Chapter 2

The Vitality of the ASEAN Least Developed Countries (The CLMs)

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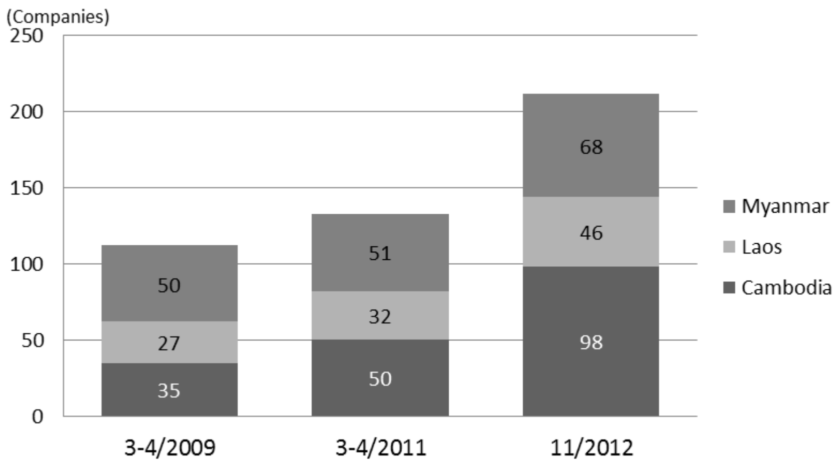
Key Points

- Large investments related to resources such as mines and energy are active from countries such as China, South Korea, Vietnam, and Thailand to the CLMs (Cambodia, Laos, and Myanmar). Amidst this situation, investments by Japanese corporations are increasing in the manufacturing sector centered on garment manufacturing, and this is diversifying to automobile parts and electronic components as well.

- There has been progress in developing hard infrastructure such as roads and bridges in the Mekong region including the CLMs, and the building of a cross-border production network, such as a division of production with Thailand, has become possible in the region. With an increase in personal income level centered on the urban areas, the potential of the CLMs as a market is also drawing attention

- The CLMs have many problems in the investment environment such as undeveloped institutions and rules, an insufficiency in human resources, and the like, but there are abundant business opportunities as a destination of new business deployment, and active engagement by Japanese corporations is called for. An attitude of contributing to the nation-building of the CLMs in the cultivation of human resources and the like is also necessary.

Japanese companies expanding to the CLMs are increasing
(number of Japanese members of chambers of commerce in each country)



Note: Cambodia is official members.
Source: Japanese chambers of commerce for each country

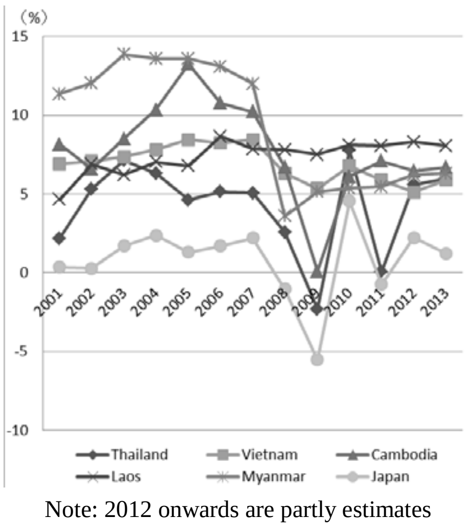
1. The growing presence of the CLM countries

Of the 10 ASEAN member countries, the five (Cambodia, Laos, Myanmar, Thailand, and Vietnam) positioned in the Indochinese peninsula are often referred to collectively as the “Mekong region.” Exchanges of goods in this Mekong region are increasing in activity. While the value of trade in the ASEAN region from 2000 to 2011 grew by about a factor of 3 from about $101.5 billion to about $309 billion, it grew in the Mekong region by about a factor of 8 from about $3.1 billion to about $25 billion. Although small in absolute terms, this rate of growth greatly exceeds that for the ASEAN region. With Thailand as the primary trading partner, the increase in the value of trade by Vietnam in addition to the three countries of Cambodia, Laos, and Myanmar, which can be considered emerging countries in the region (referred to with the acronym “CLM”) is the primary reason for this. This reflects the situation where the economies of the CLM countries are heightening their presence in the region. Below, in this section the current state of the CLM economies will first be examined.

1.1 Trade and investment exhibiting brisk activity

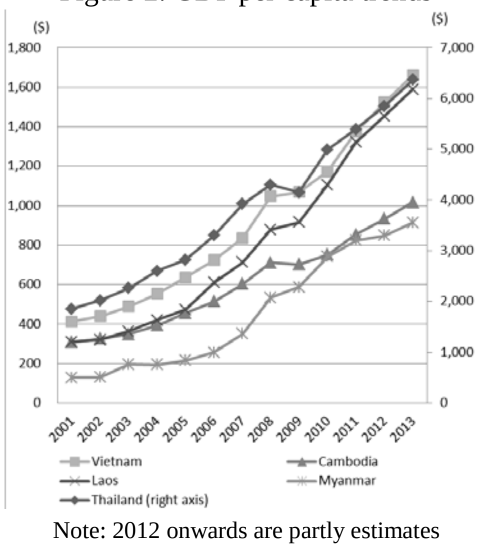
There are large economic disparities among the ASEAN member countries. There is about a hundredfold gap in nominal GDP, and about a sixtyfold gap in GDP per capita. The CLM countries have had political scenes including civil wars and military dictatorships, and were especially delayed in economic development, but have sustained a high growth rate in recent years (Figure 1). The average growth rate from 2001-2011 was at least 7% for each country, and the average growth rate in GDP per capita also has continued at over 10%, with Cambodia at 11%, Laos at 16%, and Myanmar at 22% (Figure 2). The economic growth rate for 2012 and 2013 is also expected to be high.

Figure 1: Real GDP growth trends



Note: 2012 onwards are partly estimates
Source: IMF (WEO Oct. 2012)

Figure 2: GDP per capita trends



Note: 2012 onwards are partly estimates
Source: IMF (WEO Oct. 2012)

(Cambodia)

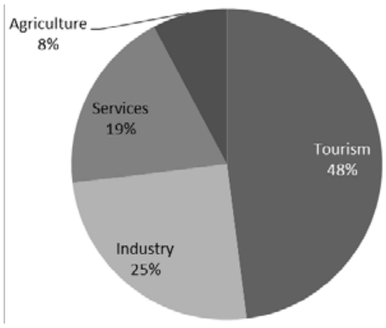
According to the Council for the Development of Cambodia (CDC), the value of inward direct investment (on an approval basis) in 2011 was $5.23 billion, roughly double the value from the previous year.[1] The greatest amount, $2.238 billion, came from the UK, but in this case a single large investment pushed up the total. Meanwhile, the second greatest amount, $1.223 billion, came from China, which also had the greatest number of deals at 28 (tied with South Korea), and a 72% year-over-year increase in total value. In particular, investments in large deals in the real estate industry (developing hotels, business centers, and the like) and mine development stood out.

Looking at the cumulative value for direct investment from 1994-2011, China is ranked first ($8.97 billion), at a magnitude about 2.2 times that of the second ranked country, South Korea ($4.093 billion). The industries of real estate development (hotels and the like) and energy development make up about 80% of the total (Figure 3).[2]

Within the foreign direct investment to Cambodia, for which large-scale deals stand out, investment in the manufacturing industry centered on garment manufacturing has been increasing in recent years. This grew from about threefold (on a value basis) from 40 deals totaling $120 million in 2010 to 80 deals totaling $370 million in 2011. These values do not include investment in SEZs, and if these are included as well, the value would have increased yet more.

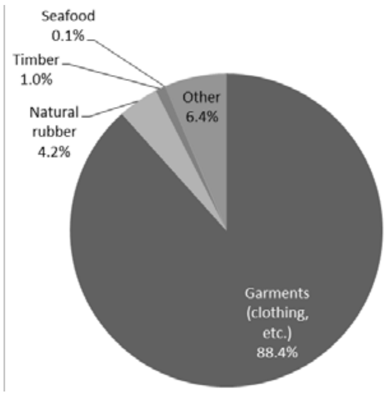
Figure 3: Inward direct investment and exports of Cambodia

Inward direct investment by industry
[Cumulative total for 1994-2011,
Total value: ~ $26 billion]



Note: When calculating fractions, Cambodian capital was included in the parameters for the 1994-2009 statistics. Investment in SEZs is not included
Source: Cambodian Investment Board (CIB)

Exports by industry
[2011 total value: ~$4.7 billion]



Source: National Bank of Cambodia

[1] Including deals occupying Special Economic Zones (SEZ).
[2] Investment deals in SEZs are not included in the parameters.

(Laos)

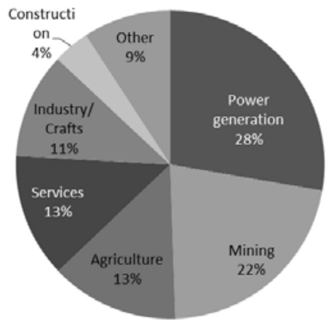
The value of inward direct investment (on an approval basis) to Laos in 2011 was $1.623 billion, a year-over-year decline of 18.2%. There continued to be much investment from neighboring countries including China, Vietnam, and Thailand, these three countries constituting 76.5% of the total amount (investment from Japan stood at $2.32 million, ranking ninth). Much of the investment was in mine development, the service industry, large-scale agriculture/afforestation, and the like.

Of the cumulative 2000-2011 total of $17.163 billion,[3] 28% went to electrical power-related industries, centered on hydroelectric power, 22% went to mine development, 13% went to agriculture and the natural resources sector, together constituting over 60% of the total (Figure 4). The investment sources in order of ranking were: 1) Vietnam ($3.455 billion), 2) China ($3.235 billion), 3) Thailand ($3.03 billion), and 4) South Korea ($594 million).

The total value of exports from Laos in FY 2011[4] was about $2 billion. Of this, minerals were about $1.08 billion, which is 55% of the total. With a high reliance on natural resources for exports, Laos contrasts with Cambodia, for which textiles make up 90% of the total.

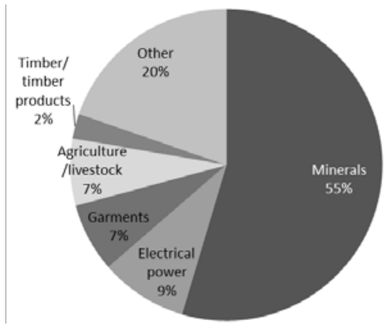
Figure 4: Inward direct investment and exports of Laos

Inward direct investment by industry
[Cumulative total for 2000-2011
Total value: ~17.163 billion]



Note: Including investment of Laotian capital
Source: Laos Ministry of Planning and Investment

Exports by industry
[2011 total value: ~$2 billion]



Note: The fiscal year is October 2010-September 2011
Source: Laos Ministry of Industry and Commerce

3 Including investment of Laotian capital.
4 October 2010 through September 2011.

(Myanmar)

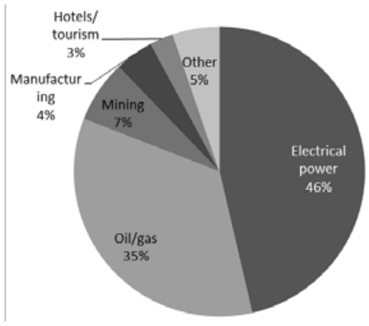
Inward direct investment to Myanmar in FY 2011[5] (on an approval basis) totaled 13 deals and $4.6445 billion, a major decrease of 76.8% rebounding from FY 2010, when the record high of $19.998 billion was recorded. Of this, $4.344 billion (over 90% of the total) was investment by China in hydroelectric power in Chibwe in the state of Kachin.

In the breakdown by industry of the cumulative total inward direct investment from 1989-2011, energy- and resource-related investments such as hydroelectric power, oil/gas, and mining play a central role just like in Cambodia and Laos (Figure 5). Much of the investment comes from the countries/regions of China, Thailand, Hong Kong, and South Korea.

The total value of exports from Myanmar in FY 2011 was about $9.1 billion. Of this, natural gas rose year-over-year by 35.2% to about $3.5 billion, which was 38% of the total. Practically all of this was exported to Thailand. A natural gas pipeline linking Kyaukpyu in Rakhine state to Yunnan province in China is planned to be completed in 2013, and so exports to China are expected in the near future. The next largest component is legumes, much of which is shipped to India and which grew 19.4% year-over-year to about $980 million (about 11% of the total). In recent years, new and expanded investment from South Korea, Japan, and the like in the garment manufacturing industry have begun to stand out, and exports of garments are steadily rising.

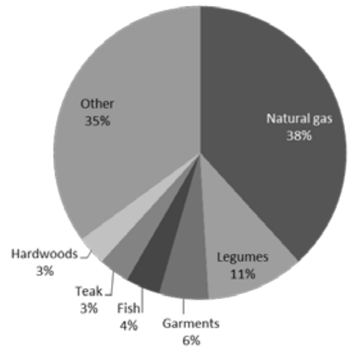
Figure 5: Inward direct investment and exports of Myanmar

Inward direct investment by industry
[Cumulative total for 1989-2011
Total value: $40.699 billion]



Note: The fiscal year is April-March
Sources: Myanmar Central Statistical Organization, Directorate of Investment and Company Administration

Exports by industry
[2011 total value: ~$9.1 billion]



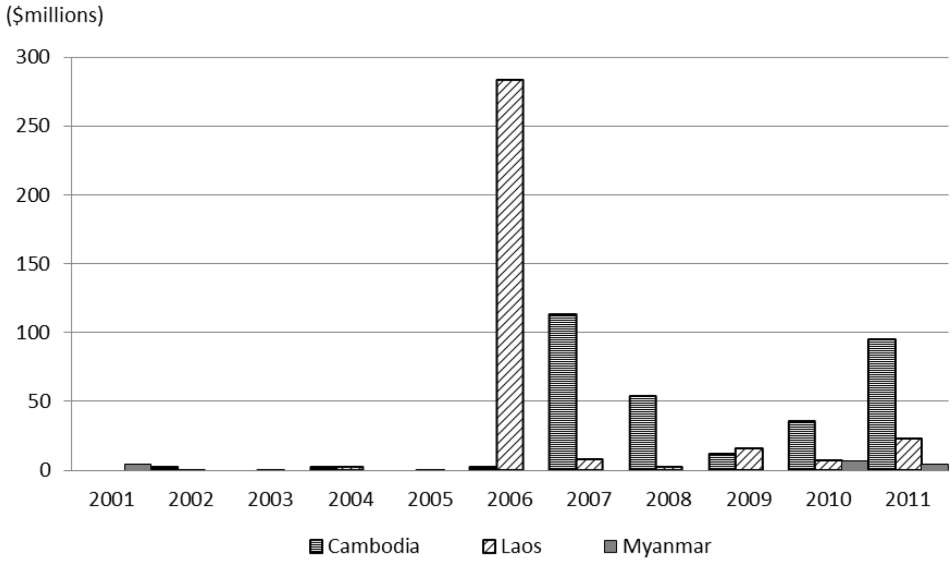
Note: The fiscal year is April 2011-March 2012
Source: Myanmar Central Statistical Organization

5 April 2011-March 2012

1.2 Investment from Japan also expands

Investment from Japan to the CLM countries has been expanding significantly since the latter half of the 2000s. This investment is characterized by much of it being in the manufacturing industry centered on garment manufacturing. Since the value per investment is smaller than for real estate investment or mine development investment, the figures for Japan from the perspective of the share per country of direct investment are still small, but the investment value itself has trended upward since 2009.[6]

Figure 6: Trends for direct investment value by Japanese corporations in the CLMs



Source: Council for the Development of Cambodia, Laos Ministry of Planning and Investment, Myanmar Central Statistical Organization, Directorate of Investment and Company Administration

The number of Japanese members of chambers of commerce in the CLM countries also reflects a sign that Japanese corporations are increasing investment. Although far behind that in Thailand and Vietnam in absolute numbers, the rate of growth in the number of Japanese members of chambers of commerce (full members) in Cambodia grew by about 2.8-fold from 35 companies in 2009 to 98 companies in October 2012, a rate much greater than that in Thailand and Vietnam. In Laos as well, this number is expected to exceed 50 companies during 2012, and the rate of growth has been marked for the past few years. Also, in Myanmar, membership had been in a downward trend from a peak (86 companies) in 1998, but is now increasing.

6 There was a spike in investment in Laos in 2006 due to an investment in hydroelectric power, and in investment in Cambodia in 2007 and 2008 due to an investment in resort development.

(Cambodia)

In order to distribute the risk of a monopolar concentration in China, Japanese corporations including major clothing retailers and major supermarkets looked to Cambodia starting in the latter half of the 2000s as a contract manufacturing destination country for clothing and shoes, and have been expanding local production and trade. As a result, a majority of Cambodian exports to Japan have become shoes and clothing, the scope of which has been expanding rapidly since around 2009. Also, with parts makers such as manufacturers of small motors and wire harnesses for household appliances and automobiles expanding to Cambodia one after another and the acceleration of the penetration by the service industries supporting the manufacturing industry in the areas of finances, construction, taxes, and accounting, the reality is that there is a diversification underway in industry types.

(Laos)

Investment by Japanese corporations in Laos is also trending upwards centered on manufacturing. Representative industries are garment manufacture, wire harnesses, processing of agricultural goods, and the like, and much investment is in the form of “Thailand plus one” aiming for a division of production with Thailand and an avoidance of the risk from China. In Laotian exports to Japan as well, clothing products are increasing significantly, having grown by about a factor of 10 from 2006 ($1.18 million) to 2011 ($11.9 million). Non-seasonal items including suits and white dress shirts are being produced for Japan.

(Myanmar)

Inward direct investment (on an approval basis) from Japan to Myanmar consisted of a total of two deals that were approved respectively for $3 million and $1.32 million in the garment manufacturing sector in January and February 2012. These were the first new investments in 10 years. One was by the apparel manufacturer Honeys (based in Fukushima prefecture) , launching a wholly owned women’s clothing manufacturing subsidiary “Honeys Garment Industry” in an industrial park in Yangon starting in May 2012. Up until then, Honeys had entrusted the manufacturing of products to subcontract factories in China, but the company pressed ahead with production in Myanmar with an eye towards future retail network expansion. The other investment was in a casual clothing manufacturing factory, which will be constructed in the city of Bago, located about 70 kilometers north of Yangon.

The move by Japanese corporations towards new investments is expanding alongside the progress of democratization in Myanmar, and there has started to be an increase in announcements of new plans since around February 2012. For example, in March, Foster Electric announced a manufacturing and sales base for speakers, headphones, and the like, and in April, NTT Data announced the establishment of an offshore development center for Japan.

1.3 The background to the CLMs garnering attention

As seen above, the CLM countries have come to be positioned as a new investment destination for Japanese corporations. What lies behind this development?

First, there is the change in the labor environment in the neighboring countries of China, Thailand, and Vietnam. For the past 1-2 years, the legal minimum wage has been raised in these countries. Moreover, the rate of increase has become large. Based on the real annual cost of a worker in the manufacturing industry, China has already become five times as expensive as Myanmar (China: $5,765, Myanmar: $1,137).[7]。

In China and the like, the fact is the popularity of the service industry has risen alongside economic development, and it is becoming difficult to secure factory workers. Compared to China, Thailand, Vietnam, and the like, the labor force of the CLMs is low-cost and abundant.

Next, the democratization of Myanmar can be cited. In this country, with a population of over 60 million and abundant natural resources, a long-lasting military dictatorship had continued. However, elections were held in November 2010 based on a multi-party system, and a new administration launched in March 2011 led by President Thein Sein. Alongside democratization, this administration has been engaging in a variety of reforms including in the area of economics.

The progress in building hard infrastructure such as roads in the Mekong region that includes the CLMs is another factor behind the rise in interest in these countries. There are many international aid frameworks for development of the region, but the most comprehensive and large-scale among them is likely the Greater Mekong Subregion (GMS) program, which is an initiative of the Asian Development Bank (ADB). The concept of an "economic corridor" was advocated at the 1998 GMS Ministerial Meeting, and three economic corridors were endorsed at the 2000 Ministerial Meeting, the East-West Economic Corridor, the North-South Economic Corridor, and the Southern Economic Corridor. After that, upgrading and developing roads for each corridor have been carried out in a prioritized manner.

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[7] "Survey of Japanese-Affiliated Firms in Asia and Oceania (FY 2011 Survey)." October 2011, JETRO.

2. Strengthening the production network.

One characteristic stands out from among the recent cases of foraying to the CLMs by Japanese corporations, which is that there are notable cases of engaging in business expansion in the CLMs under a region-crossing strategy that considers the Mekong region as a single plane. As stated earlier, hard infrastructure development is proceeding centered on the East-West Economic Corridor and the Southern Economic Corridor, which form cross-border links within the region. With this, we are entering a stage in which has become possible to build a production network by linking the CLM countries, where a low-cost labor force can be taken advantage of, and the production centers in Thailand and Vietnam.

2.1 Taking advantage of the Southern Economic Corridor (linking Cambodia and Vietnam)

Swany Corporation (headquartered in Kagawa prefecture), which manufactures and sells gloves and bags, has expanded to the Tai Seng Special Economic Zone in Svay Rieng in Bavet District in Cambodia, which is near the Vietnamese border (Figure 7). Although Swany has a base in China, but due to the sharp rise in labor costs in the country, the company sought a new base in Cambodia, starting operations in February 2012. The factory runs six days a week, employs 370 workers, and manufactures 30 products including insulated gloves. The company has been sourcing raw materials from Vietnam, and so the location was Bavet was chosen due to closer proximity to Ho Chih Minh City in Vietnam than to the Cambodian capital of Phnom Penh. The distance over land to Ho Chih Minh City is about 90 km (versus about 160 km to Phnom Penh). All the products are exported to Japan via Ho Chih Minh City. Rather than use Sihanoukville port in Cambodia, it is closer to go to Japan through Ho Chih Minh City, which also has direct flights, and it is said to take 10-14 days for arrival.

Also, at the Cambodia-Vietnam border (Bevat-Moc Bai) on the corridor, the mutual entry of shipping trucks is in place by bilateral arrangement, although the number of licenses is limited. Furthermore, in the case of Cambodia, for SEZs located within 20 km of the border, it is only necessary to present a copy of the cargo contents at the border checkpoint, and it is not necessary to submit an import declaration or to have customs sign containers.

Meanwhile, by placing production bases in Cambodia, it is possible to enjoy not only low wages, but also preferential treatment by the country in the form of of tax breaks to corporate taxes, raw material importation taxes, and the like. Cambodia is a Least Developed Country (LDC), and so

LDC preferential duties[8] are applied, resulting in duty-free and quota-free exports to Japan. This could be called a business confiugration that combines and cleverly links the merits of Vietnam and Cambodia.

2.2 Taking advantage of the East-West Economic Corridor and the like

Thailand and Laos have high linguistic similarities, factory leadership by Thais in Laos is possible, the Laotian capital of Vientiane is near the Thai border, and so it is easy to make progress in division of production.

Tokyo Coil Engineering Co., Ltd. (headquartered in Tokyo), which produces camera strobe components, was faced with needing to expand production in a Thai factory, and while investigating factory locations in other countries, surveyed the investment environment in Vietnam and Myanmar. However, there were not felt to be significant benefits in terms of labor costs, and so it was decided to expand to Laos. It was said that the greatest merit to this was that the Thai language is understood in Laos. The labor-intensive processes from the Thai factory were transferred to Laos and the products were returned to Thailand totally duty-free, meeting the demand from Japanese manufacturers of assembled goods in Thailand. Currently, the factory in Laos is maintaining production volumes while furthering labor-saving efforts including automation. There is no permanently resident Japanese manager, and a Thai President manages the factory (with 460 workers).

The Yazaki Corporation expanded to Bangkok in 1962, producing wire harnesses, measurement instrumentation, and the like, and began exporting to Europe, the US, and the like in 1984. However, after the Asian Currency Crisis in 1997, the company put effort into outsourcing to respond to the environmental changes of the aging of employees and the sharp rise in overhead including building rents and wages accompanying the recovery of the Thai economy. After establishing four centers in the north of Thailand, the company went further north across the border to Vientiane in Laos. Technology, equipment, materials, and the like were supplied from Thailand to a wholly-owned local company, and the processed goods are bonded 100% and all returned to Thai factories. This is indeed a “Thailand plus one” investment pattern. Aside from the two companies discussed above, production of electronic components, clothing products, and the like in the form of placing the primary center in Thailand and then performing a portion of the manufacturing/assembly process in Laos is becoming more common.

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[8] LDC preferential tariffs: Starting in 1980, Japan provided a zero-duty, zero-quota measure to the 48 LDCs for special preferential items (about 2400 items) applied only to the LDCs in addition to all the general preferential duty target items.

3. The hidden possibilities of the CLMs

3.1 An allure as a single "plane"

This section discusses the potention of the CLMs as an investment destination. First, these countries have the attraction of being located in the Mekong region, where development is proceeding as a regional economic network. In the region, through the support of international organizations and foreign countries including Japan as well as the independent policies of each country, there is an improvement underway of hard infrastructure such as roads, ports, and bridges, as well as soft infrastructure including customs procedures at borders. Furthermore, amidst the ASEAN goal of building an economic community in 2015, the leading six countries have already eliminated tariffs excepting a subset of exceptions under the ASEAN Free Trade Area (AFTA) Trade in Goods Agreement (ATIGA). The plan is also for the CLMVs to essentially eliminate tariffs. Amidst various barriers in the Mekong region being lowered, the CLMs are heightening in their attraction as a destination of business expansion within the "plane" of the Mekong region. When expanding to the area, it is possible to link to further cost reduction and profit expansion through surveying the entire region and considering the optimum combination of sources for components and raw materials, manufacturing/assembly centers, distribution routes, and the like.

3.2 The allure as a market

Second is the allure as a market. Traditionally, the CLMs were primarily manufacturing centers, but they are drawing attention as a market as well. According to AEON Co., Ltd., 88% of household incomes in Cambodia were no greater than $400 per month, but in the principal districts of Phnom Penh, 78% were at least $400, expanding the middle class.[9] As a result, large shopping malls from foreign companies have opened one after another in Phnom Penh, and AEON also plans to open shop in 2014. Malaysian company Parkson also plans to open a shopping mall in Phnom Penh in 2014. Cambodia has no equity participation limits or shop opening restrictions, and so it recognizes 100% foreign capitalization and it is possible to have multiple stores.

The GDP per capita in Myanmar is $824 (IMF estimate), but in the Yangon region, this figure is nearly twice as high at $1693. In the large cities including Yangon and Mandalay, shopping centers, restaurants, and such are opening one after another. Junction Square, which opened in Yangon in March 2012, boasts the best array of products in the city, centered on goods imported from neighboring countries such as Thailand and Singapore. Japanese

[9] From the Cambodia Investment Seminar (hosted by the ASEAN-Japan Centre), AEON report documents.

company Daiso also has a shop there, selling items for 1800 kyat each, and is bustling every day with many Burmese shoppers.

3.3 Agrobusiness

Agrobusiness can be cited as the third allure of the CLMs. According to JETRO's "Survey on Business Needs and Strategies in the Mekong Sub-region 2012,"[10] it was pointed out that as promising industries in the Mekong region, in addition to manufacturing of garments, components, and the like, the agricultural industry is particularly promising in the CLM countries.

In Laos, Oji Paper Co., Ltd. has been conducting an afforestation project since 2005, and Tsumura & Co. established a wholly-owned local subsidiary in February 2010 in Champasak province where the Bolaven Plateau is located. The company took advantage of a land concession program[11] with an eye towards the quality natural resources on the plateau. To Tsumura, which produces and sells Chinese and herbal medicine, full traceability (production history management) of the raw material herbal medicines is indispensible. In the future, the company will build an herbal medicine processing factory, and steadily increase the number of cultivated items.[12] A similar land concession program exists in Cambodia as well, and so if the necessary procedures are followed, it is possible to obtain large-scale land tenant rights.

4. Business environment issues

4.1 Cases of facing a labor shortfall

There is a mountain of issues in the business environment of the CLMs. Let us touch on the main ones. In the hearings for the "Survey on Business Needs and Strategies in the Mekong Sub-region 2012" mentioned earlier, one issue pointed out as needing to be resolved in the Mekong region is "the need for appropriate support for cultivating labor and human resources." Specifically, there was the opinion that "since the minimum wage rose, it is necessary for companies and workers to increase productivity to maintain competitiveness." As discussed earlier, even though the wage level in the CLMs is lower than that in China, Thailand, Vietnam, and the like, its value is rising every year and so caution is needed.

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[10] An interview survey conducted from March-July 2012 regarding requests for investment environment improvements and business strategies in the Mekong region of a total of 196 companies comprising 152 Japanese and local corporations in the Mekong region (Thailand, Vietnam, Cambodia, Myanmar, and Laos) and 44 Japanese companies with bases in Japan, Singapore, and Malaysia. http://www.jetro.go.jp/world/asia/kh/reports/07001117

[11] A program granting corporations and individuals large-scale and long-term land development and use rights. The maximum term is 50 years for corporations.

[12] However, as stated in 1.1, it must be kept in mind that there is a freeze on approval for new investments in natural rubber and eucalyptus.

There are also cases of facing a labor force shortfall. For example, according to the Phnom Penh SEZ company in Cambodia, “the greatest issue is hiring difficulties” among the SEZ administrative tasks. From the start of occupancy in 2008 through 2009, it was possible to secure the necessary labor force merely by putting up fliers in the SEZ, but it become much more difficult starting in 2010. One cause of this is the concentration of factories in the western portion of Phnom Penh where the SEZ is located, the background to which is the lack of a human resource supply network linking the population-rich rural areas and the factory zones. The Cambodian government is currently founding a new organization aiming to promote employment, and is attempting to further the sharing of employment information between the urban and rural areas. However, in the future if companies begin to hire many migrant workers from the countryside, they will be pressed to secure company housing and the like.

4.2 Transparency of the legal system is called for

There are also problems in the legal system. Aid-providing countries are supporting the development of the laws themselves, and progress is being made a little at a time, but the problem is a divergence from the state of enforcement. In Cambodia there is an investment incentive called a Qualified Investment Project (QIP). It has different contents by industry, but it provides for corporate tax breaks, import duty breaks for raw materials, production equipment, and the like, added value tax breaks, and the like. However, since the details have not been made clear, the reality is the contents of the measure provided differ by company.

As stated earlier, the legal minimum wage in Laos was raised starting on January 1, 2012. Traditionally, a subsidy (allowance) was added to the legal minimum wage, and then disbursed, but in the new system only the legal minimum wage is mentioned, and it is clear how to handle the subsidy (allowance). Thereafter, there has been a different response depending on corporation without any notification from the government.

In Myanmar, a Labor Organization Law was announced in October 2011. The law mandates that to form a union, a minimum of 30 workers must be employed, and that the participation of at least 10% of all employees is necessary. Furthermore, in addition to reviewing the Special Economic Zone Law, the enactment of a new consumer protection law, minimum wage law, and the like are planned. It is hoped that Myanmar will continue down the path of reform and opening up, further developing the legal system.

4.3 Facilitation of the soft infrastructure of logostics

The logistics infrastructure in the CLMs has been proceeding focused on hard infrastructure, but many issues remain. In the "Survey on Business Needs and Strategies in the Mekong Sub-region 2012" as well, there were many requests for both the hard and soft aspects centered on the East-West Economic Corridor and the Southern Economic Corridor as primary transport routes.

For the East-West Economic Corridor, this includes in Myanmar the early development of the Tirawa SEZ (2400 ha) and the development of access roads, and in Vietnam the development of ports (the Vung Ang port and the like) and such. For the Tirawa SEZ, a Japan-Myanmar Memorandum of Understanding (MOU) was concluded when Myanmar President Thein Sein visited Japan in April 2012, and Japanese cooperation and the like were promised for creating a master plan for development.

The need was high for development of access roads and the early development of the Dawei port and surrounding SEZ (25,000 ha) at the starting point on the Myanmar side of the Southern Economic Corridor. In particular, there are high hopes among companies in Thailand for it as an export center to India and the Middle East.

Meanwhile, in terms of soft infrastructure, although an e-customs system was introduced for customs procedures, there are many who say that this has not led to actual simplification due to such situations as frequent system shutdowns, and paper applications still remaining.

There were also many calls for early realization of the Cross-Border Transport Agreement (CBTA),[13] which is one of the initiatives of the GMS. This agreement stipulates the introduction of a "single stop" that combines the CIQ[14] procedures performed twice at the country of departure and the country of entry into a single procedure, and the introduction of a "single window" that combines the CIQ procedures at a single window. At each border (borders stipulated as the first to introduce the CBTA), the border inspection time that currently takes 4-6 hours will be reduced by 30 minutes. However, in actuality only a portion of the single window has been introduced at the Vietnam-Laos border (Lao Bao-Dansavanh) and the Thailand-Laos border (Mukdahan-Savannakhet), the remainder not having progressed to introduction.[15]

5. Conclusion

According to a questionnaire survey[16] of Japanese corporations in Asian countries, the ratio of those that responded that the direction of business development for the next 1-2 years will be

[13] An agreement pertaining to the simplification of border procedures in the Mekong region, which is proceeding centered on the Asian Development Bank (ADB). It arranges for standardization of the system among GMS member states with the objective of simplification when carrying people and goods.
[14] Customs, Immigration, and Quarantine procedures.
[15] See Ishida (2010).
[16] "Survey of Japanese-Affiliated Firms in Asia and Oceania (FY 2011 Survey)." October 2011, JETRO.

“expansion” was 75% in Cambodia (ranked third among 18 countries), and 68.8% in Myanmar (ranked sixth). When combined with those that responded “maintain the status quo,” the ratio becomes 100% for both countries, as no company responded “contract” or “transfer/withdraw to a third country (or region).” Although the CLMs have various issues, this indicates that there are high hopes for them as destinations of business expansion.

As touched on earlier, the countries of China, South Korea, Vietnam, Thailand, and the like have already made large investments in the CLMs centered on large-scale hard infrastructure projects, and so they have a large presence and influence in the region. Up to now, Japanese corporations have been establishing mainly labor-intensive production bases in the CLMs, but in the future it will be necessary to make efforts to broaden the scope of investment and to incorporate more business opportunities.

Among the Japanese garment manufacturers that have made inroads in Cambodia, there have been cases of engaging in the cultivation of human resources, where before starting factory work, the workers were provided basic training in linguistics and the like. In order to increase productivity in emerging investment targets such as the CLMs, such steady efforts are also necessary. When engaging in business in the CLMs, which are behind in economic development, it is necessary to take a posture of contributing to nation-building. An attitude that is conscious of “unification” with the region or country into which expansion is taking place will ultimately rebound as profit to the company.

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