

EXECUTIVE SUMMARY

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ASEAN member countries agreed to establish the ASEAN Economic Community by 2015 and transform ASEAN into a region with free movement of goods, services, investment, skilled labour and free flow of capital. Narrowing national income gaps among ASEAN member countries is a common concern to progress economic integration. In 2006, per capita GDP at PPP was 1,633 US dollars, 2,032 US dollars, and 2,363 US dollars in Cambodia, Laos and Vietnam respectively. While GDP per capita are much lower than in most other countries, GDP growth rates in the three developing nations were higher. The economies in Cambodia, Laos, Myanmar, and Vietnam (CLMV) are growing dynamically.

Industrial-wise GDP share has changed in CLMV (Table 2). In Cambodia, the share of primary industry in GDP has declined, and that of secondary and tertiary has risen. Tourism has the third largest share in GDP after agriculture and garment manufacturing. In Laos, the mining industry has developed rapidly. In Vietnam, the share of secondary industry in GDP has risen quickly due to fast growth of the manufacturing sector.

Table 1 Per Capita GDP and GDP Growth Rates in ASEAN

	GDP Per Capita at PPP in 2006 US \$	Annual Growth Rates of GDP between 2000 and 2006 %
Brunei Darussalam	49,370	4.7
Cambodia	1,633	11.7
Indonesia	3,471	7.1
Lao PDR	2,032	9.0
Malaysia	12,314	6.4
Myanmar	NA	NA
Philippines	3,127	7.2
Singapore	47,065	7.9
Thailand	7,403	7.8
Viet Nam	2,363	9.8

Source: Asian Development Bank, *Key Indicators for Asia and the Pacific 2008*.

Table 2 Industry-wise Share in GDP

(%)

	1990			2000		
	Primary	Secondary	Tertiary	Primary	Secondary	Tertiary
Cambodia	55.6	11.2	33.2	37.9	23.0	39.1
Lao PDR	61.2	14.5	24.3	52.6	22.9	24.6
Myanmar	57.3	10.5	32.2	57.2	9.7	33.1
Vietnam	38.7	22.7	38.6	24.5	36.7	38.7
	2006					
	Primary	Secondary	Tertiary			
Cambodia	31.7	27.6	40.8			
Lao PDR	42.6	31.8	25.6			
Myanmar						
Vietnam	20.4	41.5	38.1			

Source: Asian Development Bank, *Key Indicators for Asia and the Pacific 2008*.

This study aims to analyze major industries to identify opportunities to increase value added in related industries, thereby accelerating economic growth. Environments for doing business are also examined. Economics of institutions such as laws and registration procedures have been changed to follow international standards in CLMV countries. These countries are trying to participate in international production networks in Asia. In Thailand, companies involved in labour intensive industries have been forced to adjust to rising wages. Many of these companies are setting up factories at border areas to take advantage of cheap labour in neighbouring countries.

The first chapter explores the potentiality of tourism industry in Cambodia. It has the third largest share in GDP after agriculture and the garment industry. International tourist arrivals have increased remarkably from 118,183 in 1993 to 2,015,128 in 2007. Such a dramatic increase requires infrastructure and tourism facilities to meet the demands of tourists. While the tourism industry is mainly run by the private sector, infrastructure such as roads and air-ports should be developed by the government. Public and private cooperation is necessary for further development of tourism. Cambodia has a lot of tourism resources in addition to Angkor Wat. There is potential for health tourism, sport tourism like golf and diving, and ecotourism. There is a lack of standards for high-class tourists and special services for special interest group tourists. Such a gap provides opportunities for Japanese companies to explore and invest in.

The second chapter examines the investment climate in Cambodia. Cambodia does provide some potentially rewarding options for manufacturing investment from Japanese or other foreign companies. Although the domestic market is small and relatively poor, investment may, to some extent, be justified by Cambodia's location in the center of a large and growing regional market. The key benefit to foreign direct investment, however, is the opportunity to gain access to resources, chiefly cheap labor and agricultural land. With proper management techniques and technology, output of primary production and related manufactured goods could be significantly increased in a number of areas. Any business considering a long term investment in Cambodia, however, needs to be aware of constraints to doing business, which include very high electricity costs, the 'time tax' of complying with Government regulations, corruption, and under-developed infrastructure. The author conducted a survey of 36 manufacturing firms in Phnom Penh in February 2009. The survey results show that the single largest constraint to manufacturing firm development was the cost of electricity. Access to finance was ranked as the second most severe constraint.

The third chapter analyses the mining industry in Laos. The Lao government has clear strategies and policies to promote mining FDI into Laos in order to stimulate economic development and to eradicate poverty. FDI in the mining sector has increased sharply since 2003, mostly from investors from neighbouring countries such as China and Vietnam. However, there are financial and technological limitations on mining project development and about 70 % of projects are still in the exploration and feasibility study stages. There are also some constraints on mining investment in Laos. Detailed information from geological maps regarding mining deposits, mining reserves and mining quality is lacking. Mining laws also create some barriers, as institutional capacity is weak and the licensing process is time-consuming and complex. In order to attract more FDI into the mining sector, the Lao government is trying to remove these constraints by improving investment and mining laws, and upgrading institutional capacity. As Laos still has abundant mining resources and the Lao government is highly motivated to promote Japanese investment in mining and other sectors, there are still significant opportunities for Japanese FDI.

The fourth chapter points out the necessity of strategic implementation of trade, industry and investment policies in Myanmar, under stable macroeconomic performance, coordinated by sound monetary and financial policies. The survey demonstrates the current state of the business environment and the requirements to enhance competitiveness in the market economy. The interrelated effects of these factors on the investment climate have been widely accepted. The three fundamental requirements to improve investment are: secure and stable macroeconomic performance; microeconomic aspects of efficient regulations for enhancing firms competitiveness; and investment -enabling infrastructure.

The fifth chapter analyses the development of supporting industries for the machinery sector in Vietnam. It suggests new trends and opportunities for industrial development in late developing economies. Although the critical role of FDI for industrial development remains, the effects of FDI are varied, based on their models of production. FDI companies focusing on local markets foster the formation of local production systems, and although the timeframe for building these systems has been shortened, these processes still take time. Meanwhile, FDI focusing on global markets can have the effect of attracting additional FDI and developing industrial clusters. Companies with this kind of FDI ask for favourable investment conditions from government policies.

In recent years, the development of supporting industries for the machinery sector in Vietnam is noticeable, but it was only a first step for its development. Since building supporting industries is vital for its industrial development, the country needs more effort and favorable policies to foster these industries. Support from the government on taxes, capital, land, technologies and human resource development is important. Meanwhile, competition among developing economies to develop supporting industries creates additional challenges for building these industries in Vietnam.

The sixth chapter examines the international labour migration–competitiveness nexus, using firm-level case studies of Thai clothing factories in Tak province, at the border between Thailand and Myanmar. The core methodology is interviews conducted during January-February 2009.

The key findings suggest that there are a number of export-oriented Thai clothing enterprises setting up factories in Tak province to gain access to low-wage foreign workers, and to maintain their competitiveness. While in theory, importing low-wage foreign workers can somehow retard the technological progress of firms, such an adverse effect on technological progress has not been found. This is due to the persistence of global competition. It is especially true in a quota-free global trading environment. We realize that the study's outcome cannot be treated as strong evidence in favour of opening the door widely to foreign workers. Opening the door to foreign workers is related to other aspects, including its social and political consequences. Instead our findings suggest far less concern about the adverse effect on technological progress, as firms must stay alert to any kind of productivity improvement to survive in the more intense competition, regardless where their workers come from.

