating with government officials; to support for recruitment of workers from local communities and provinces, and promote smooth relations between employers and employees by advising adequate knowledge of labor management for new foreign investors labor management; to open a vocational school by collaborating Cambodian government and international organization targeting next year; to invite more commercial service providers to locate in PPSEZ to improve the convenience for investors.

Figure 39: Sihanoukville city

3.5.3 Sihanoukville Special Economic Zone (SSEZ) [165]

Sihanoukville: the Gateway to the world.

Sihanoukville is located on the coast of Cambodia, between Ho Chi Minh City Eastern Economic Area on one hand and Bangkok and Western Seaboard Economic Areas on the other hand, where the industrial clusters have been formulated especially by Japanese manufactures. The area connecting Bangkok and Ho Chi Minh City is expected to achieve further

[165] Personal interviews

economic growth, thanks to the improvement and development of road networks as well as the liberalization and facilitation of cross border trade.

Rehabilitation of Preah Sihanouk Province International Airport has also been completed. The airport has acquired the extended runway with 2,500m long, which can accommodate jet planes. The operator of the airport, SCA, also plans to expand the runway to 4,000m in future. In addition, Cambodia Angkor Air, a national airline of Cambodia, was officially launched in July 2009 and intends to provide regular flight services between Phnom Penh, Siem Reap and Preah Sihanouk.
Moreover, the Sihanoukville Port is the only international deep seaport in Cambodia. The Port is directly connected with the two major international hub ports: Singapore Port and Hong Kong Port, and further linked with the overseas major markets through these two hub ports. Therefore, Sihanoukville, is the gateway to the world.

There are four SEZs in Sihanoukville, but now only two are under construction, including Sihanoukville Special Economic Zone and Sihanoukville Port Special Economic Zone.

Sihanoukville special economic zone is currently the biggest one in the Kingdom with the investment from China (and Cambodia), which again testifies the close economic and political ties between Cambodia and China and those between the top leaders of both countries. This SEZ was approved in 2008.

Figure 40: Location of SSEZ

Location

SSEZ is located in the sole international port city in Sihanoukville. It is 3 km from Sihanoukville deep water port, 12 km from airport, close to no.4 national highway and only 210 km away from the Phnom Penh. It has good location and convenient transportation.

SSEZ has a total plan area of 11.13 km^2. The planning of 5.28 km initial area will be a total investment of 320 million USD with textile & clothing, machinery & electronics and high-tech products as the leading industries. It will be an integration of EPZ, Bonded zone, Trade zone and living zone.

At present, there are 17 firms and 5000 employees in SSEZ. The investors are from all over the world, including China Japan, Unite States, France, and Ireland. But most of them are Chinese investors from east and south part of China, such as Jiangsu, Zhejiang and Guangdong province.

Figure 41: The Gate of the SSEZ

The zone developer has built 1000 dormitories in the zone and later plan to build more. But because of more investors come in, they need more workers. Now, most of employees live near the zone. So some of them need to come to work by trucks or bikes, it takes them 30 minutes from home to the zone.

Zone developer

Sihanoukville Special Economic Zone, is a joint venture SEZ, Co-operated by China Jiangsu Taihu Cambodia International Economic Cooperation Investment Co.,Ltd. and Cambodia International Investment Development Group Co,.Ltd. It is one of the first batch of overseas economic and trade cooperation zones approved by ministry of

commerce of PRC. It has been paid high attention by top leaders including the Premier Minister of the two countries and has gained preferential policies which supplied by two governments. Jiangsu Province maintains close and friendly communication with Cambodia. The province's Wuxi City is sister city to Cambodia's Sihanoukville City.

Jiangsu's HongDou Group won the bid to build the zone. Construction started in February 2008. Hongdou Group Co., Ltd., is a Jiangsu-based enterprise in clothing, tire, biological pharmacy and real estate.

Strategies/Objectives

The initial area of 528 Ha of SSEZ will develop textile & garments, metals & machinery, and light industry & home appliance as the leading industries, and be integrated by Export Processing Zone, commercial and living area as well. It is supposed to attract over 300 investors and accommodate nearly 100,000 people when completed.

Figure 42: Illustration of plan of SSEZ

In the future, the zone developer also plants to set up industry chain in the zone. Such as garment, they plan to build textile factories, garment factories, and some could be the buyer and some could be the supplier. The zone developer also wants to open Scholl and training centre in the zone. Besides, power plant is under consideration.

Figure 43: Garment factory in SSEZ

Key sectors

The Sihanoukville Special Economic Zone mainly targets companies in textiles, light machinery, and the home appliance and electronics sectors. The master plan about the zone divides the zones in sectors, some area for garment; some area is high-tech; some area for electronics, and some area for others.

Now, Key sector in SSEZ now is light industry, including garment, bags and electronics, etc…Japanese investor in the zone now is electronics; and US, Ireland and France investors are garment.

Number	Name of firms	sector	status	investors
1	NanGuo Garment Co.,Ltd	garment	open	China
2	Wan Hai Hanger Co.,Ltd	hanger	open	China
3	The Brilliant Shoes Co.,Ltd.	shoes EVA	open	China
4	Hongdou International Garment Co.,ltd	garment	open	China
5	OUFEIYA Leather Co.,Ltd	Leather	open	China
6	Galey Global Cambdia Co.,Ltd	garment	open	USA
7	Keeptop Sporting Goods Co., Ltd	diving dress	open	China
8	Forest wood (Cambodia) Co.,Ltd	Manufacturing	open	China
9	ZhongZheng (Cambodia) Co.,Ltd.	bags	open	China
10	Horseware Products Ireland Ltd	horseware	open	Ireland
11	Worldtec Cycles(Cambodia)Ltd	bicycle	open	China
12	Wealth Steel Industry Engineering Co.Ltd	Steel	open	China
13	Asle Electronics (Cambodia) Co.,Ltd	Electronics	open	Japan
14	Rebacca Hair products Co.Ltd	Hair	preparing	China
15	Izumi Electronics (Cambodia) Co.Ltd	TV	preparing	Hongkong
16	Cambodian Gateway Underware CO.Ltd	Underware	preparing	Hongkong
17	Sure Success Industrial Co.,Ltd	Stationery	preparing	Hongkong

Figure 44: Firms list in SSEZ

Source: Personal interviews in the field trip

Governance in the SSEZ

According to the law, SSEZ is governed by CDC. At first, the zone developer builds the infrastructures and factories after they got the permission from CDC. When the investors come, they can have both choices, lease the land or lease the factory.

Relative services provided by Sihanoukville Special Zone:

- "One-stop" management service: project approval, planning management, building management, labor and human resources; one-stop-service will under operation after the Spring Festival in 2012.
- "Package service" support: registration, visa application, product and equipment export and import customs declaration, commodity inspection, recruitment and training assistance, service of Cambodian speaking personnel.
- "All-round" perfect service: tailor the plant and associated facilities to the investors; provide basic facilities for production, living; assist in financing, provide economic and trade information and recommend business partners.
- Other services to the investors in the future, such as training, security, etc…

3.5.4 Sihanoukville Port Special Economic Zone (SPSEZ)[166]

Location of SPSEZ

The Sihanoukville port locates in Thailand gulf, and operated by a state enterprise- Port Authority of Sihanoukville, which is under the ministry of finance (MOF) and ministry of public works and transport. From MOF, they could get finance support and they ask for technical support from MPT.

The port is linked with Phnom Penh by national road NO.4 and national road NO.3 and almost 260 km railway. The port is the southern part transportation, the sole international deep sea transportation, and multiple transports of the state. It has direct connection with many Asian ports without any changing to different methods. There are 5 lines (shipping companies) call for the port. RCL is the biggest one, and there are also MUC, SITC, ITL, APL and COTS (local company). The capacity of PAS in its present condition estimated at about 950,000 tons per year and PAS can accommodate ships of 10,000-15,000 tons deadweight.

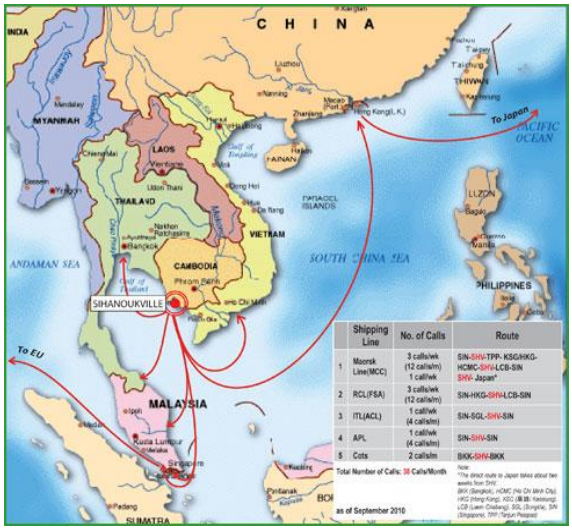


Figure 45: Location of SPSEZ

The port has experienced 5 phrases in its development (details on the brochure). They are working on the SEZ phrase in 2009 and 2011 and the phrase of Multiple-purpose terminal development project (2012-2014).

Sihanoukville Port SEZ (SHV Port SEZ) is adjoining the SHV Port, directly connected with Phnom Penh, the capital city, via National Road No.4, which is the most reliable and well rehabilitated road in this country.

	2006	2007	2008	2009	2010	2011
Total cargo throughput (tons)	**1,586.791**	**1,818,877**	**2,057,967**	**1,874,095**	**2,217,150**	**2,439,384**
Container throughput (TEU)	**231,036**	**253,271**	**258,775**	**207,861**	**222,928**	**237,941**
General cargo throughput (tons)	**197,573**	**193,572**	**291,114**	**241,494**	**374,801**	**372,554**

Figure 46: Cargo Throughput of the Sihanoukville Port

Source: Sihanoukville Port

The distance from Phnom Penh is about 230km and 3.5 hours by car. Also, the SHV Port SEZ is connected with the Thai and Vietnamese borders within 3 hours by national roads.

[166] SPSEZ website and personal interviews

Figure 47: SPSEZ

Furthermore, the SHV Port SEZ is adjacent to the Sihanoukville railway station, which is the final destination of the Southern line of the National Railway. At present, the rehabilitation project funded by the Asian Development Bank is on-going. The utilization of railway will provide significant benefit for the investors in the SHV Port SEZ in future.

Developer

Sihanoukville Port SEZ (SHV Port SEZ) is the only Zone developed by State-owned Company. Port Authority of Sihanoukville (PAS), is the executing agency of this project and therefore, is a zone developer of the SHV Port SEZ. SHV Port SEZ was established for materializing the concept proposed in "the Master Plan (MP) Study for Phnom Penh – Sihanoukville Growth Corridor Development" carried out in 2003 by JICA, as ODA of the Government of Japan. One of the MP's concepts was to establish a special promotion zone which develops new industries in Cambodia in order to diversify the export commodities and accumulate new technologies by Foreign Direct Investment (FDI) in the city of Sihanoukville.

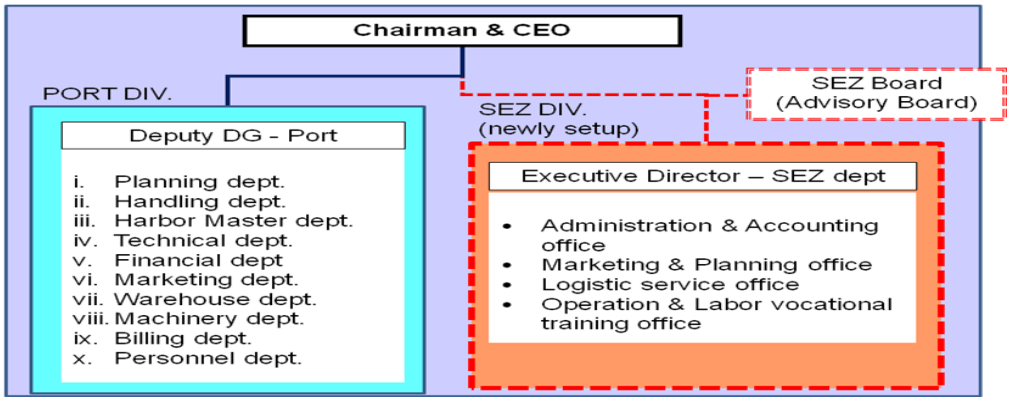
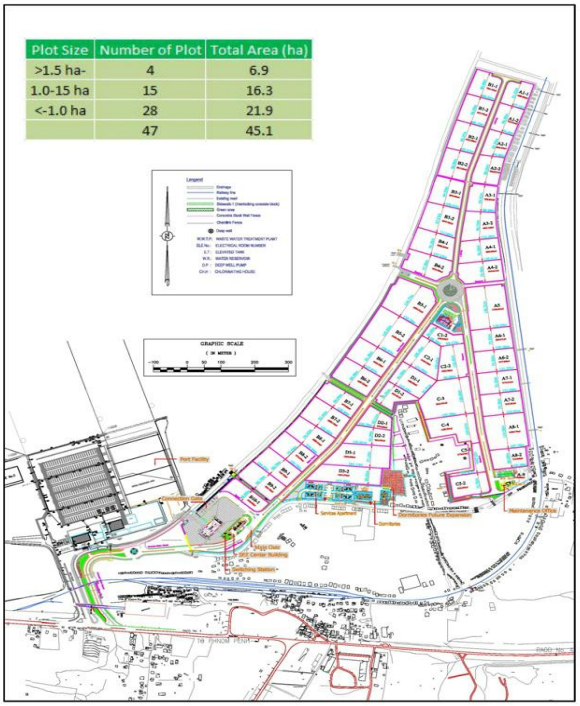


Figure 48: Management structure of SPSEZ

Strategies/Objectives

SHV Port SEZ is aiming to supporting Phnom Penh-Sihanoukville Growth Corridor, reducing the Poverty of Cambodian People, Supporting the Private Sectors, creating around 25,000 to 30,000 employment opportunities for younger generation in Sihanoukville, and Providing opportunity for human resources development through new employment , auxiliary training and transferring technology, as well as supporting the Sihanoukville Autonomous Port as a backup service.



Plot Size	Number of Plot	Total Area (ha)
>1.5 ha-	4	6.9
1.0-15 ha	15	16.3
<-1.0 ha	28	21.9
	47	45.1

Figure 49: Master plan of SPSEZ

As to the SEZ project, it covers 70 hectares area, and now it is under construction: the entire infrastructure, such as building, roads, electricity, water, etc. furthermore, there are also several investors are still under negotiation. For the multiple purpose terminal project, which includes two main parts, dry bulk cargo terminal and oil exploration logistic base. Furthermore, there was a new airport put into operation in the city, which is 16 km away from the port.

Investment in SHV Port SEZ

Sihanoukville Port SEZ is the only SEZ developed as an ODA project with cooperation between Cambodian and Japanese Governments.

on March 20th 2006, Japan government signed an ODA loan agreement totaling up to JPY318 million with the Royal Government of Cambodia (RGC) for design stage of the SHV Port SEZ development project, and subsequently signed on March 31st 2008 another ODA loan agreement totaling up to JPY3,651 million for the construction stage.

Preferential sectors

Sihanoukville Port SEZ was planned to complete construction at the end of 2011, and the investor will come to zones in 2012. As the zone developer, PAS prefers the firms who could produce more goods and use more cargos. Furthermore, as a public owned company, they are more focus on social responsibility. They concern about how many containers and how many jobs could be created by the SEZ. Preferential industries of the zone as follows:

a. Assembling (motor bike, bicycle, electric, vehicle, etc…);
b. Manufacturing (Metal processing, Rubber processing, Plastic processing, , etc...)
c. Food processing;
d. Jewelries;
e. High-end international brand goods;
f. International logistics.

Advantages of SPSEZ

Sihanoukville Port SEZ is the most strategic and potential location for Cambodian Industrial Base, along the Cambodia Growth Corridor, adjoining the Sihanoukville Port which is the only deep sea port in Cambodia. From the port to another Sihanoukville SEZ to the port, the cost is only about 90 US$; Compare with the cost to Phnom Penh SEZ, it costs 250 US$.

The cost of transportation and custom procedure of SPSEZ are low, there are only 2 times for custom procedure. However, in other SEZ in Sihanoukville, custom procedures are 4 times. The containers can move from SPSEZ directly to the ship. In addition, as the state owned company, zone developer can get special support from the central Government.

3.6 Key findings

3.6.1 The comparative advantages of Cambodia

In order to attract the investors to Cambodia, the government lists several advantages included, but not limited to: free market, sound macroeconomic environment, strategic location, Preferential Trading Status, low labor cost and tax incentives.

Sound Macroeconomic Environment with Stable political environment

Cambodia has transformed to an open economy since early 1990s, and has improved year-by-year on the level of economic freedom. Cambodia real GDP growth averaged over 9% during 2000-2007, the highest rate of any low-income countries in Asia, while the inflation was controllable at a low rate compared to neighboring countries. In addition to strong dollarized economy of the country, local currency (Khmer Riel) is pegged to US dollar within a stable range. Moreover, Cambodia has also offered confidence to foreign investors through its recent political stability and improving legal system, i.e. introducing Anti-Corruption Law and the investment law can protect investors' benefits.

Conveniently Located

Cambodia is located at the heart of what has been known as the most dynamic region of the world economy for the past several decades: South-East Asia. The country borders Thailand to the west and northwest, Laos to the northeast, Vietnam to the east and southeast, and the Gulf of Thailand to the south. Moreover, Cambodia has easy access to seaports and airports. It has an access to ASEAN and World Markets. Deep sea port

Preferential Trading Status

According to the Paris Peace Accord in 1993 and open sky policy from the Royal government, Cambodia joined and became a member of various international and regional organizations that facilitate trade, which in turn the country can enjoy preferential trading status on duty-free privileges for exports and Most Favored Nation (MFN) treatment, including ASEAN, WTO, and ASEAN-China Free Trade Area (ACFTA). Moreover, Cambodia also possesses other beneficial agreements such as ASEAN-China comprehensive Economic Cooperation Agreement, ASEAN-Japan Comprehensive Economic Partnership, ASEAN-Korea Comprehensive Economic Cooperation Agreement and a dozen other multilateral agreements with developed countries including USA (Generalized System of Preference – GSP) and European nations (Everything But Arms policy). With these regional integration and agreements, investors have the greatest opportunity to reach billions of customers with preferential access. Any trading companies of Cambodian or foreign nationalities, registered with the Ministry of Commerce, are allowed to freely engage in import-export activities, 0% import duty or reduced import duty for Cambodian exports.

Cheap Labor Cost

Low labor cost is another reason for investing in Cambodia. The population of Cambodia is 14 million and more than 8.8 million (or 61%) of total population and the median age is only 23 years. Among the emerging countries in the region, Labor cost is lowest. The minimum wage of Cambodia is 61 USD/month in 2011.

Countries	Cambodia	China	Laos	Vietnam	Thailand
Monthly minimum wages(USD)	61	173	85	85	295

Figure 50: Comparative Monthly Minimum Wage for GMS Countries

Source: global wage report 2010/2011; Interviews in Cambodia.

3.6.2 The main obstacles of Cambodia

Governance

A top-down manner in policies design and implementation

The Cambodia government seems able to elicit information from a selection of the business sector on an ongoing basis about the constraints that exist and the opportunities that are available, however, the spaces for interaction with non-state actors in terms of policy making is too limited, particularly for the participation of poor stakeholders. Moreover, the lack of transparency and evidence-based analysis make the policies and actions represent particularistic interest groups rather than overall. Central government is strong and seems capable of coordinating different public sector institutions with regard to policy formulation and implementation, while local governments almost have no position in policy making even they are the main actors in policy implementation[167].

Highly centralized regulatory framework in terms of SEZ issues

Regarding to the relevant institutions, they are more administrative perspective, and do not have too much autonomy, and the final decision power related to SEZ issues are dominated by CDC. Meanwhile, the horizontal interactions among different ministries seem not enough. During the interviews, when we raised questions related to SEZ, almost all the non-CDC officials suggest us to get information from CDC. Besides that, as local administrative bodies, local authorities are isolated from the management and regulation of SEZ. Because all the issues related to SEZs are decided by central government and controlled by CDC. Meanwhile, local government has no position to deal with the issues related to SEZs unless invited by CDC to take part in the process. Furthermore, there is not direct benefits for local authorities to booster and develop SEZs. Because all the tax generated in SEZs are collected directly by central government and go to the national revenue and will be re-allocated according to central government budget, which is not directly related to local authorities and local revenue. Even the economic performance of SEZ will not be calculated as local performance. Thus, although better development of SEZs may bring more jobs, economic activities, prosperities to the local communities, it is not directly related to local authorities and their benefits. Hence, they are reluctant to participate into the process of SEZs issues.

[167] Maharajh, Rasigan, Case Study on "Industrial Policy in Cambodia", 2009, P. 40

Lack of capacity building in administration

The state remains structurally weak; it has proved unable to make effective decisions and to implement them successfully. The state still has a poor administrative system and continues to provide inadequate public safety and order. Administrative structures in the country are rudimentary, inefficient and subject to both military and political manipulation. Overall, the administrative structure has improved in recent years, but continues to suffer significantly from widespread corruption and extremely low levels of technical skill[168].

In terms of human resources in government, getting support from the human resources training projects oriented by ADB, officials' capacities have been improved in terms of public management. However, the official capacities are still not enough for present requirements and lower than other East Asian countries'. Furthermore, many interviews pointed out that there is problem of lack of human resources within public sector. The officials are reluctant to go to SEZs located near the border and far from Phnom Penh where their family lives. Thus the government has to recruit some local people to work in the SEZs; however, sometimes they don't have very good capacity in terms of administrative managements.

High level of rent-seeking within the government system

Cambodia suffers from a range of governance and anti-corruption challenges, including vote-buying and political financing scandals to privatizations that have tended to favor a small group of wealthy elites. Judicial appeals offer little redress for most citizens or small businesses: "*For politically-related [court] cases, the following is the rule of thumb: For my friends, everything they want. For my enemies, the law.*"[169] The NIS study of Cambodia found that corruption is "*so widespread and deep-rooted [that it] will take years of reform and restructuring of [the] existing systems*". Corruption has "*permeated almost every aspect of Cambodian life*". Many Cambodians have to pay bribes and informal fees for medical care, school grades, court verdicts, traffic "violations" and marriage and birth certificates. It is not surprising that "*the average Cambodian views most sectors of the economy as corrupt*"[170]. During the interviews, when talking about the corruption issues and anti-corruption law, almost all the officials denied the existence of corruption and emphasized the significance of the law, while the interviewees from non-public sectors obviously stood for a contrary position.

Incentives

Widely existing non-standard tax administration and informal fees

Although there are tons of aggressive incentives, the actual implementation and enforcement are not at the similar level. In the interviews, investors claim that government officials exact tax penalties excessively and some investors regard the non-standard tax administration as a major constraint. And "*a large number of administrative fees, including informal fees, present a major burden although zone investors report that unofficial fees are lower inside than outside the zone*s. Even among zone investors, the fees paid by individual firms varies widely because these fees are usually negotiable and without any payment proofs"[171]. Our field trip shows that the developers provide the payment receipts for enterprises in terms of various administrative fees, while the government departments in the OSS don't have it. Thus, the unpredictability of the administrative fees, including informal fees, makes it difficult for firms to plan long term. Given that the majority of firms operating in Cambodia are in the manufacturing sector and small investments, it seriously impacts their operations and competitiveness[172]. Moreover, it is very common that the officials working in SEZ

168 Bertelsmann, 2008
169 Global Integrity Report, Cambodia, 2008
170 Transparency International, 2007
171 World Bank. "Promoting Special Economic Zones for Export Development in Cambodia". 2011. p. 14
172 Ibid

OSS or other public service sectors getting allowances from the SEZs developers because of their low salaries, which further increase the investors' cost of doing business in Cambodia.

Resources

Shortage in labor supply

Although the labor cost in Cambodia is low, the labor supply is not sufficient for manufacturing development. The population of Cambodia is very small and it is only 14 million, which is smaller compare with Indonesia and other neighbor countries. Thus, if more investors come to Cambodia and establish more manufacturing factories, the labor force will not be sufficient enough. Moreover, many interviews show that there is difficulty in labor recruitment both for local authorities and firms. In some regions, the local authorities have to work together to recruit more workers for firms. Besides that, there is also a tradition in favor of keeping children with their family in the rural areas in Cambodia. Therefore, in order to recruit enough workers, firms have to pay more salary and benefits, including accommodation, travel, food subsidies even education, to attract workers rather than just provide minimum salary.

Low level of labor skills

In another hand, the lack of labor supply is not only in quantity, but also in quality. The quality of labor in Cambodia is quite low due to the lack of education. Because during the period of 1975-1978, when the Khmer Rouge took power, an estimated one to two million reportedly died. And most of them are well educated. Thus, after that, it is quite difficult for Cambodia to improve education due to the lack of proper teachers and scholars. Furthermore, before 1990s, there were the absences of political and social stabilities in Cambodia, and its economy experienced stagnation. They all contributed to the low education rate and low level of labor skills. Until now, the annual education expenditure only accounts for 1.4% of GDP and due to the limitation of public budget; there are few public investments in education, while the public investment has played a significant role in the improvement of education system in other East Asian countries. During the trip, when we asked some TukTuk drivers to write their names on the receipts, they said they don't know how to write their names even in their own language. Hence, with such kind of labor skill level, it is dramatically difficult to attract high technology companies to invest in Cambodia. Meanwhile, the overall innovation system, including technology, education, policy, management, etc, is quite falling behind too. This increases the difficulties in economic diversifying process.

Missing linkage between actual labor demand and education system

By analyzing the interviews with different stakeholders in related to labor training, it is clear that there is missing communication and cooperation among them in the field of vocational education, particularly in SEZs. There currently is very little interaction between firms and local universities or technical institutes or among the local employment agencies, and the SEZs developers. In fact, firms have to train their low-skilled workers in-house, while the vocational training institutes design their training plans according to the financial supports from Ministry of Finance rather than the actual labor demands of firms. According to World Bank's report, "*currently 48.35% of Cambodian-based firms offer formal training to their workers compared with 47.05% and 34.37% for the region and globally, respectively*" [173].

[173] World Bank. "Promoting Special Economic Zones for Export Development in Cambodia". 2011. p. 14

Lack of market capacity

The market capacity of Cambodia is quite small due to its low level of per capital GDP and a small population. Thus, only the investors benefitting from Cambodia's preference market access for EU, U.S, Japan, and other developed countries will have more intend to invest in Cambodia comparing to other countries in the region. Furthermore, because of the similar development level and economic structure within the region expect Thailand, the overall regional market is not mature enough in terms of high value added products. Thus, it raises a concern for these investors producing commodities targeting local consumption and reduces their interests in investing in Cambodia. In fact, domestic market capacity is very important for investors in investment decisions making, particularly for the MNEs.

Poor infrastructure

Road network in Cambodia is not good enough. All the national roads in Cambodia are Two-lane motor ways. And it is always be quite busy on the motor way from PP to SV. Although there is only 220 km distance, it takes more than 6 hours to take a bus from PP to SV. Because there are lots of heave trucks with containers running quite slow on the motor way, and it is very difficult and dangerous for the buses to overtake since it has to use the opposite way to overtake the heave truck. Just near the Autonomous Port in SV, there is a hill and all the vehicles have to climb on the hill. We found how difficult and dangerous when a bus or a truck overtaking another vehicle. Furthermore the situation of the road is not good enough; it is obviously that there are lots of holes and potholes made by heavy trucks. Electricity costs remain high, even though somewhat lower than outside the zones. A large portion of the country does not have reliable electricity sources. Not all the SEZs has its own generation capacity, some SEZs rely on the imported electricity from Thailand and Vietnam. Furthermore, compare to Thailand and Vietnam, other physical connectivity in Cambodia, such as ports capacity, railway, and telecommunication system in Cambodia is not good enough. For instance, during the trip we spent 4 days in Phnom Penh, both of the two hotels we stayed didn't have internet access which are mainly the accommodation for foreign tourists.

Strategy

Lack of strategies for SEZs from central government

Among the 21 SEZs in Cambodia, only 6 SEZs are operated, and most the others can't smoothly finish construction or even start construction because of their geographic locations, which may not connect with market, road, port, airport, or lack of labor supply, raw materials or investors. This situation indicates that the lack of overall planning of SEZs location and development from government perspective. Even in the market economy, government should have very clear strategies and efficient tools in establishing a business-friendly environment to stimulate private sectors. However, Cambodia government doesn't take actions to the SEZs without further construction and operation after being approved. In fact, the idle of large amount of lands without any planting, construction, and other economic activities is a huge waste in essence. The governments' attitude to these SEZs could be one of the evidences that the government doesn't have overall strategy in terms of SEZs' development and just leaves these SEZs themselves.

FDI focusing on elementary industries

Although Cambodia government has established very aggressive targets and policies to attract FDI and diversify economic components, the main stream of FDI is still limited within garment, construction, food processing and tourism sectors, which are mainly elementary industries and located at very low level of the whole value chain. Therefore, these industrial value added that Cambodia could obtain from the whole value chain are quite limited due to the highest value added parts are usually R&D and circulation, not the manufacture process. Meanwhile, Cambodia also has less capacity in establishing technology or capital intensive industries due to its low level labor skills and shortage in capital. Thus,

because of the extremely shortage of domestic investment capacity, Cambodia's government has to rely on FDI and has no position in selecting FDI by its natures and long term targets, even they knew it is important for scientific and rational industrialization.

Different natures of main investors

In Cambodia, Chinese and Japanese investors have played very significant roles in terms of FDI. Compare Japanese and Chinese investment, the nature of them are different. For Chinese investors, they are more state-played and closed to Cambodia government. And Chinese historically has been longer here than Japan in terms of investment. But they don't have regional strategies and localized attitude. They don't focus on manufactures. They are more on infrastructure, hydropower, construction and garment industry. The environment requirements are not as perfect as Japanese. And Chinese system sometimes is similar to Cambodia. For Japanese, private firm decision and less closed to local government. They prefer to a clear, transparent, and precise invest environment, as well as legal system. These investors are more focus on manufacturing; moreover, some companies producing agriculture products prefer to locate near to the raw materials. In terms of assistance, Japan is the biggest donors. They provide funds both on hardware and software.

Regional integration

Uneven development in cooperation with neighboring countries

Geographically, Cambodia plays as a linkage between Thailand and Vietnam, and has been linked with these two countries by Southern Economic Corridor project initiated by ADB. However, Cambodia's cooperation with different neighboring countries is various because of many political and technical reasons. Regarding the GMS-CBTA, all the 20 documents attached to CBTA have been ratified in Cambodia, and there are some implementations in Laos, Vietnam, and Cambodia on the basis of sub-trilateral agreement. Furthermore, Cambodia issues 300 licenses to vehicles transporting goods and passengers between Cambodia and Vietnam, while they don't have the similar licenses with Thailand. Moreover, because of different technical standards of Thailand and Cambodia, it is difficult for Thailand and Cambodia reach a consensus regarding to trans-border transportation.

Different departments means differences in regional integration

Just as mentioned that although all the relevant documents of CBTA have been ratified, the implementation of CBTA in Cambodia involves many departments, such as Ministry of Transport, Ministry of Immigration, Ministry of Sanitation, Custom Department, etc. At the same time, the different departments have different targets, risks perceptions, and facilitations. For instance, for the Ministry of Transport, they concerns about the different transportation standards in terms of vehicles, logistics and so on, for the Custom Department, how to prevent smuggling and collect tariff and duties are the most important commissions for them, while the Ministry of Immigration will think about the illegal immigration. Therefore, concerning about losing tariff revenue and different inspecting standards became the main reasons for custom's reluctance in implementing CBTA and trade facilitation issues. Furthermore, they are also worried to be locked by Thailand and Vietnam if they implement the CBTA.

3.7 Sub conclusion

Regarding to the industrial policy, the Cambodia government actually doesn't have the capabilities for managing industrial policy programs effectively, and doesn't succeed in creating a consensus on key strategic elements. The political elite are strongly committed to industrial development and structural change with the object of reproducing the current distribution of rents as a means to stay in power. Non-state actors assess the government's industrial policy management capacity is very poor. In addition, although Cambodia has its national strategic 5 year plan which proposed to focus on education, transportation, rural development, economy, water supply, irrigation, health and so on, there are not enough practical and feasible strategies and tools for them to achieve these ambitious targets, particularly in industrialization. From many interviews we experienced, Cambodia's government doesn't have enough knowledge and experiences in terms of sector-specific industrial policy to stimulate sectors' development in a more comprehensive and efficient way. Therefore, although there are some industrial diversifications in Cambodia, such as export of milled rice, high quality shoes, bicycle, motor cars, electronics parts, it is not enough for economic diversification in Cambodia, particularly in terms of the lagging industrial policies, which are still relying on several specific sectors.

However, fortunately the government has already recognized the significance in these issues, in the end of 2011, they held a forum and invited Japanese experts to give lectures and help them in establishing a better and deeper understanding about Japan's industrialization, particularly in terms of developing industrial strategies and policies. Because they held that the status quo of Japan after the World War II was similar as Cambodia's situation nowadays. The Japanese experts showed the incentives they used, how to attract investment in particular sectors, and how to mobilize internal resources to stimulate economy development. This could be evidence that the Cambodia government is making their efforts on formulating better industrial policies to achieve their targets and diversifying their economy.

Cambodia understands that it is not enough to rely on domestic capital since its economy scale and endowments available were too limited to provide enough resources for economy development. Moreover, Cambodia's economic concentration on a few of specific sectors increases risks and vulnerability for Cambodia in related to inside or outside shocks. Therefore, being stimulated by China's experiences in SEZ, Cambodia recognized the importance and functions of SEZs in attracting investments, creating jobs, and reducing poverty, and started to establish SEZs after the creation of sub-decree 148 in 2005.

After several years' practice, **the most important factor for SEZ development is investors; however, they won't make decisions just because of endowments, location or physical connectivity of SEZ.** It is undeniable that SEZs operated in Cambodia have made contributions to local economy development in terms of attracting FDI, diversifying sectors, creating employments, transforming technology, improving labor skills. However, the contributions of SEZs are still quite small due to the few numbers of functioning SEZs. More than 70% SEZs in Cambodia have not been normally operated yet, and most of them are located along the borders, where are supposed to be good locations since they are close to Thailand and Vietnam. Cambodia was thinking to put SEZs along the borders to take advantages of increasing cooperation and integration between Cambodia and these two countries, and reduce poverty in these regions. But in fact, it is not the same as the government previous tentative ideas. SEZs functioning well are those located in Phnom Penh, SihanoukVille and Svay Rieng Province, which are **not along the borders, but having convenient transport links with raw materials, markets or related industries; not near the cheapest labors, but having enough and better skilled labors; not targeting regional markets, but the EU, U.S. markets in the global level.** Thus, it is obviously that most investors decided to invest in some Cambodian SEZs because of the preferential market access, cheap labors and convenient transportation links to world markets or related industries, while not because there are integrated regional

value chain, and integrated regional market, which obviously have not been achieved within GMS due to the obstacles. This provides strong evidence for the low level of regional integration in GMS, particularly for Cambodia.

Besides that, it also proves that SEZs could not be a proper solution in poverty reduction unless some other conditions could be satisfied, including better infrastructure, qualified and sufficient labors, convenient links to upstream or downstream industries, and easy market access etc. So Cambodian government should not have used these SEZs located at the borders as engines for local economic and social development, at least not now. Because they don't have qualified labors, links to downstream industries, and market access, they only have physical links and access to raw materials, which are not enough for attracting investors, establishing regional value chain, or even accelerating regional integration. In addition, some of the SEZs are very close to each other which may cause strong competitions among them and reduce the advantages of all of them. Thus, these SEZs are doomed to failure and can't become engines for local development and poverty reduction unless the government develops proper strategies in terms of labors, links to relative industries, market access, etc for them.

According to China's experience, most of the border regions' developments follow the market-oriented path, which started from civilian trade and resulted in a Border Trade Zone approved by the government with more openness policies especially trade policies. Within these Border Trade Zones, the accumulation and development didn't start from attracting investment, while started from civilians' spontaneous trade practices. Trade happens much easier than investment, because the driving forces of investment are more complicated than those of trade. In general, foreign investors' decisions on investment location depends more on market access, including related transportation. Therefore, assuming that the administration environment is in favor of foreign investment, if the local market is not big enough, compare border and coast regions (including Metropolitan areas), the foreign investors will prefer to invest in coast regions even the endowments in border region are similar as those in the coast regions, unless the benefits obtained from border regions can overweigh the losses generated by not located in coast regions. On the contrary, if the local market is big enough, then the connection to outside world through ports doesn't account as much as it does in the previous situation. Thus, whether located in border regions or coast regions depends on other factors, such as raw materials, infrastructure, labor force, etc.

Under the context of GMS and Cambodia, it obviously belongs to the first scenario, which local market is quite small, even plus regional market. Besides that, due to the obstacles for regional integration, actually there is not unified market generated in GMS. Thus, the foreign investors will prefer to invest in coast regions and Phnom Penh. More than that, most Cambodia border regions are not just far from ports or connections with the world, but also lack of infrastructures, labor supply and other public services. These factors significantly reduce the comparative advantages for these regions. Therefore, the strategy to establish SEZs in these regions is not feasible. **Cambodia government may consider about encouraging civilian trade along the borders to boost local development than just approving disoperation SEZs.**

However, The good news is there are also increasing number of investors considering to move part of their production chains to Cambodia to reduce the business risks caused by concentrated investments, particularly after the Thailand flood. Although one of the reasons of moving to Cambodia is the cheap labors, since the labor costs in Thailand and China have increased dramatically and some sectors will lose their competitiveness if they still stay in Thailand and China, it is fairly helpful for Cambodia in terms of diversifying economy sectors, establishing regional value chain and spilling out technology. But it is just a beginning trend, how it will develop and influence regional integration has not been clear. At least there is one thing confirmed, Cambodia should learn from Thailand, to seize the opportunity, accept the industry transferring and attract FDI as much as possible.

For these SEZs functioning well, it is no doubt that there are many issues and problems constraining their further development and reducing their competitiveness, including political aspect, administration capacity, labor issue, market development, vulnerable infrastructure and uneven regional cooperation. In order to achieve further development and accelerate regional integration, these issues and problems must be addressed by the collective efforts of public and private sectors in Cambodia.

Last but not least, since Cambodia has a more dependency on FDI due to its poor capacity and resources, which has already limited the autonomy of Cambodia in terms of selecting FDI according to its long term strategy, it is crucial for Cambodia government to consider the situation and try to develop a more independent economic system when they accumulate enough capital and resources. Otherwise, it will not be out of imagination that Cambodia would always be the lowest level of value chain, and it might become the “victim” of regional integration.

Chapter IV: Comparison of Thailand and Cambodia

Bangkok & Phnom Penh

4.1 Introduction

This report is focused on understanding the status quo of regional integration in GMS, and identifying the most important pillars and driving forces for further integration by using a comparative analysis of two GMS countries, Thailand and Cambodia. This country comparison considers the factors of their economic performances, locations, strategic positions and potential improvements. Because this report believes that: significant differences in their development levels provide better understanding of the issue; the similar geographic locations and physical connectivity with neighbouring countries will aid the identification of common and collective problems; active involvement of both countries in the ASEAN and GMS mean analysis will be more insightful into the main constraints for further regional integration; Thailand, as a more developed country in GMS, could be the model and competitor for Cambodia, while Cambodia also provides opportunities for identifying its development path according to Thailand's successful experiences and its own context in achieving regional integration. In the second part, this report reflects in a comparative analysis on relevant information raised earlier in the country studies, including: Industrial estates, industrial policies and investment. These factors and method of analysis are crucial for establishing a comprehensive understanding of the two countries' performance and identifying the main challenges and opportunities for future regional integration and economic development. Therefore in the third part, the report will focus on a comparison of the two countries in terms of four important pillars (driving forces): governance, incentives, resources and strategies. By analyzing the performance and constraints of the two countries in terms of the four pillars, this report will identify the main differences and development gaps between Thailand and Cambodia. In addition, this report will also analyze the performance and main problems of the two countries in terms of regional integration, and emphasise the significance and opportunities for the two countries by providing scenarios of regional integration. By doing so, this report identifies to what extent Thailand could be a "Model" for Cambodia, including transparency improvement, incentive designing, infrastructure and education enhancement, and investment attracting. Besides that, in some fields in terms of strategy development, Cambodia may have to find a more independent way to go through, particularly in innovation system. In addition, this report will also establish fundamentals for developing relevant policy recommendations to help the two countries to improve their performance in accelerating regional integration and economic development.

Source: Transparency International; World Bank open data; IEA; interviews

Four pillars	Thailand	Cambodia
Governance		
Institutions	Decentralization	Highly centralized
Capacity		
Policy making		Government dominated
Corruption & Transparency	Score: 3.4; Rank 80	Score: 2.2; Rank 160
Participation		Few involvements of non-government sectors
Human resource		Shortage and low level skills
Revenue (%GDP, except Grant)	20.1 (2008)	11.1 (2009)
Incentives		
Tax holidays	Up to 8 years in Zone III	Up to 9 years after first sales
Reduced CIT	50% reduction for 5 years after tax holiday in Zone III	9% (QIP) for five years; 20% thereafter.
Resource		
Labour		
Total labour force	39.6 million	7.6 million
Literacy Rate (% of people ages 15 and up)	94% (2005)	78% (2008)
Infrastructure	Better	Worse
Market		
Market capacity	Large	Small
Market access	Free market	Transition/ Preferential treatment
Strategy		
Target	Upgrading	Diversification
Investment (FDI/GDP)	3.6% (2010)	7.3% (2010)

Figure 51: Summary of comparison between Thailand and Cambodia in terms of four pillars

4.2 Governance

4.2.1 Institutional arrangement

Institutions

In Thailand, BoI is the lead agency related to industrial investment which is within the Ministry of Industry (MOI). The BoI is responsible for setting investment policies, executing investment promotion programs, and administering and monitoring the investment incentives that are provided to investors. The BoI also provides incentives to real estate developers for Industrial Estates and Parks. The IEAT is also housed within the Ministry of Industry and is involved in developing, participating in joint ventures, or approving Industrial Estate projects.

In Cambodia, the CDC is basically what would be described in Thailand as MOI, which is the highest decision-making body in defining the framework for investment strategies and accepting or rejecting investment proposals. It is also the institution responsible for overseeing foreign direct investment and business development in Cambodia. CDC is chaired by H.E. Samdech Hun Sen, Prime Minister of the Royal Government of Cambodia. Under the Council for Development of Cambodia, CIB and CSEZB are two boards related to investment and SEZs.

Management/regulation

For investors looking to set up manufacturing facilities within Industrial Estates, the IEAT has a number of approval requirements related to land use, construction, and operations. Beyond that, there are a myriad of standards to ensure that the facility possesses all necessary infrastructure and serves a beneficial economic and social purpose. The IEAT also has a one-window operation. If a firm would like to be granted BoI incentives, it must obtain BoI approval by showing that it meets certain criteria such as having no more than a 3:1 debt to equity ratio, utilizes modern equipment and processes, and has adequate environmental protection systems in place. Investments of more than about US$14.5 million must also submit a feasibility study. For other regulatory matters, industrial firms must obtain Ministry of Industry approvals for safety and environmental issues. Firms in sectors with a smaller environmental impact are subject to far fewer regulations and many are allowed to skip the licensing process altogether.

The CDC/CIB has a centralized structure in Cambodia. It has 24 provincial/municipal investment sub-committees responsible for investments in Cambodia, and the SEZ committee, chaired by the Prime Minister, responsible for addressing investments in the SEZ. As the lead investment promotion and facilitation agency in Cambodia, it coordinates all the sub-committees in provincial level. The sub-committees have defined area (territorial) or sectoral responsibilities and coordinate effectively. However, those provincial and municipal sub-committees have competed with one another due to attracting the same investment projects in its territory and wanted its province to be centre or regional hubs. All sub-committees in provinces and municipalities differ significantly in effectiveness due to limited resources and potential for investment. In addition, the CDC set up a “one-stop service” within the CIB to facilitate the investment application process, with government officials stationed on-site to provide administrative services. The OSS is responsible for providing regulatory approvals and registration procedures necessary for establishment of foreign businesses in the host country. However, there are some institutional challenges in SEZs governance according to the interviews in the field trip:

- Inadequate information required by the CDC;
- SEZ management should work much more efficient and transparent;
- CDC has a set of documents in each step and cost too much working time;
- OSS should come earlier to the zone and work permanently.

Analysis: The implications of these different arrangements are immediately apparent. Given the highly-centralised nature of Cambodia's government, the placement of CDC within the Ministry of Economy and Finance, means it is vested with considerable power. This was clear in meeting with officials from the ministry but also in reflections from provincial officials who were vested with few resources or authorities and needed to refer to CDC for regulatory matters among other things. This should mean the CDC has the power to implement wide-ranging incentives for FDI while also supporting local companies. Instead, officials said they were hamstrung by free-market policies which left them. BOI and IEAT are also relatively strong agencies in terms of the power they are vested in and have been cited as having an instrumental role in the development of Thailand's economic growth. However, they lack the capacity to coordinate with other ministries such that the one-window service for applications isn't effective. Their document services only comprise the 30 per cent covered by the Ministry of Industry. As such, the private sector – the management of industrial estates - has to provide the remaining services to assist their investors.

4.2.2 Capacity

Policy making

Comparing to Thailand, Cambodia's capacity in policy making or legislation is not good enough since its National Assembly and Senate play a limited role in policy making process, and most of the legislations originated from government. The National Assembly and Senate tend to review and enact bills drafted by the government, which is constrained by the limited time and lacking the expertise[174]. In addition, the capacity of the government in terms of policy making or law drafting also need to be improved since many interviews of non-public sectors mentioned that there is not very sound and useful industrial policies except the "Rice Policy", and the poor capacity of the government in terms of environmental assessment of Hydro power projects. The imbalance and inefficiency in the legislation or policy making system has led to the poor performance of Cambodia in Good Governance.

Human resources in government

In terms of human resources in government, Cambodia suffers a lot from the shortage of human resource and the extremely low levels of technical skills. The overall level of human resources in Cambodia's government system is lower than Thailand's, though the officials' capacities have been improved through training from ADB's human resources projects, particularly in local government. In addition, the human resource issues are more serious in SEZs in terms of OSS. Many interviews showed that there is significant lack in human resource for OSS, particularly in some SEZs far from downtown. Actually, this problem has become one obstacle for OSS to improve service delivery in SEZs.

Revenues

Thailand tax revenue was higher than the world average during the last few years. In addition, revenue to GDP is nearly 20 per cent. Such increase in government revenues allowed the government to continue boosting infrastructure investments after the 1997 crises slowdown. The pro-investment infrastructure approach of the government has been critical to Thailand's success in maintaining FDIs (which make nearly half of the registered private investment in the country)

Compared to Thailand, the revenue of Cambodia is low and insufficient. Each year, the ODA accounts more than 30% of total public budget in Cambodia resulting into the situation of low salaries, low public investment, less financial support for political reform and decentralization, and insufficient social security system. Furthermore, it also increases the

[174] Soksreng TE, Good Governance in Cambodia: Exploring the Link between Governance and Poverty Reduction, Yokohama International Social Science Research Journal, volume 11. 2007. p. 61-62

dependency of Cambodia on foreign investment so that the government has no position in selecting different foreign investments in accordance with its long term development strategies, such as diversifying economy.

Corruption

According to the Transparency International's Corruption Perceptions Index[175], Cambodia got 2.1 and ranked 164 in 2011. Although its score increased from 1.8, its ranking fell from 151 in 2008. Meanwhile, Thailand got 3.4 and ranked 80 in 2011. It is quite clear that the corruption level of Cambodia is much higher than Thailand. During the interviews, almost all the officials denied there was wide-spread corruption or rent seeking in Cambodia. However, the interviewees from the private sector in Cambodia discussed with us about the negotiable administrative fees and taxation system. Some interviewees believe that even they have to provide payoffs to officials to negotiate the administrative fees and taxes, they could benefit from that since the payoffs are much lower than the reductions in fees and taxes. In fact, this contributes to the loss of public revenues, which is supposed to be the main resources for officials' salaries, public investment, etc. Despite the differences in ranking, Thailand still did not score well in terms of corruption. Networks are strongly rooted in the system and conflicts of interest abound. However, international organisations and government officials say steps are being taken and transparency has increased both through the use of technology for government systems and with the rise of social media.

Transparency

The high level of corruption in Cambodia is closely linked to the low level of transparency within the Cambodian government. For instance, the public's access to administrative information is limited and cannot readily or easily be accessed, such as through government websites. When the capstone group tried to collect relevant information and statistics of the two countries, although there are both languages barriers for us, it is very hard to get the newest data and regulations from Cambodian websites, so we have to rely on some other data resources, such as World Bank, ADB. While the Thailand's ones are much better, and we can easily get very rich and comprehensive information from Thailand's websites. Moreover, the lack of transparency and evidence-based analysis make the policies and actions represent particularistic interest groups rather than overall. Critical to transparency is the role of civil society which has started to grow in Thailand and will complement transparency initiatives.

Analysis: For both countries, the role of civil society needs to be encouraged such that the government is held accountable and transparency is demanded. However, civil society has typically been seen as essentially political resistance in Asia, including Thailand. Furthermore, in Thailand, a culture of self-reliance does not encourage participation in association (which also impacts participation of non-state actors below).

Participation

Federation of Thai Industries represents Thailand manufacturers at BOI. In addition, MNCs and local enterprises are represented in government negotiations through the Board of Trade, a nongovernmental organization. The civil society in Thailand also plays a strong role in influencing industrial activities at the local level, to the extent of blocking the establishment of special economic zones due to environmental concerns. Thailand encouraged the participation of government officials on company boards in the country to generate coordination and cooperation. This was successful in creating a mechanism to feed policy issues to the government. However, it now seems that this has led to an unhealthy mix of government and private sector – personified with an individual capable of influencing laws that complement his

[175] Transparency International's Corruption Perceptions Index (CPI) is the best known of our tools. First launched in 1995, it has been widely credited with putting the issue of corruption on the international policy agenda. The CPI ranks almost 200 countries by their perceived levels of corruption, as determined by expert assessments and opinion surveys.

business. But despite this, the private sector, especially management at AMATA said it took considerable time to get their issues on the government agenda and then additionally for consensus to be achieved such that policy could occur.

In Cambodia, despite the Prime Minister's requirements for the fast resolution of problems raised by SEZs management and its investors, there is the lack of efficient civil society participation in terms of policy making, implementation, and other administrative managements. As discussed before, the spaces for interaction with non-state actors in terms of policy making is too limited, particularly for the participation of poor stakeholders, including SMEs and NGOs. In fact, even the local authorities in Cambodia do not have very much access in policy formulation and implementation, particularly in terms of SEZ issues.

Analysis: The issue for both Thailand and Cambodia is the creation of effective mechanisms by which the private sector can access the government and raise policy comments. The need to increase cooperation was recently raised in Thailand as part of its bid to have a higher ranking recognising its competitiveness[176]. Mechanisms in Thailand include the "Joint Standing Committee of Private Organisation", which includes the Federation of Thai Industries (FTI), the Board of Trade and the Thai Bankers Association.

[176] Nation Multimedia, Public Private Sectors Must Tighten Cooperation, 2011

4.3 Incentives

Base on the findings in last chapter, both Thailand and Cambodia have been using investment incentives to promote the development of specific industries and geographical regions, as well as IEs/SEZs. Comparing investment incentives between them is difficult because they are provided along many dimensions. These Investment incentives include tax incentives and non-tax incentives.

Tax incentives and tools

In terms of the tax holiday and terms of eligibility for direct and indirect tax exemptions, investment incentives in Cambodia appear to be more attractive than those provide in Thailand. The maximum duration of the tax holiday of Cambodia is up to 9 years comparing Thailand's maximum 8 years. In addition, the start of the holiday is triggered by different factors. In Thailand, the tax holiday starts after the project has commenced operations. In contrast, for Cambodia a project's commencement period does not trigger the start of the holiday. Instead, a necessary condition to start the holiday is that a project results in sales.

	Thai EPZ/IE (industrial estate)	Cambodia
Tax holidays	• 3 to 8-years tax holiday from the commencement of operations: • 3 years in IE of Zone I • 3–5 years in Zone II (5 years in IE) • 8 years in Zone III	Holiday not limited by commencement of operations • Either: 6–9 years after first sales • Or: 3–6 years from the last day of the tax year immediately preceding the tax year in which profits are first derived
Reduced CIT	• 50% reduction (thus 15% tax) for • 5 years after tax holiday in Zone III	• 9% (QIP) for five years (starting from the tax year occurring after 2003 LoI promulgation) • 20% thereafter • Special depreciation of 40% in the first year of operation as an alternative to the tax holiday
Other taxes	• 0% withholding tax • 5-year loss carry forward • VAT exemption for EPZ • Duty exemption for EPZ	• Exempt from 1% turnover tax for QIP • 5-year loss carry forward • VAT exemption for QIP • Duty exemption for QIP • VAT exemption on both inputs and sales of supporting industries (their contractors receive only VAT exemption on sales) to export-oriented garment and footwear
Land use	Investors can own the land	Lease(up to 99 years)

Figure 52: Comparison of tax incentives and tools between Thailand and Cambodia

Source: IMF Country Report No. 06/265, 2006. Cambodia: Selected Issues and Statistical Appendix.

In terms of the coverage of the tax incentive, investment incentives In Cambodia are provided under the investment law. Qualified Investment Projects can enjoy available incentives in the whole country. Moreover, Cambodia follows the international best practice of avoiding different tax incentives for firms located in SEZ/EPZ. Thailand, however, does not follow this practice, develop a system of incentives like EU and provide some additional incentives in their promotion zones. In Thailand, the entire country functions as an economic zone in those incentives are available throughout the nation. These zones are groups of provinces in which investors are qualified to receive incentives which are inversely proportional to the province's stage of economic development and infrastructure i.e. with the greatest incentives available in the poorer provinces. The different preferential policy in different zones can better promote the investors to invest in poor regions, which can help harmonious development for the country.

In terms of land use, Thailand follows the European or American system of land ownership and fee simple property ownership (the maximum level internationally) is available to Thai citizens. According to Thai law, foreigners, in general

are prohibited from owning freehold land in Thailand. However, there are some of the ways in which foreigners in Thailand can control property, such as company ownership with BOI privileges. Comparing to Thailand, foreigners cannot own 100% of land in Cambodia. Land in Cambodia may be privately owned by individuals with Cambodian citizenship or by legal entities having Cambodian nationality. For a foreign investor, they must find and partner with a Cambodian co-owner. Cambodia registered companies with majority Cambodian ownership are able to buy land in Cambodia. Another option available to foreign investors is a long-term lease, Cambodia lease law allows a 99-year maximum lease period.

Analysis: A large motivator for Thailand's incentive schemes was to encourage development in the regional areas. However, they have not been entirely successful as industrial estates largely grouped around resources such as ports. The impact of the incentives was to locate on the border of a zone but within reach of the resources needed. FDI increased significantly upon the development of such resources rather than the incentive scheme. Cambodia attempted to attract FDI to border areas to capitalise on border trade and economic corridors – but despite the sale to investors, development of the sites has been slow compared to those based around resources such as Phenom Penh and Sihanoukville. Furthermore, tax holidays in general, remain a policy of questionable cost effectiveness: the fiscal costs can be high while the international evidence is not whelming about their effect on FDI.

4.4 Resources

4.4.1 Labor

Quantity

Both Thailand and Cambodia have a shortage of labour shortages. Thailand has considerable demand for skilled labour and this is considered to be one of the key sticking points for its progression. The government's policies on access and quality of education have been slow to impact and it is losing ground to comparable countries as a result. It is also losing the potential for both its domestic firms and MNCs to expand.

Cambodia's total population is only 14 million and its total labour force is about 7.6 million, while Thailand is 69 million and 39.6 million respectively. A key issue for Cambodia is the uneven allocation of labor force. On one hand, the traditional culture is in favour of keeping children with their family, and this reduces the possibility to recruit workers from some rural areas. On the other hand, in some regions rich in labor, there are not enough jobs for all job seekers, however, these surplus labour don't always want to immigrate to a poorer region to find a job. These factors make it difficult for the firms in recruitment, and they have to provide more salary and benefits, including accommodation, travel, food subsidies even education, to attract workers rather than just provide minimum salary, which increases the average cost for firms. Despite the shortage within Cambodia, the country's workers often prefer to go to Thailand and Malaysia to find a job due to the higher wages they could get there, particularly those with higher education.

Quality

Besides the shortage in labour, the extremely low level of skills becomes another disadvantage for Cambodia when comparing with Thailand. The quality of labour in Cambodia is quite low due to the lack of education, according to World Bank's data, the literacy rate in Cambodia is only 78, while in Thailand it is more than 90. Thus, although the average labour cost in Thailand is almost 4 times of that in Cambodia, the high technology companies who need lots of high skilled labours will not consider investing in Cambodia since there are not enough skilled labours to start the business. Moreover, the overall innovation system, including technology, education, policy, management, etc, is quite falling behind than the other countries in the region.

Vocational Training

Interviews with firms made it clear that they have to train the workers themselves. While, interviews proved that there is not integration or communication among authorities, education institutes, and firms about the kinds or skills of labours the market needs. Actually, most firms have to train their low-skilled workers in-house, and almost half of Cambodian-based firms offer formal training to their workers compared with 47.05% and 34.37% for the region and globally, respectively[177]. Besides that, there is huge gap for high educated labor in Cambodia; the Tertiary School Enrolment is only 8% in Cambodia, while it is about 46% in Thailand. As mentioned by interviewees, there are some Cambodian engineers in firms, but majority are semi skilled. Hence, they have to send them to Japan or China to get further education.

Analysis: In Thailand's case, the government has been asked to increase spending on education as it is considered to be significantly lower than necessary to meet its targets. Vocational training, other than that provided by firms, for both

[177] World Bank, "Promoting Special Economic Zones for Export Development in Cambodia", 2011. p. 14

Thailand and Cambodia is an issue. Another aspect of vocational training was the need for coordination between the needs of firms and the courses run by facilities. In Thailand, firms complained of a lack of engineers and technicians. While in Cambodia, most vocational training students were expected to develop their own business and vocational training projects were not developed on the basis of firms' needs, while firms have to educate their workers themselves.

4.4.2 Infrastructure

Indicators	Thailand	Cambodia	East Asia & Pacific (developing only)	World
Logistics performance index Overall (1=low to 5=high)	3.3 (2010)	2.4 (2010)	2.7 (2010)	2.9 (2010)
Quality of port infrastructure[178]	5.0 (2010)	3.9 (2010)	4.0 (2010) 4.8 (2010)[179]	4.3 (2010)
Road density (km of road per 100 sq. km of land area)	35 (2006)	21 (2004)	20.1 (2004) 36 (2008)	31.1 (2004) 30.2 (2008)
Paved road (% of total road)	98.5 (2000)	6.3 (2004)	14.4 (2004) 30.7 (2009)	45 (2004) 64.9 (2009)
Rail Network, Length per Land Area	8.7 (2009)	3.7 (2005)		
Air transport, registered carrier departures worldwide	123541 (2009)	3304 (2009)		
Electrification rate	99.3 (2009)	24 (2009)	81 (2009)[180]	80.5 (2009)
Electric power consumption (kWh per capita)	2045 (2009)	131 (2009)	2094.9 (2009)	2803.8 (2009)
Fixed broadband Internet subscribers (per 100 people)[181]	3.87 (2009)	0.25 (2009)	6.0 (2009)	

Figure 53: Main indicators about infrastructure comparison between Thailand and Cambodia

Source: World Bank Open Data/ ADB Database/ IEA, World Energy Outlook 2011 (until 23 April 2012)

Transport

War and continuing fighting severely damaged Cambodia's transportation system — a system that had been inadequately developed in peacetime. The country's weak infrastructure hindered emergency relief efforts and created tremendous problems of transport. From the table above, it is easy to find out that the transport and logistics performance of Cambodia is lower than world average level and Thailand, particularly in terms of port infrastructure, paved road, railway network, and air transport. In fact, all the national roads in Cambodia are two-lane motor ways, and it is very easy to be crowded by trucks, cars and buses. For instance, it is only 220 km from Phnom Penh to Sihanouk Ville, and it takes more than 6 hours to travel by bus. As the biggest sea port in Cambodia, the Autonomous Port of Sihanouk Ville is very small comparing to Thailand's ports, so too the airports in Cambodia. Regarding to the railway network, only two rail lines exist, both originating in Phnom Penh and totalling about 612 km, while Thailand has 4,044 km rail ways has been utilized. The significant gap in transport does not only reflect Cambodia's trail, but also reduce the competitiveness of Cambodia.

[178] WEF (1=extremely underdeveloped to 7=well developed and efficient by international standards)

[179] East Asia & Pacific (all income levels)

[180] Developing Asia

[181] Fixed broadband Internet subscribers are the number of broadband subscribers with a digital subscriber line, cable modem, or other high-speed technology.

Electricity and other utilities

As to electricity issues, Cambodia falls very behind to Thailand. The access rate is only one quarter of Thailand's, while the per capita power consumption only accounts for 6% of Thailand. Meanwhile the cost of electricity generation remains high and Cambodia has to import power from Thailand and Vietnam to satisfy the manufacturing and residential use. Since electricity is crucial for establishing a manufactory enterprise, the lack of electricity becomes one of the most salient problems. At the same time, Cambodia is very rich in terms of hydro resources and has 28 hydropower plants. However, the level of hydro development is still low due to the lack of technology and financial resource. Besides, electricity, some other utilities, including telecommunication, water supply, drain system and housing, need to be improved to satisfy the requirements of investors. For instance, during the trip we spent 4 days in Phnom Penh, both of the two hotels we stayed didn't have internet access which are mainly the accommodation for foreign tourists, and even some rooms of them have no window at all.

4.5 Strategy

4.5.1 Overall strategies

Diversification Vs. Upgrading

Thailand in the past achieved growth through 'labour-based' economy in which natural resources and cheap labour costs and mass production was utilized. However, the increase in manufacturing share of GDP and FDIs was not coupled with technological upgrading. With the resulting science-based production at the lower-end of the technology spectrum in the manufacturing sector, and lack of highly skilled labor force, Thailand needed to introduce new upgrading strategies to address the upgrading challenges. Clustering plans were introduced for specific industries. In 2009, Thailand went further to introduce Creative Thailand Policy.

In terms of economy development, Thailand and Cambodia are facing really different situations which lead to different targets in the two countries, with diversification for Cambodia and upgrading for Thailand. It has been a long time that Cambodia developed its economy relying on the four important pillars, agriculture, garment, construction and tourism. However, they are obviously not sufficient for future development since the highly concentrated economy would be very vulnerable to outside or inside shocks. Therefore, it is crucial for Cambodia to diversify its economic components and establish more labour intensive sectors. While, for Thailand, as the most developed countries in GMS, it faces the challenges coming from the increasing labour cost and cannot rely on labour intensive industries anymore. Thus, it has to find ways to upgrade its economy and move upper along the value chain to make better use of its endowments.

Strategy for industrial estate

BOI and IEAT played a significant role in IEs performance. BOI dispersion, and zoning strategies resulted in over 60 per cent of IEs outside Bangkok that supported economic activities and income of those regions. In addition, BOI involvement at the local level, addressing private sector constraints, and creating linkages between domestic SMEs and FDIs, all supported business activities in IEs. Export processing zones within IEs offered privileges highly important at the time. On the other hand, IEAT location choices near ports and infrastructure, and partnership with private sector in developing the IEs helped supported the attraction of businesses to the IEs.

Different from Thailand, who classified developing areas according to their distances to Bangkok and provided different policy incentives to encourage investors to go to some remote areas which may be called "Zoning", Cambodia just provide different incentives for foreign investors and SEZs no matter where they located. Because they was thinking that incentives are so important that the investors will go to the SEZs because of the incentives. However, it is not the case. Among the 21 SEZs in Cambodia, only several SEZs are operated, and most the others can't smoothly finish construction or even start construction. This situation indicates that the lack of overall planning of SEZs from government perspective. In addition, it needs to be considered whether Cambodia government should learn from the idea of "Zoning". In fact, the role of government is very weak in developing SEZs due to its little revenues and less capacity in strategy developing.

4.5.2 Investment

Nature of investment

In the last 10 years, Thailand was one of the best performing in Asia despite the political instability in the country. In Ease of Doing Business Ranking, Thailand ranked 12th. Key industrial investments included Hard Disk Drive (HDD) and natural rubber, where Thailand is the world largest producer in both. Thailand automotive industry is the world's 12th largest industry. However, Thailand industrial production involves various other sectors. This likely since Thailand did not pursue industrial targeting. Instead, Thailand promoted several industries, and provided incentives structure for based on location. As a result of non-targeting, and other micro (firm technological development) and macro policies, Thailand did not achieve industrial deepening through moving the upper end of value-added ladder.

Due to the different levels of development stages, Thailand and Cambodia varies significantly in terms of the nature of investment, particularly for the foreign investment. In Cambodia, the FDI ratio of GDP is higher than Thailand, and the FDI ratio of Gross Fixed Capital Formation in Cambodia reached 51.9% in 2007. These evidences reflected the higher dependence on foreign investment of Cambodia, which should be taken into account by Cambodia government in developing future strategies. Besides that, many infrastructure projects were done with FDI or ODA due to its shortage in domestic capital. The higher dependence on foreign capital reduced the autonomy of Cambodia in selecting different kinds of foreign investments in favour of the national development strategy, environment protection, economy diversification, etc. In addition, the existing FDI in Cambodia concentrated on garment, construction, food processing sectors, which are mainly elementary industries and located at the lowest level of the value chain. Therefore, Cambodia obtained very limited profits from the whole value chain.

Chinese and Japanese investors' involvement

Japanese investors make one third of all foreign investors in Thailand. They came to Thailand in the 1950s, making them among the first FDIs in the country. This started with a result of macroeconomic policies in Japan that prompted firms to seek other bases for production and export. Thailand was a good choice due to the proximity, investment promotion packages and acceptable infrastructure. Thailand continues to be production base for Japanese firms to the rest of the world. The increased presence of the Japanese results in a more vigorous value chain. In addition, Japanese investors tend to emphasize technology transfer, education of local employees and contribution to strengthened domestic institutions.

Because of different contexts in Thailand and Cambodia, the main players, such as Chinese investors and Japanese investors, have very different strategies in these two countries. Comparing to Thailand, Chinese investors play more important role, while Japanese just started in Cambodia. For Chinese investors, they are more state-played and closed to Cambodia government, and historically have been longer here than Japanese in terms of investment. However, Chinese investors more concentrated on infrastructure, hydropower, construction and garment sector. Regarding to Japanese investors, only cheap labours and raw materials are not enough, they care more about the investment climate, including rule of law, corruption, governance, and so on. Therefore, there are not many Japanese investors considering investing in Cambodia until 2011. Here, they brought more manufacturing projects to Cambodia. In terms of assistance, Japan is the biggest donors and provides funds both on hardware and software, while China pays more attention on infrastructures and access to the seas.

Investment competition and links

It is obviously that Cambodia and Thailand could be competitors in terms of foreign investment which locates at the low level of value chain and benefits from the similar endowments of these two countries. Particularly, for the SEZs in

Cambodia, they are more competitive in attracting investment than some of Thailand remote regions due to their liberalized incentives. However, in another hands, according to their different positions on value chain, Cambodia may not become a competitor for Thailand in attracting FDI in some fields, such as some capital or technology intensive industries. Actually, Cambodia could benefit from Thailand's upgrading process. Because during the process, many labour intensive enterprises may consider moving to other countries with lower labour cost since the rapid increase in labour cost in Thailand. In addition, because of the huge flood in Thailand last year, many electronics and motor producers are thinking about finding other locations to reduce the risk of investment concentration. Therefore, Cambodia is one of the most suitable target countries due to its close location and convenient connectivity to Thailand.

4.6 Regional integration

4.6.1 EC and CBTA

It is difficult at this stage to evaluate the benefits of EC on Thailand and Cambodia (and regional integration in general) especially given CBTA is not completed yet. However, different studies on Impact of EC on GMS countries have been conducted, some of which are simulation models while others analyze progress to date.

Compared to international norms, poor performance of GMS economic corridors in terms of saved transportation time or shipment costs is well documented. ADB acknowledges the need for improvements, especially in terms of CBTA, in order to achieve EC objectives. OECD review also confirmed same conclusions.

However, there are some positive results already. For instance, the impact on Cambodia of the Southern Economic Corridor shows increase in trade and fall in trade costs at cross-border points. In addition, domestically, improved health care, education, and access to market increased in parallel[182]. Similarly, Thailand is also witnessing reduced transport time and cost along the North South Economic Corridor. Along EWEC, 75 per cent reduction time was witnessed between 2001 and 2007. In addition, buses along the corridor increased by 160 per cent, while freight operators doubled between 2000 and 2005.

Analysis:

In Thailand construction of roads is almost completed, E-customs has been rolled out in 2011, and CBTA implementation started. Cambodia is still piloting its e-customs and IT capacities.

However, in general there is slowness in regards to implementation of Economic Corridors and CBTA. Stakeholder analysis of the importance and influence in the implementation of GMS economic corridors and CBTA shows national states, rather than ADB, civil society, MNCs or SMEs, are the key factors influencing implementation. National states have governance and full market liberalization challenges.

In Thailand's case for instance, within the line ministries there is varied interests. The NESDB and International Transport Division put their efforts to progress with CBTA implementation, while the customs officials are not so keen since lost revenues due to the single stop puts Thailand at a disadvantage[183]. On the other hand, Ministry of Trade has its own agenda, and the parliament is required to vote on CBTA protocols, prolonging the ratification processes. Those non-aligned interests delay the progress.

In general, Thailand benefits from regional integration more than Cambodia. Thailand however is moving slowly for market reasons. Some policy analysts suggest this delay is a deliberate strategy Thailand uses to slow the opening its market. Economic corridors and CBTA progress is slow in lagging GMS countries, and infrastructure is deficient. Thus, Thailand will not significantly benefit, compared to the losses incurred- losing domestic market to china. Thailand already lost to China the transport services on Mekong, as well as being overtaken by Chinese business in Laos. Therefore, Thailand self interested strategy, of gradualism is clear. However, this strategy if prolonged is likely to clash with other policies Thailand is engaged in (such as the FTA).

[182] ADB Institute, pp 9

[183] Single window at the inflow. However, Thailand goods flow out, and thus customs loses revenue.

4.6.2 Integration vs non-integration[184]

The GMS-cooperation is an extension of the growth quadrangle (parts of Thailand, Laos, China, and Myanmar). Triangle and quadrangle models are based on exploiting complementarities among geographically close countries[185]. This model is considered a specific resolution to problems at different stages of economic development, and with different social and economic system[186]. The 'non-exclusionary' approach does not lead to retaliation from other regions.

Cooperation between Thailand and Cambodia is a natural development of the economic forces at play. Thailand is an open economy, and Cambodia in the last 15 years embarked on market-led approach. Liberalization, and increased trade has had lead to higher income and more interdependencies. Cooperation based on the GMS –ECP can lead to increased specialization, and better use of human resources, which can make the region more competitive in global markets. The specific endowments and factors of production in each country provide an economic incentive for economic cooperation, and thus mutual interest in keeping such cooperation. Other common interests the countries have included[187]:

Cultural Heritage: The GMS countries have cultural ties in terms of ethnic groups' ties and the language spoken. Investors are based in the region, outside of their home countries. You can easily see Laotian business at the Thailand border provinces. Also, Chinese investors in Thailand acknowledge such ties for their decisions to invest in Thailand.

The Mekong river: The river ties all the countries. How one country uses the river can affect other countries. Thus cooperation is important for economic development of individual countries and the region due to the role of the river in transportation, energy, agriculture, etc. Thus, better integration positively impacts the use of the river.

Intraregional-trade: Trade between GMS is significant and increasing, despite being more in favour of the more developed (Thailand and Vietnam), and thus it can further be enhanced through greater cooperation. Integration reflected through more infrastructure projects and greater trade will serve enhance trade ties

Weak Domestic capital: Due to weak internal capital, private should be allowed to move freely, and preferably into the GMS countries, thus brings real and monetary development in the region. Coordination of both countries to increase the returns on investment in both countries (and the region) will further bring private investors.

Thailand: For Thailand specifically, there are a number of benefits including access to resources, increased security and leadership potential in the region**.**GMS countries, except for Thailand, have relatively recently adopted a market-oriented approach to managing their economies. Therefore, through better integration, Thailand can capitalize on the investment potential the rest of GMS countries offers. Thailand no longer has a comparative advantage of cheap labour, and thus Thai businesses can increasingly use cheaper labour from other GMS countries for their lower-end value-added production. Thai businesses can relocate to neighbour countries, or facilitate the inflow of labour into the country. Thailand-GMS trade is already significant (figures introduced in Thailand in GMS section). Increased integration is likely to further reduce barriers to trades, and other inefficiencies, thus increasing gains from trade. Stability in the region is important for increased investment in the region. Thailand is engaged in big investment projects (such as power projects) in other GMS countries which secures supplies in Thailand. Stability, associated, with development of GMS countries, and the created interdependencies, will strengthen the reliability of those supplies, thus ensuring

[184] Lolette Kritzinger-van Niekerk, "Regional Integration:Concepts, Advantages, Disadvantages and Lessons of Experience", Senior Ecconomist, World Bank Country Office in SA.
[185] ADB 1992
[186] Krongkaew, pp979
[187] ADB 1993

uninterrupted production in Thailand. Thailand's social stability associated with increased integration involves control of illegal workers, human trafficking and related increased diseases and social instability. Being the most developed and most trading with GMS countries, greater integration can allow Thailand play a backbone role in the region through shaping its evolvement. Increased integration can bring increased leadership opportunities for Thailand in steering development in the region (and possibly push for a 'Baht Zone'?). Thailand aspires to become a regional logistic hub. Increased regional cooperation, movement of goods, and trade will help Thailand realize its objectives.

***Cambodia*:** As the least developed country in GMS, it is obviously that Cambodia could benefit a lot from improving regional cooperation and achieving regional integration, which may include trade gains, market enlargement, access to capital, improving security, signalling and even accelerating domestic reforms. Through better regional cooperation and coordination, Cambodia could expand market capacity by using a unified regional market, which is crucial for investors targeting local consumption market. Cambodia could attract more investors considering relocating their investments within the region due to the rapid increases in labor cost in Thailand and China, and Cambodia could also benefit from the integrated regional value chain which is still missing in GMS and become the location for some very low level value added industries, such as construction materials, fiber, dyeing, food processing, etc. Through trade facilitation, firms in Cambodia could dramatically reduce the cost in terms of money and time and increase their competitiveness, and Cambodia might get the opportunities expending its trade scale. In addition, compare to other more developed countries within the region, another big gain for Cambodia in terms of regional integration is the security and signaling, which are quite important for Cambodia due to its small size and poor capacities. Moreover, regional cooperation will become a power for Cambodia to deepen and widen its domestic reforms and institutional arrangements to match the requirements raised by further regional integration. However, although it seems that Cambodia may obtain a lot from regional integration, there is also very strong reluctance in Cambodia constraining the process of regional integration. Firstly, because Cambodia's lagging situation in terms of economic, political and social perspectives, Cambodia has to make more reforms and pay more to achieve regional integration. Secondly, during the process of regional integration, there are not only gains, but also losses for Cambodia, particularly tariff and duties, which are crucial for Cambodia's public revenue. Thirdly, the competition from neighbouring countries increases the concerns of Cambodia to pursue deeper regional cooperation**.**

4.6.3 Constraints for regional integration[188]

Cambodia

According to the related research, besides what we have discussed above, there are some other specific constraints for Cambodia to achieve regional integration in GMS and mainly focusing on capacity building, political will, stakeholders, information and public awareness issues.

Capacity building

Standardization: The different policies, regulations, and standards in terms of relevant sectors exist within GMS, which remain highly problematic and increase costs for transport, trade and investment.

Capacity and resource: The uneven and low level of capacity and available resources both in the private sector and some government agencies working hard to increase institutional capacity cause obstacles for further integration. Moreover, the capacity of monitoring the related agreements' implementation is still low in Cambodia.

[188] Khieng, Sothy Towards a better understanding of the political economy of regional integration in the GMS: Stakeholder coordination and consultation for subregional trade facilitation in Cambodia, 2009

Mechanism: There is a lack of clear and realistic timeframe and mechanism for enforcement of the implementation of regional agreements, particularly for CBTA.

Political will

There are uneven political will and lack of commitment to fair and effective implementation of regional arrangements among the GMS member states, and continuing protectionist tendencies by some GMS member states. Cambodia's cooperation with different neighbouring countries is various because of many political reasons. For example, Cambodia and Vietnam have much better cooperation than Cambodia and Thailand in terms of transportation management. Moreover, Cambodia also concerned about being locked by Thailand and Vietnam if there is high regional integration. In addition, the concern of becoming a "victim" may influence the political level to implement the "protectionist" policies and to pursue this kind of "stop-and-go" policy.

Stakeholders

Coordination: There is the lack of coordination among relevant stakeholders, particularly for the higher level coordination between and among relevant authorities. Therefore, the different interests, risks perceptions, and facilitations from different departments make it more complicated and difficult to implement regional agreements. For instance, the Custom Department got 75 million US$ revenue in December. Therefore, concerning about losing tariff revenue and different inspecting standards became the main reasons for Custom's reluctance in implementing CBTA and trade facilitation issues.

Participation: Too much power/authority is concentrated in a few key ministries/agencies with too limited capacity. Local level authorities do not have enough opportunity to participate in implementation process. There is also lack of effective representations from related private sectors and NGOs. ADB and other donors should have better plans and better coordination and involvement with related stakeholders.

Vested interest: Some of the key agencies responsible for implementation have strong vested interests, including access to informal payments or fees, and are resistant to change. In addition, the strong vested interests among some major private sector stakeholders, particularly commercial advantage for competing businesses also increase difficulty in regional integration.

Information and public awareness

There is the lack of awareness and uneven information distribution of related initiatives and programmes to all stakeholders, especially at lower level of the government, law enforcement officers and private sector, which has been a key barrier to effective involvement and cooperation from stakeholders in sub-regional and regional integration projects.

Thailand

Despite, the potential benefits for Thailand from greater regional integration, a few issues that need attention remain.

Minimum Development

Thailand could face challenges to work with poor, previously centrally-planned economies. Institutions need to be developed to a certain level before countries can engage in mutually beneficial cooperation. Thus, Thailand might need to further increase its ODA assistance to GMS and mobilize and push ASEAN and ADB to increase support to GMS countries.

Political Economy

Political economies and a lack of capacity are the main constraints affecting Thailand's regional integration. Interviews made it clear that regardless of policy from the central government, even when that policy is pro-integration, there is a lack of capacity at the border areas to follow through and implement the plan. Thailand stands to lose the lower-end of some of its firms which is politically unsavoury – particularly if within these strata domestic firms are concentrated. Additionally, regional integration can be used as a political tool to some extent – Cambodia stands to gain from regional integration while Thailand is interested in resources in the gulf. The project of regional integration in and of itself entails development projects funded mainly by ADB.

4.7 Sub conclusion

By making a comparison in terms of governance, incentives, resources and strategies on the basis of part two, this report has established a comprehensive analysis to identify the most important constraints and driving forces for further economic development for Thailand and Cambodia. As mentioned before, Thailand is a much more developed country in the region and has “comparative advantages” in many fields and should become a model for Cambodia, while Cambodia also has some unique advantages for development. These similarities and differences will help us in understanding the different contexts in these two countries and developing relevant policy options shown in part IV, which include what and how Cambodia can learn from Thailand in terms of transparency, incentives, education, and what Cambodia should go through its own path according to its own context, particularly in terms of trying to develop an independent economic system by improving domestic innovation, which has been lacked in the path of Thailand’s development and become one of the main reasons why Thailand has been got caught by “Middle Income Trap”.

In addition, through analysis of different scenarios and main constraints for regional integration in these two countries, this report makes much clearer about the significance and opportunities in terms of regional integration, and finds out that the governance and political perspectives is the most important obstacles for Cambodia in accelerating regional integration. Besides that, capacity building, political will, stakeholders, information and public awareness issues are also the main constrains need to be addressed for Cambodia to improve its performance in accelerating regional integration. Based on that, this report will develop relevant policy recommendations in the fourth part.

Chapter V: Recommendations

5.1 Introduction

After the comparison analysis between Thailand and Cambodia, this report identified the important constraints and driving forces for further economic development and regional integration, which mainly focus on governance issues, particularly for Cambodia. Meanwhile, this report also found out that, as a more successful model in the region, Thailand's experiences in improving transparency, building capacity, enhancing infrastructure and education could be very helpful for Cambodia. However, since Cambodia has its own characteristics and unique factors in terms of political system, resources and other endowments, and the international and regional situation has been dramatically changed from when Thailand's economy took off in the 1970s in terms of economic surrounding, power allocation, civil society strengthening, and so on, it is very crucial for Cambodia to develop relevant strategies and plans on the basis of its own context by considering the new international and regional situations to avoid the outcome raised by "Dependency Theory", which emphasises that the poor countries may become more impoverished by joining in world system.

Therefore, in the fourth part, this report provides some policy options for Cambodia in many fields by focusing on improving governance capacity, which this report believes is the most important issue for Cambodia both in economic development and regional integration. In addition, through analysis of the main constraints for Thailand, this report also makes some relative recommendations in terms of governance, strategies, labours, and investment.

5.2 Thailand

Upgrading

Scientific-based production has been increasing in Thailand, but at the lower end. Therefore, Thailand needs to progress relatively faster in upgrading especially to take advantage of regional and global opportunities and avoid lagging behind. Towards that end, Thailand needs to ensure the upgrading framework put in place is achieving its objective. In addition, different initiatives, such as the 2005 clustering and 2009 creative economy, need to be aligned within the overall upgrading framework, to ensure effectiveness of the different efforts. Governance thus becomes important, and Thailand needs a well-coordinated mechanism to guide industrial upgrading. Thus, Thailand needs to bring the governance of the industrial upgrading to the top of the agenda list.

Linkages (Labour Force and Education)

Industrial deepening requires sheer reserve of skilled labor in Thailand. While the shift from agriculture to manufacturing did not require a massive skills upgrade, progressing towards the creative economy would require much higher skills and institutional reforms in the education sector and labour market.

Thailand only recently undertook serious education reforms. Therefore, the government again needs to be progressive in restructuring the education sector to meet the upgrading demands of Thailand. New curricula, and increased training of existing labor force are important for labor market responsiveness.

In addition, BOI needs to coordinate the creation of new linkages between higher education institutions, local firms and companies that will address the new shift.

Improve state capacity

State capacity is limited in a number of respects including implementing policy at the border areas, coordination across ministries and in addressing the private sectors. Customs officers need a range of incentives: financial, lifestyle and contractual obligations, to encourage them to stay in the border areas such that skills are not lost due to a high-turnover of staff. The lack of coordination across ministries is not just an issue for improving document services for investors, but also for policy. A holistic approach from ministries such as the Ministry of Industry, Commerce, Labour, Education, and Environment is necessary to address the need of firms. Additionally coordination is needed with local government to encourage policies such as place-based policies to develop areas like the Eastern seaboard into areas with complementing industries, residential, health, education and other facilities.

Business Climate

While Thailand is a sought base for production and export, Thailand is likely to gain more attention in the future especially given its proximity to the giants China and India. The emergence of China and India, aspirations for Thailand to become a regional hub, expectations for Asia to make half of the economy in 2020, and the increased capital movement and trading in Asia, all alert Thailand to improve the business climate and further develop the infrastructure. Few of the important priorities Thailand should consider include measures to ensure political stability and risk governance (eg. In relation to floods), good governance (reducing corruption).

5.3 Cambodia

The Kingdom of Cambodia government has made great success related to the business and investment climate Since 1990s, such as the improvement in the administration and implementation of the Law on Investment (2003) create a more direct way to improve the climate of attracting FDI and technology transfer. However, there are still some aspects need to be improved in the coming years. According to the case study and comparison analysis above, this report has already identified the biggest obstacles for the future development and regional cooperation of Cambodia, which are inefficient and non-transparent government bureaucracy, missing local governance, weak infrastructure and poorly educated workforce, etc. Therefore, relative policy recommendations on the following related to good governance, infrastructure development and human development, as well as regional cooperation should be considered. In addition, since it is a policy oriented research, the recommendations will focus on the governance issues. Because it is critical that the role of governance in the improvement of infrastructure and workforce.

5.3.1 Governance

In general, the good governance means an ideal governing system that is inevitable for political, economic, social and cultural development of a country. The good governance with sound economic management based on (i) Accountability; (ii) Participation; (iii) Predictability; and (iv) Transparency[189]. Transparency is one field that Cambodia should learn from Thailand. In terms of Cambodia,

Strengthening Decentralized Governance

In general, decentralization is defined as "the transfer of responsibility for planning, management, and the raising and allocation of resources from the central government and its agencies to field, units of government agencies, subordinate units or levels of government, semi-autonomous public authorities or corporations, area-wide regional or functional

[189] Soksreng TE,"Good governance in Cambodia", 2007, p.57

authorities, or non-governmental private or voluntary organizations."[190]

In practice, local government in Cambodia has no power to approve the investment. Furthermore, local government cannot get tax revenues from SEZs to better promote the local development. As a result, they are lack of initiative and positivity to attract investors or provide better services in local level.

Therefore, the Royal Government should further pursue the Decentralization and De-concentration policy by developing legal and regulatory framework and laying out new measures to ensure effective implementation of the "Organic Law on the Administrative Management of the Capital, Provinces, Municipalities, Districts and Khans", especially the development and implementation of the legal and regulatory framework related to the transfer of power from the national to sub-national administrations by clearly identifying roles, authority, power, and accountability. In Particular, some services and powers of CDC should transfer to local government.

Enhancing Transparency[191]

As one of the key issues for good governance, transparency has not been achieved in Cambodia's bureaucracy and Cambodia should learn more from Thailand. In fact, there is huge gap between the status quo and basic requirements. Moreover, transparency is believed to be crucial in terms of anti-corruption, which has been a serious problem for a long time in Cambodia. In order to improve transparency within public sector:

Firstly, it is necessary to publish timely relevant information and necessary data on investment opportunity, country's potentials for investment, legal and institutional arrangements, SEZ, and industries in proper ways to establish a better business environment. In addition, it would be important to provide this information into different languages in favour of foreign investors or traders.

Secondly, it is crucial to improve transparency of license management, particularly in terms of requirements, conditions, time line, procedures, and outcomes. For instance, The CDC's service should be more transparent and more responsive to manage investment. The procedures of investment should be more standard. Meanwhile, it is also important to implement biding method for government's mega projects, such as infrastructure, power plants and new satellite towns. The Concession Law should be enforced to avoid granting licenses especially in forestry and mineral concession and BOT projects without a proper bidding.

Thirdly, the governments' websites should be updated regularly to store all important and updated information related to laws and regulations, fact sheets, newsletters, etc. Other important website links should be created so that the public can find required information on relative issues, for example, investors can find some useful information about business opportunities in various provinces or SEZs in Cambodia.

Improving Participation

In Cambodia, the policy making process is a top-down and government dominated process. In addition, the inefficient mix of centralized and deconcentrated service delivery mechanisms limits the participation of local communities and the capacity of government to match services to local needs. Therefore, it is really critical to improve participations of different stakeholders including public sectors, private sectors and NGOs.

---

[190] Rondinelli, D., and Nellis, J, "Assessing Decentralization Policies: A Case for Cautious Optimism", Development Policy Review IV, 1 (1986), p. 5

[191] Sotharith, Chap and Chheang Vannarith. Cambodian Economy, Cambodia Institute for Peace and Cooperation, Funded and Supported by Economic Research Institute for ASEAN and East Asia. 2010 . p. 39-40

Firstly, within the public sectors, it is important to provide more opportunities for line ministries or local authorities to participate into different stages of policy cycle and improve coordination among the authorities. For example, to establish a Joint-Management system, to invite them to take part in the OSS, etc.

Secondly, other stakeholders, like private sectors, NGOs, and local community should play a more active role in terms of policy making and implementation process, such as public hearing, public survey, collecting comments or feedbacks from relevant interests parties, public monitoring, and so on.

Building Capacity

Civil service system in Cambodia is weak in terms of human resource and other relevant resources. For example, Cambodian civil servants have low salary and few resources available, which will dramatically reduce their capacity and motivation to deliver services. Therefore, in order to resolve these obstacles:

Firstly, the Cambodia government has to provide more training and education to civil servants, particularly these officials at the CDC. They should participate in country and regional seminars, workshops, study tours abroad for building capacity in public management especially FDI and SEZ management, such as dealing with computers, compiling data, analyzing data, relevant law, contracts formulation, investment promotion skill, negation skill, dispute settlement skill, etc[192].

Secondly, the relevant ministries or local authorities also have to enhance training or education for their officials working in OSS or at borders or at other ground levels, and provide better working conditions and incentives. This will contribute to the increase of personnel stability at the very local level and improve the implementations of policies, laws, and regulations since they are the officials implementing policies directly. One-stop service in the CIB should be improved through appointment of more capable staff in the CIB as well as from line ministries, who have adequate knowledge and can decide on behalf of their own ministries.

Thirdly, there is a urgent need for the establishment of relevant databases which can provide comprehensive and accurate database for policy makers, officials, investors, SEZ developers, or other non-government sectors, such as the database for the investors in all sectors, covering potentials for investment, trade data, the trend of investment, market access, information on comparative and competitive advantage between Cambodia and other countries and so on[193].

Fourthly, the government should increase the available revenues by obtaining grants or loans from World Bank, ADB, and other donors, particularly for infrastructure and capacity building projects. As Japan preferring to provide assistance for improving “software” recently, while China prefers to focus on infrastructure assistance. Cambodia could make use of their different strategies and obtain more financial support from them. In addition, the taxation system also needs to be improved to increase revenue collections by reducing negotiable taxes and fees.

Developing Related Strategies

Cambodia government is lack of capacity in terms of strategies development, which has to be improved.

Firstly, since Cambodia can’t achieve its development without taking part into the world system, to avoid the potential outcome raised by “Dependency Theory”, Cambodia should develop relevant strategies in terms of establishing an independent innovation and technology system. For example, in attracting FDI, government should consider the measures to accelerate technology transmission through FDI, and try not just to be the provider of cheap labors and other resources; government also should invest more on technology innovation projects and education system. So that,

[192] Ibid. p. 41
[193] Ibid.

Cambodia's economy sectors could get the opportunity moving up along the value chain and being increasingly independent by accumulating enough capital and skills, just like what China has done for the last 30 year. Because, as both agreed by the Latin American Structuralist and the American Marxist schools, "*the core of the dependency relation between center and periphery lays the inability of the periphery to develop an autonomous and dynamic process of technological innovation. Technology – the Promethean force unleashed by the Industrial Revolution – is at the center of stage. The Center countries controlled the technology and the systems for generating technology*"[194].

Secondly, the government should develop different policies and incentives for different sectors to extend industrial chains or establish new industries according to Cambodia's comparative and competitive advantages. For instance, developing beneficial policies to extend garment industries from only sewing to fiber, dyeing and so on by stimulating domestic and foreign investors (main China, Vietnam)to reduce the cost and increase competitiveness; identifying other agriculture products for further processing according to Cambodia's context, by accomplishing the assessment, finding out obstacles, developing policies measures and establishing clear working targets just like what they have done for "Rice Policy", which could mainly rely on agricultural experts, argo-firms, associations of peasants and agriculture, IOs and NGOs.

Thirdly, establish development strategy for SEZs in terms of locations, main sectors, incentives, targeting markets, labors recruitment, and guidelines in practical and feasible ways. For example, which parts of Cambodia would be the best locations for SEZs, along the borders whether SEZs would be the only means to accelerate investment and local development. SEZs should be encouraged to develop in those coastal provinces, especially in Sihanouk Province to bring production base nearer to the deep water port and the new International Airport.

Fourthly, government should identify a long term strategy in developing economic growth corridors for transports and logistics, especially along the lime of regional Economic Corridors. In addition, government also should take special consideration in coastal development by investing in building main highways and other supporting infrastructures such as water and electricity to the coastal provinces which are now neglected for development such as Kep, Kompot, Koh Kong and Sihanouk Province[195].

Fifthly, develop different strategies in related to the differences of Chinese and Japanese investors' preferences. Moreover, it is important for Cambodia government to seize the opportunities to attract more investment from Japanese investors due to their concerns on diversification on investment locations and upgrading process in Thailand and China. Moreover, it is also important for Cambodia to develop financial sector so that it can mobilize domestic capital to stimulate economic development.

Sixthly, improve strategy development in terms of territorial dimension by identifying different comparative advantages and obstacles, setting up different targets, policies options and incentives for different "zonings". Until now, except some main tourism areas have been defined in the country, the rest regions have not been clearly defined their positions in terms of development. This is also very crucial for stimulating and improving involvements of provincial and local authorities to establish a systemically multi level governance within Cambodia.

Last but not least, improve capacity in terms of project assessment. Particularly, for the mega infrastructure projects and investments, such as hydro power, roads, ports, transmission line, water supply and drain system, industrial estates, factories, the authorities have to enhance the quality of assessment in terms of the impacts on local development, environment, poverty reduction, etc, and make them as the fundamentals in decision making and license allocations.

[194] Technology, Finance and Dependency, op cit. p. 3-4.

[195] Sotharith, Chap and Chheang Vannarith. Cambodian Economy, Cambodia Institute for Peace and Cooperation, Funded and Supported by Economic Research Institute for ASEAN and East Asia. 2010 . p. 86

Establishing welcoming investment climate[196]

Although Cambodia has been trying hard in attracting investment, there are still some factors needed to be reformed and improved.

Firstly, improve relevant legislation. Legislation is crucial to establish an accountable and predictable business environment for investors, which is quite important for Japanese investors. The legislation related to investment in Cambodia is inadequate and Cambodian National Assembly and government should establish more sound legislations and regulations to improve accountability and predictability for investors.

Secondly, simplify administration procedures. In order to be more effective in attracting investors, it requires strengthening service delivery through more simplification of approval procedures, as well as elimination of unnecessary steps for applying investment licenses. All trade procedures including various inspections should be as simple as possible to simplify and facilitate the trade development in the country. Especially, in terms of trade facilitation, the government should implement the WTO, General Agreement on Tariffs and Trade, Article VIII (1) (c) which states that —The Contracting Parties also recognize the need for minimizing the incidence and complexity of import and export formalities and for decreasing and simplifying import and export documentation requirements[197].

Thirdly, build confidence for investors. Cambodia should develop a climate of business confidence as a first step toward an effective strategy for promoting investment. This can be done by adopting new investment promotion strategy, instituting sustainable economic policies and eliminating tax and non-tax disincentives. Frequent tax changes should be avoided. In addition, military police (MP), police and other related Cambodia's security authorities should strengthen public security in the country and ensure that anybody, who comes to Cambodia, is safe and enjoys a memorable souvenir. For investors, who already operate their investment projects, aftercare services provided by the CIB, CSEZB and CDC would be very important such as providing advices and help in trouble shooting when they face problems. For example, to establish investment project tracking system to ensure that the projects are closely monitored and the investors are well taken care throughout the investment cycle starting from contacting, applying to licensing and operation. This will also facilitate the government to know the status of all investment projects[198].

Fighting Corruption

To build accountability and predictability for Cambodia government, it is critical to fight corruption within the public sector since it has become widespread and undermined Cambodia's further economic and social development. Therefore, Cambodia government has to work on these factors: increasing the risks associated with engaging in corrupt activities in the public sector, making public officials more accountable for their behaviors, setting standards and strengthening enforcement and scrutiny, strengthening implementation of anti-corruption law, eliminating unofficial fees such as security charge, tea money and charity for different purposes, introducing outside audit into public sector in terms of monitoring public revenues collection and expenditure, increasing cooperation with international organizations to fight against corruption, expending the scope of implementation of Public Procurement mechanism, etc. In addition, during many other general reforms, such as those involving public finance, the legal framework and judiciary, and public administration, have to take anti-corruption into account and make it become part of the general reforms[199].

196 Ibid. p. 74

197 UN, Compendium of Trade Facilitation Recommendations , 2001. p. 18

198 Sotharith, Chap and Chheang Vannarith. "Cambodian Economy" 2010, page 40

199 Soksreng TE, Good Governance in Cambodia: Exploring the Link between Governance and Poverty Reduction, 2007. p. 71

5.3.2 Infrastructure

One of the main obstacles of diversification in Cambodia has been the poor infrastructure; in particular the high cost of electricity and telecommunications and their unreliable supply, and they are the factors most fall behind when comparing with Thailand. Apart from these issues, Subordinate infrastructure including rural roads and rural market places are in poor condition and need upgrading. With weak infrastructure, it is considered to be a major structural weakness that holds back economic growth and development. Furthermore, it difficult for Cambodia finds its process of economic integration to the sub-region. Therefore, the Cambodia government should have its strategy to better develop these infrastructures.

Developing National Transport and Logistics

The development of industries and transport infrastructures mutually need each other. The Government should formulate a comprehensive transportation plan consistent with the medium-long Socioeconomic Development Plan and other plans and to carry out programs based on this transportation plan. The notion of economic corridors is noble and appropriate to the concept of integrated planning, Cambodia should think about how a transport corridor can be converted into the economic corridors. Spreading and expanding transport infrastructure network is effective for the remote villages to sell their goods to major markets in the region as well as overseas. Furthermore, investments should also be directed toward improving physical transport infrastructure that links Cambodia with countries in the region, especially Thailand, Lao and Vietnam, as well as toward enhancing sea and air access to international destinations.

However, the Royal Government does not yet have the sufficient financial, technical, and human resources necessary for infrastructure development. As a result, on one hand, the Royal Government should Cambodia needs to build up the government's capacity to maintain and manage the transport infrastructure. They need to secure equipment and construction materials, develop human resources and improve technical capacity concerning the transport facilities that it maintains, manages, and operates on its own. On the other hand, they also need to seek help from donor community or the loan from ADB continuing to invest and provide technical support in infrastructure development. In addition, a comprehensive transport policy framework should be developed to address issues such as development of a balanced construction and maintenance program, increased involvement of the private sector, etc. government should use its resources to encourage Public Private Partnership or attract foreign investors for investment in logistics and transport corridors because the projects require big investment, and PPP offers benefits to Cambodia in the financing, construction, operations, and management of infrastructure.

Developing more stable and cheap electricity supply

Now that the supply and demand situation for electricity has more or less stabilized, and the electricity supply currently does not meet the basic demands, where 24-hour supply of electricity is not assured and the quality of electricity is not reliable, at issue are the stabilization of power charges and increase of the power supply. Furthermore, according to the Power Development Plan of the Kingdom of Cambodia in 2007, electricity demand is expected to show a rapid increase until 2020. To address these challenges, securing stable electric power resources in the long term and reducing the cost are the key issues.

Firstly, Cambodia now needs to formulate a long-term plan for electric power supply to secure stable power resources and electrify rural areas. Cambodia should continue to develop renewable power sources such as hydropower and thermal energy to meet the demand of economic development, and electric power sources should be developed using private funds and that funds from the ADB, World Bank or ODA from donors. The four LMB countries of Cambodia, Lao PDR, Thailand and Viet Nam have an estimated national hydropower potential in the order of 50,000 - 64,750 MW, of

which 30,000 MW is available in the Lower Mekong Basin. Over the past few years, investors and developers mostly from China, Malaysia, Thailand and Viet Nam have submitted proposals for twelve hydropower projects for the LMB mainstream drawing on concepts from past decades. Among these projects, ten proposed mainstream projects would involve constructing dams across the entire river channel – 8 in Lao PDR, two of which are on the Lao-Thailand reaches of the mainstream and 2 in Cambodia[200]. Secondly, Cambodia needs to set up power grids throughout the country, especially between major cities in southern and western regions in order to construct large-scale power generating plants and to import electric power from neighbouring countries during the construction period of such power plants. Thirdly, Cambodia should seek neighbour countries to support the government's Power Sector Strategy by helping the country to access low-cost sources of electricity, including imports from Thailand, Laos, and Vietnam. In addition, the government should support the participation of the private sector in electricity generation. Such as, encouraging the zone developers to built small power plants in the zone.

5.3.3 Labor

Enhancing education system

To address poor youth preparation for the labour market, it is vital to adopt an integrated approach that addresses poor quality of education, high dropout rates and the need for training for out-of-school youth, which Cambodia can learn some experiences from Thailand.

First of all, the government should increase access to schooling and completion of basic education. In the Cambodian context, financial constraints severely affect poor households' schooling decisions. Therefore, the tuition fee should be low or free, and the government should require every child in Cambodia must receive 9 years of compulsory education.

Furthermore, improving the quality of education is as important as keeping children in school, since early school dropout may be a rational choice if the labour market provides greater skills accumulation opportunities than schools.

In addition, the government should offer more training opportunities to out-of-school youth. Given the large share of out-of-school youth in the labour force and their low productivity, training programs for unskilled youth should be expanded to improve their technical and soft skills, along the lines of programs currently offered by NGOs, as well as zone developers in the SEZs. Trade unions in the firms should develop a pre-employment orientation program for formal job entrants.

Last but not the least, the stakeholders, including employers, government, unions, and education and training institutions, should operate the National Training Board with a system for conducting workforce assessments, developing skills standards frameworks, and translating these frameworks into practical curricula and certificate/degree program designs about poor skills and the quality of jobs.

Improving cooperation among local authorities

In order to increase labour supply for industries and SEZs, it is important to improve cooperation among local authorities, SEZ developers, and investors. For instance, like what Chinese government has done to resolve the labour shortage in coast provinces, establish direct connection between the provinces with labour surplus and the provinces short in labours so that they could share the labour and recruitment information and work together to get enough labour for industrialization, and cooperate with investors and SEZ developers to provide incentives, such as housing, education, health care, and other better public service, for rural area residents to encourage them to leave their lands

[200] International Centre for Environmental Management ,"Strategic environmental assessment of the hydropower on the Mekong mainstream"

and work for factories.

Considering immigration from other countries

The another way to resolve labour shortage is to immigrate labour from neighbouring countries, such as Vietnam, Laos, even China. Although Laos' population is quite small, it is still possible to recruit labour from rural areas. Thus, government should improve the involvements and cooperation of local authorities. As for Vietnam and China, it is helpful to attract skilled labour with better education as engineers, teachers, etc. Therefore, the Cambodia government should improve cooperation with these countries' governments, provide platform for enterprises and investors to recruit foreign labours and simplify immigration procedure.

5.4 Regional integration

5.4.1 Thailand

Towards better regional integration, Thailand government needs to play a leading role in pushing neighbour countries to raise their development levels to increase the benefits of regional cooperation for GMS countries, while reducing the costs Thailand may incur. Towards that end, Thailand should increase development assistance to neighbour countries and provide guidance and technical assistance similar to that provided by ADB.

Despite the history of state sovereignty in South East Asia, the increased interdependencies, new economic system, and diffusion of ideas and globalization in the region, Thailand can push neighbour countries to collaborate more and take actions towards reforming their economies and introducing the required institutional and regulatory mechanisms to move forward with regional cooperation. This is usually the role played by ADB. However, Thailand impact is expected to be more significant, since GMS cooperation established 'rules of the game' do not seem to incentivise the actors enough to progress fast. The slow response could be a result from the fact that ADB established itself as an advisor, and not enforcer. But, even Thailand 20 years ago would not have been able to establish itself as an enforcer. But today, increased interdependencies means more rules of the game, and more power, and thus ability to influence and enforce.

In-house, Thailand needs to speed up the voting process to ratify the protocols of CBTA, and fix and align the various trade and cooperation agreements in order to harness the benefits of cooperation.

Locally, Thailand needs to further develop its border areas in preparation for better integration with the rest of the region. E-customs and other border infrastructure is still weak, and coordination between the centre and local authorities needs to be strengthened. While developing its borders to fully implement CBTA and realize the economic corridors objectives, Thailand can also cooperate with borders of neighbour countries to ensure alignment of procedures and logistics.

5.4.2 Cambodia

As the most important obstacle for Cambodia's development, governance issue also is the toughest difficulty in accelerating regional integration. Therefore, all the related recommendations for improving Cambodia's governance capacity and economic development will also become part of the policy options for further regional cooperation between Cambodia and other countries. In addition, this report would like to discuss about some other aspects, mainly focusing on governance and political perspectives, need to be addressed by Cambodia government and other stakeholders.

Strengthening of political will in favor of regional cooperation

It is crucial to strengthen political will and commitment in terms of improving regional cooperation, establish co-trust, reduce protectionist tendencies, eliminate conflicts and establish a fair competition environment through negotiations and dialogues among GMS countries, key stakeholders, IOs and NGOs. In addition, GMS countries should establish a clear and realistic timeframe and mechanism for enforcement of the implementation of regional agreements, particularly for CBTA. Regard to national level, Cambodia needs to unify and strengthen political will to support further regional cooperation, which will contribute to market enlargement, smooth movement of people and goods, and better resources allocation.

Unification of relevant standards and administrative procedure

Unify the GMS countries' different policies, regulations, and standards in terms of relevant sectors, especially for transportation, trade facilitation, and investment. For instance, find solutions for Thailand's different transport standards to avoid truck reload at the borders, unify custom and inspection regulations and procedures among GMS countries. Such as "*Where the nature of the consignment could attract the attention of different clearance agencies, e.g. Customs and veterinary or sanitary controllers, Contracting States should endeavour to delegate authority for clearance to customs or one of the agencies, or where not feasible, take all necessary steps to ensure that clearance is carried out simultaneously, at one point and with a minimum of delay*"[201].||

Increasing coordination among stakeholders

Increase coordination among stakeholders, particularly the higher level coordination among relevant authorities. Cambodia and other neighbouring countries should identify the solutions and methods that can resolve the conflicts and disagreements among different interests, risks perceptions, and facilitations of different departments. For example, regard to transportation and the implementation of CBTA, it is necessary to address the benefits and risks allocation problem among member states, which means how to divide tariffs, fees, and taxes, and how to share the risk of reducing criminals, illegal immigration, and infectious disease among them. Particularly for the LDCs like Cambodia, other more developed countries, such as China, Thailand and Vietnam should take more responsibilities and leave more benefits for Cambodia, Laos and Myanmar, ADB also has to develop relevant strategies and plans to allocate more resources to the less developed countries. Such as providing training and equipments for border officials to improve their capacity in simplifying procedures, monitoring goods, fighting against criminals and infectious disease. This can reduce the concern of being locked by some countries and losing revenues and benefits by simplifying custom and inspection procedures, which are important for countries with small revenues like Cambodia to be confident in implementing regional agreements without worrying about the losses. Furthermore, it is also important to reduce the probability of achieving regional integration at the expense of the poorest countries like Cambodia.

Eliminating vested interests

One of the most important obstacles for regional integration is the widespread vested interests among some key authorities and agencies. In addition, the strong vested interests among some major private sector stakeholders also increase difficulty in achieving regional integration. Hence, ADB and Cambodia government should develop strategies and plans to reduce and eliminate the vested interests, including decentralization, deregulation, anti-corruption, enhancing fair competition, and so on.

Improving information sharing and public awareness

Another main obstacle for local involvement is the lack of awareness and uneven information distribution. Therefore, Cambodia government should start a public campaign to increase public awareness of main initiatives and programmes, and the benefits to their lives through regional cooperation. In addition, it is also important to improving information sharing system among stakeholders, especially the lower level of the government, law enforcement officers and private sectors, so that to eliminate the barrier to effective involvement and cooperation in sub-regional and regional integration projects.

[201] Sotharith, Chap and Chheang Vannarith. "Cambodian Economy", 2010. Convention on International Civil Aviation, Annex 9 (4.30)

More opportunities for local participation

The status quo is too much power concentrated in a few key ministries or agencies in a very high level, while the local level authorities do not have enough opportunity to participate, and the private sectors do not have enough influences on those issues. In fact, to achieve regional integration, only top-down process is not enough, bottoms-up process is also necessary. Therefore, Cambodia government, ADB and other donors should have better plans and coordination to improve the participation of local authorities and make them play a more active role in regional integration especially implementation process. Furthermore, during negotiation and policy making process, it is necessary for ADB and Cambodia government to provide effective representations for related private sectors and NGOs, so that the agreements and policies would be more practical and feasible due to the increasing involvement of actual users.

Obtaining assistance for capacity building

Since lack of necessary capacity and resource, ADB, World Bank and other donors should consider to increase technical and financial assistance for improving "software" issues in terms of capacity building for Cambodia, which may include legislation, human resources, anti-corruption, strategy formulation, policy implementation and SEZ development. In addition, these kinds of assistance, should not only applied in high level officials, but more for lower level and local officials who are responsible for implementation. By doing so, it won't only contribute to Cambodia's capacity building, but also enhance understandings, trust and cooperation within neighbouring countries by helping and learning from each other.

Conclusion

Regional integration, in terms of connectivity and cooperation, has been limited in the GMS. This report considered industrial estates and special economic zones because of their role in growth and increasing competitiveness. Their locations were intended to be strategic to capitalise on factors such as economic corridors and border trade. What this report has established, is that considerably more factors are involved in the location of a zone and its success. Infrastructure has helped in encouraging a welcoming investment climate, such as the historical development of Thailand's Eastern Seaboard, but specific resources remain the key attraction for investors – ports, airports, access to major cities and thus labour resources. Sihanoukville has had some success attracting industries but continues to struggle with labour needs – meanwhile, many industries have established themselves around Phnom Penh rather than the border zones for this very reason. This was clear in the development of Thailand's estates which initially grouped around Bangkok until the introduction of incentives. But incentives too only have a limited effect as has been established. Our study of estates also provided an understanding of policies in place and the impact on the investment climate and regional integration. Issues of capacity and political economies are rife in both Thailand and Cambodia. These affect the implementation of policy at the border and CBTA, including a high turnover of customs staff but also the financial benefits of customs fees and in capitalising on inefficiencies. These issues also effect investors who were reluctant to come to Cambodia initially due to the policy and regulatory environment, while in Thailand firms are unable to expand due to short-sighted policies which have not addressed education and skills needs. Due to a lack of capacity on the side of the governments of Thailand and Cambodia, the private sector has played an important role. The estate managers in both countries work to provide services for their firms and a better business environment. Their needs for labour mean the onus is on firms to train staff. The sectors firms are established in, the style of management, the type of training, all has flow on effects for the economies. It speaks to a lack of clear overarching industrial policy that, among other effects, does not encourage local firms to take up some of the roles in the value chain. As such, firms are impacting regional integration by their need to establish value chains. The lower-end components are being established in Cambodia, and some originate from Thailand. This push-and-pull effect may help to untangle regional integration. The implications for each country's strategies and regional integration are this: Thailand needs to invest in education, skills and local entrepreneurs in order to move to higher value-added exports; Cambodia needs to strengthen those areas it has strengths in(rice, agriculture) but also to make cross-cutting improvements in government(capacity, decentralization); both need to invest more in improving capacity and reducing political economies to encourage regional integration, based on the understanding that solid national industrial policies work on a country's advantages and the two have more to gain than lose. In summary, this report has shown a) regional integration has been limited due to political economies, limited state capacity and regional economic disparities b) IEs/SEZs as a successful growth model are subjective to certain conditions c) an effective industrial policy is needed to complement IEs/SEZs e) The private sector has a critical role and influence on growth and regional integration through a need to establish value chains.

Bibliography

- ADB, Emerging Asian Regionalism: A partnership for shared prosperity, ADB, 2008.
- ADB, ADB and Special Economic Zones: ADB and the Greater Mekong Subregion Program,n.d. http://www.forum-adb.org/docs/ADB_and_SEZ.pdf
- ADB. “Kingdom of Cambodia: Decentralized Public Service and Financial Management Sector Development Program”. ADB. 2012
- ADB. "Greater Mekong Subregion 2012–2014". ADB. 2011
- ADB. “Greater Mekong Subregion Cross-Border Transport Facilitation Agreement”. ADB. 2011
- ADB. "The GMS Economic Cooperation Program Strategic Framework 2012–2022". ADB. 2011
- ADB. "The Greater Mekong Subregion Economic Cooperation Prorgram Strategic Framework 2012-2022: Background Paper”. ADB. 2011.
- ADB. “Trade and Investment in the Greater Mekong Sub region: Remaining Challenges and the Unfinished Policy Agenda”. ADB. 2011
- ADB. "Facilitating Regional Power Trading and Environmentally Sustainable Development of Electricity Infrastructure in the Greater Mekong Subregion. ADB. 2010
- ADB. "Strategy and action plan for the Greater Mekong Subregion Southern Economic Corridor”. ADB. 2010
- ADB. “The GMS Economic Cooperation Program Strategic Framework 2012-2022: Background Paper”. ADB. 2010.
- ADB. “Cambodia in the GMS”. ADB. 2009
- ADB. “Transport and Trade Facilitation in the Greater Mekong Subregion— Time to Shift Gears”. OECD. 2007
- ADB. “ADB’s midterm review of the strategic framework of the Greater Mekong Sub region”. ADB. 2007
- ASEAN, ASEAN community in figures, 2011, http://www.asean.org/publications/ACIF2010.pdf
- Association of South East Asian Nations, http://www.asean.org/
- Agrifood Consulting International. “Rice Value Chain Study: Cambodia”. World Bank. 2002.
- Aveline-Dubach, Natacha. “The Role of Industrial Estates in Thailand’s Industrialization, New Challenges for the Future”, in Patarapong Inatarakumnerd, Yveline Lecler (eds), *Sustainability of Thailand’s Competitiveness: the Policy Challenges*, Singapour, ISEAS, Singapore, 174-208. 2010.
- Bargawi, Omar. “Cambodia’s Garment Industry –Origins and Future Prospects”, ESAU Working Paper. 2005.
- Brimble, Peter. “Foreign Direct Investment: Performance and Attraction- The Case of Thailand”. IMF 2002

- Centre for Social Development Phnom Penh. “A Study Research Sub-Supporting Study Project on Economic Corridors and Industrial Estates, Ports & Harbors, Metropolitans and Alternative Roads in Cambodia”, The Centre for Social Development. 2010
- Chuon Naron, Hang, “Policy on State-Owned Enterprises” Power Point Presentation on October 16, 2008.
- Chuon Naron Hang, Cambodian Economy: Charting the Course of a Brighter Future, A Survey of Progress, Problems and Prospects, Phnom Penh, 2009
- Cheewatrakoolpong, Kornkarun. “Towards a better understanding of the political economy of regional integration in the GMS: Stakeholder coordination and consultation for subregional trade facilitation in Thailand”. In Asia-Pacific Research and Training Network on Trade Working Paper Series, No. 72. 2009.
- Dent, Christopher. East Asian Regionalism, Routledge. 2008
- Eichengreen et al. “The Impact of China on the Exports of Other Asian Countries”, NBER, 2004
- EU. Trade Doc for Cambodia. 2011.
- Fort, Bertrand and Douglas Webber. “ Regional Integration in East Asia and Europe: Convergence or divergence?”, Routledge. 2006
- Feng, Yushu. “Implementation of GMS Cross- Border Transport Agreement (CBTA)”, ADB. 2010.
- Global Integrity Report, Cambodia, 2008, http://report.globalintegrity.org/Cambodia/2008
- Government of Cambodia. “National Program for Subnational Democratic Development”, Phnom Penh. 2010
- Hatsukao, Naomi. “Industrial Location in Cambodia-Industrial Policies and Economic Statistics”, IDE-JETRO. 2010.
- Hoshino, Tatsuya. "The Presentation of 'Japanese Experiences of Industrial Development". 2011.
- Hussey, Antonia, Regional Development and Cooperation through Asean, Geographical Review, Vol. 81, No. 1 (Jan., 1991), pp. 87-98, American Geographical Society, http://www.jstor.org/stable/215178
- Inoue, Ryuichiro. “Future Prospects of Supporting Industries in Thailand and Malaysia”, Institute of Developing Economies. 1998
- Intarakumnerd, Patarapong and Yveline Lecler. “Sustainability of Thailand’s Competitiveness: The Policy Challenges”, ISEAS Publishing. 2010.
- International Labor Office. “Global wage report 2010/2011: wage policies in time and crisis”. ILO. 2010
- Ishida, Masami. "GMS Economic cooperation and its impact on CLMV Development”. 2008. http://www.eria.org/research/y2008.html
- Ishida, Masami. "Special Economic Zones and Economic Corridors." In ERIA Research Project Report 2008 No.5, Research on Development Strategies for CLMV countries,ed. Kuchiki, Akifumi, and Shuji Uchikawa.Jakarta: Economic Research Institute for East Asia and ASEAN. 2009.
- Ishida, Masami. “Comparing Investment Climates among Major Cites in CLMV Countries”, BRC research report No.4, Bangkok research center. 2010

- Ishida, Masami. “Industrial Estates, Ports and Airports and Connectivity in the Mekong Region.” In Intra-and Inter-City Connectivity in the Mekong Region, edited by Masami Ishima, BRC Research Report NO.6, Bangkok Research Center, IDE-JETRO, Bangkok, Thailand. 2011.
- Isono, Ikumo. “Possible Alternative Routes for Further Connectivity in the Mekongs Region.” In Intra-and Inter-City Connectivity in the Mekong Region, edited by Masami Ishida, BRC Research Report No.6, Bangkok Research Center, IDE-JETRO, Bangkok, Thailand. 2011
- Royal government of Cambodia, “Policy Document on Promotion of Paddy Rice Production and Export of Milled Rice”. 2010.
- Khieng, Sothy. “Towards a better understanding of the political economy of regional integration in the GMS: Stakeholder coordination and consultation for subregional trade facilitation in Cambodia”. In Asia-Pacific Research and Training Network on Trade Working Paper Series, No. 75, September 2009
- Kingdom of Cambodia. "National Strategic Development Plan Update 2009-2013: For Growth Employment, Equity and Efficiency to Reach Cambodia Millenium Development Goals”. 2009.
- Kingdom of Cambodia. ”Law on investment of the Kingdom of Cambodia, and Law on the amendment to the law on investment of the Kingdom of Cambodia. 2003.
- Maharajh, Rasigan. Case Study on “Industrial Policy in Cambodia”, German Development Institute, Forthcoming Draft, Bonn. 2009.
- Menon, Jayant and Anna Cassandra Melendez. “Trade and Investment in the Greater Mekong Subregion: Remaining Challenges and the Unfinished Policy Agenda”, ADB. 2008.
- Ngov, Penghuy. “ASEAN Economic Integration and Cambodia’s Industrial Policies”, Ritsumeikan International Affairs Vol.10, pp.67-94. 2011.
- Oikawa, Hiroshi. ”Empirical Global Value Chain Analysis in Electronics and Automobile Industries: An Application of Asia International Input-Output Tables”, IDE discussion paper No.172, 2008
- Pansuwan, Apisek and Routray, Jayant K. “Policies and pattern of industrial development in Thailand”. GeoJournal 76 (2011):25–46. Accessed April, 2012
- Phnom Penh Securities PLC, “Foreign Direct Investment in Cambodia”. 2011.
- Pinyochatchinda, Supaporn and John Walsh. “Map Ta Phut as an Exemplar of the Industrial Estates of Thailand”, Journal of Social and Development Sciences Vol. 3, No. 1, pp. 6-15. 2012
- RGC. "No. 148 ANKr.BK: Sub-decree on the establishment and management of the Special Economic Zone”. 2005.
- Rigolini, Jamele. ”Human Development Department East Asia and Pacific Region”, World Bank. 2010.
- Rondinelli, Dennis and John Nellis. “Assessing Decentralization Policies: A Case for Cautious Optimism”, Development Policy Review IV, 1. 1986
- Royal government of Cambodia, “National Strategy development plan update 2009-2013”. 2009.
- Schiff, Maurice and Winters, L. Alan, Regional integration and development, World Bank, 2003

- Senate Economic Planning Office. “Rationalizing the fiscal incentive system”. Senate of the Philippine. 2005.
- Somjai, Phagaphasvivat, “Entrepreneurship in Thailand”, The Maureen and Mike Mansfield Foundation, http://www.mansfieldfdn.org/backup/programs/program_pdfs/ent_thailand.pdf, n.d.
- Sotharith, Chap and Chheang Vannarith. “Cambodian Economy”, November 2010, Cambodia Institute for Peace and Cooperation, Funded and Supported by Economic Research Institute for ASEAN and East Asia. 2010
- Supatn, Nucharee. “Industrial Estates, Ports, Airports and City Transport in the Greater Bangkok Area for Promoting Connectivity in the Mekong Region.” In Intra-and Inter- City Connectivity in the Mekong Region, edited by Masami Ishida, BRC Research Report No.6, Research Center, IDE-JETRO, Bangkok, Thailand. 2011,
- Tan, Lay Hong, Will Asean Economic Integration Progress beyond a Free Trade Area?, The International and Comparative Law Quarterly, Vol. 53, No. 4 (Oct., 2004), pp. 935-967, Cambridge University Press on behalf of the British Institute of International and Comparative Law, http://www.jstor.org/stable/3663434
- TE, Soksreng. “Good Governance in Cambodia: Exploring the Link between Governance and Poverty Reduction”, Yokohama International Social Science Research Journal, volume 11. 2007. p. 55-76
- Technology, Finance and Dependency, op cit., p.3-4
- Tilman Altenburg. Industrial Policy for Low and Lower-Middle Income Countries, German Development Institute, October Draft, Bonn 2009.
- Timothy J. Sturgeon,” How Globalization Drives Institutional Diversity: The Japanese Electronics Industry’s Response to Value Chain Modularity”, Journal of East Asian Studies 7, 2007.
- Thamavit and Nakamora .“AFTA and Industrial Restructuring in Thailand”. 商経論叢 36(3)(2001): 101-118. Accessed April, 2012
- Transparency International, 2007.
- Transparency International, Country Results, Corruption Perceptions Index, 2011, http://cpi.transparency.org/cpi2011/results/#CountryResults
- Tsuneishi, Takao. “Thailand’s Economic Cooperation with Neighboring Countries and Its Effects on Economic Development within Thailand”, Institutes of Developing Economies. 2007.
- Tsuneishi, Takao. “Development of Border Economic Zones in Thailand: Expansion of Border Trade and Formation of Border Economic Zones”, Institute of Development Economies. 2008.
- Tsunekawa, Jun. “Fostering Supporting Industries in Thailand: through the Linkage between Local and Foreign Interests, the Case of Mold and Die Sector”, last modified April 25, 2012 http://www.ide.go.jp/English/Publish/Download/Apec/pdf/1998_09.pdf
- Uematsu, Hiroshi. "The Presentation of PP SEZ: Our Accomplishment and Challenge". 2012
- UNCTAD. “World Investment Report: Non-equity modes of international production and development 2011”. 2011.
- UNESCAP. "An Analysis of Trade Facilitation and Import/Export Processes in Cambodia: 'Operationalising the Rectangular of Strategy for Growth: Towards Better Business Processes for Trade”. 2011.

- UNESCAP. “Economic Cooperation and Regional Integration in the Greater Mekong Subregion(GMS), UNESCAP. 2008
- United Nations. Compendium of Trade Facilitation Recommendations, Prepared by the secretariat of the United Nations Centre for Trade Facilitation and Electronic Business. 2001.
- United Nations. An Investment Guide to Cambodia 2003, The UNCTAD–ICC Series of Investment Guides. 2003.
- United Nations Economic and Social Commission for Asia and the Pacific. Economic Cooperation and Regional Integration in the Greater Mekong Subregion (GMS). Bangkok, Thailand. 2008.
- United States Agency for International Development. “Factory-Level Value Chain Analysis of Cambodia’s Apparel Industry”. 2007.
- USAID. “Special Economic Zone Benchmarking and Policy Action Plan”. 2007.
- Vannarith, Chheang. “Cambodia: Between China and Japan.” Cambodian Institute for Cooperation and Peace. 2009.
- Vathana Duong TE, Joosung J. Lee and Donghu Hahn, n.d., “Cambodia's Industrial Growth Strategy and the Role of Social Enterprise-With focus on Garment Industry”, Yonsei University
- Walsh, John. “Thailand’s inadequate response to the 2008 Economic Crisis: Implications for Vietnam and other countries entering the East Asian economic model”, VNU Journal of Science, Economics and Business 26 (2010) 37-46. 2012.
- Wan, Ming. "The Great Recession and China's Policy Toward Asian Regionalism". Asian Survey, Vol. 50, No. 3 (May/June 2010), pp. 520-538.Published by: University of California Press. 2010.
- Wang, Jinmin, Wu Jiebing, and Yao Xianguo. “The expansion of textile and clothing firms of China to Asian Least Developed Countries: The Case of Cambodia”, Asia-Pacific Research and Training Network on Trade. 2009.
- Warr, Peter, Jayant Menon and Arief Anshory Yusuf. “Regional Economic Impacts of Cross-Border Infrastructure: A General Equilibrium Application to Thailand and Lao PDR”, ADB. 2009.
- Whitfield, Lindsay and Ole Therkildsen. “What Drives States to Support the Development of Productive Sectors? Strategies ruling elites pursue for political survival and their policy implications”, DIIS Working Paper 2011:15. 2011.
- Wignaraja, Ganashan, “Foreign Direct Investment, Innovation, and Exports: Firm-Level Evidence from People’s Republic of China, Thailand and Philippines” ADB. 2008
- Womack, Brantly. "China between Region and World", The China Journal, No. 61. pp. 1-20. Contemporary China Center. Australian National University. 2009.
- World Bank. “Promoting Special Economic Zones for Export Development in Cambodia”. 2011.
- World Bank. East Asia and Pacific Economic Update 2010, vol. I; The World Bank: 2010.
- World Bank. Cambodia: Seizing Global Opportunity: investment Climate Assessment and Reform Strategy; The World Bank: June 2004
- World Bank. “An Investment Guide to Cambodia”. 2003.

- World Bank. “Industrial Pollution Prevention and Abatement: Industrial Estates.”, Environment Department, World Bank. 1995.
- World Bank. Thailand : Experts share lessons for countering corruption, World Bank. 2012. http://www.worldbank.or.th/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/THAILANDEXTN/0,,contentMDK:23121428~menuPK:333318~pagePK:141137~piPK:141127~theSitePK:333296,00.html
- World Bank.Thailand's Investment Climate: Ch1: Thailand's investment climate today: main findings of the 2007 survey and international comparison, World Bank. 2009. http://siteresources.worldbank.org/THAILANDEXTN/Resources/333295-1249970320257/TH_ICA_Update08_chapter1.pdf
- World Bank. Ease of doing business ratings, Economy rankings, World Bank. 2011. http://www.doingbusiness.org/rankings
- World Trade Organisation and IDE-JETRO. Trade patterns and global value chains in East Asia: From trade in goods to trade in tasks, WTO, 2011
- World Bank Indicators Database. Container Port Traffic, World Bank, 2011, http://data.worldbank.org/indicator/IS.SHP.GOOD.TU
- Zhai, Yongping. “Energy Sector Integration for Low Carbon Development in Greater Mekong Sub-region: Towards a Model of South-South Cooperation”, ADB. 2010.