



# CLMV: The Engine of Growth for ASEAN



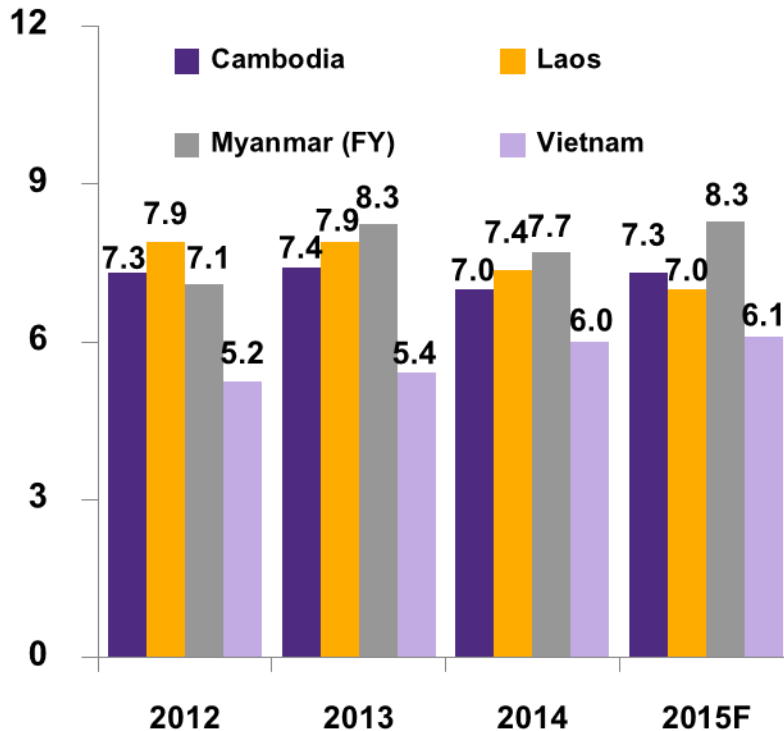
Teerin Ratanapinyowong

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# CLMV, the new growth frontier of ASEAN have had strong economic growth around 7-8% over the last few years and attracted increasing FDI

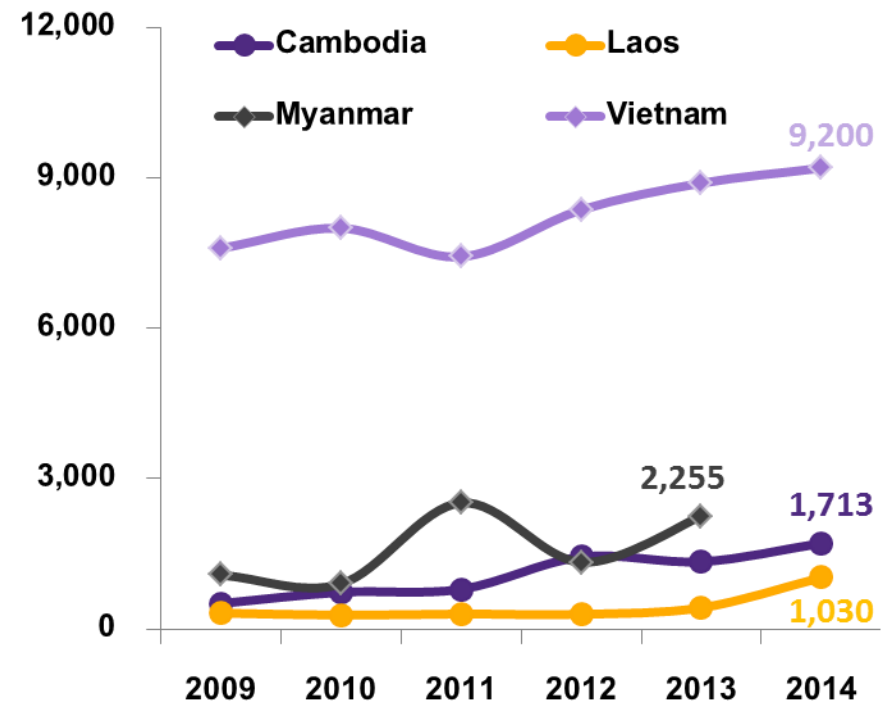
## GDP Growth 2012-2014

Unit: %



## Foreign Direct Investment





Unit: Million USD



Source: SCB EIC analysis based on information from IMF, World Bank



# CLMV have strong foundations to drive extensive growth in the next decade, along with some risks to take into consideration

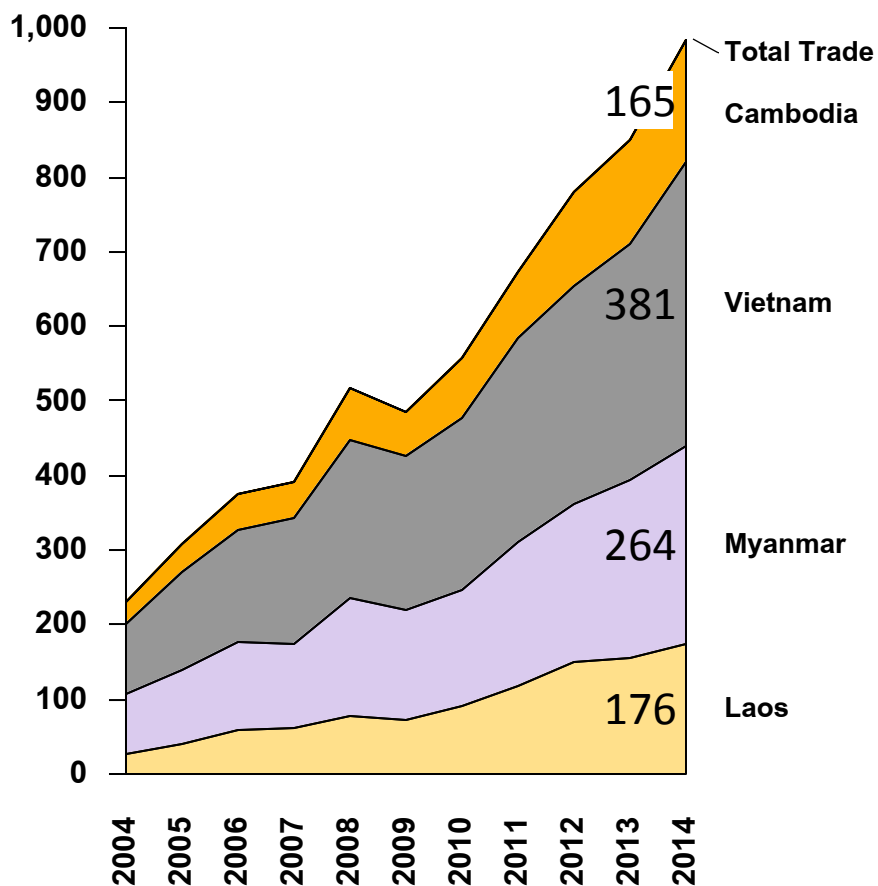
 <b>Cambodia</b>	<h3>Key growth drivers</h3> <ul style="list-style-type: none"> <li>• High GDP growth at <u>~7%</u> driven by: <ul style="list-style-type: none"> <li>• <b>FDI growth</b> moving towards more industrial sectors</li> <li>• <b>Export growth</b> from the recovery of US and EU economy (accounted for more than 60% of Cambodia's export), plus GSP privilege</li> </ul> </li> </ul>	<h3>Key risks</h3> <ul style="list-style-type: none"> <li>• <b>Low infrastructure readiness</b> makes logistics and construction costs high</li> <li>• <b>The ongoing labor dispute, despite an already 28% increase in country's minimum wage</b> amidst low skilled labor environment</li> </ul>
 <b>Laos</b>	<ul style="list-style-type: none"> <li>• High GDP growth at <u>~7-8%</u> driven by: <ul style="list-style-type: none"> <li>• <b>Strong FDI growth in energy sector</b> especially from Thailand and China</li> <li>• <b>Tourism sector</b> with record tourist arrivals that will continue to grow</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <b>Declining export growth</b> due to falling commodities prices which affected export of copper, the main export product of Laos</li> <li>• <b>High current account deficit and low foreign reserve</b></li> </ul>
 <b>Myanmar</b>	<ul style="list-style-type: none"> <li>• High GDP growth at <u>~7-8%</u> driven by: <ul style="list-style-type: none"> <li>• <b>Strong FDI and export growth</b> as the country has abundant natural resources</li> <li>• <b>On going economic and social reform</b> (minimum wage and the year-end election) will help increase investor's confidence</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <b>Risk of accelerating Kyat depreciation</b> due to low foreign reserves</li> <li>• <b>Low commodities prices hurt revenue while major flooding damaging the country's agricultural sector</b> and likely to hike up country's inflation rate</li> </ul>
 <b>Vietnam</b>	<ul style="list-style-type: none"> <li>• High GDP growth at <u>~5-6%</u> driven by: <ul style="list-style-type: none"> <li>• <b>Strong FDI and export growth</b> especially in E&amp;E sectors</li> <li>• <b>Accomplished EU-Vietnam FTA, and TPP</b> will further boost export growth</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• <b>China's economic slowdown</b> will lower demand for Vietnam's export</li> <li>• <b>The risk of Dong depreciation</b> following Yuan's devaluation</li> </ul>

Source: EIC analysis

# Thailand is a significant trade partner with CLMV, especially through border trade

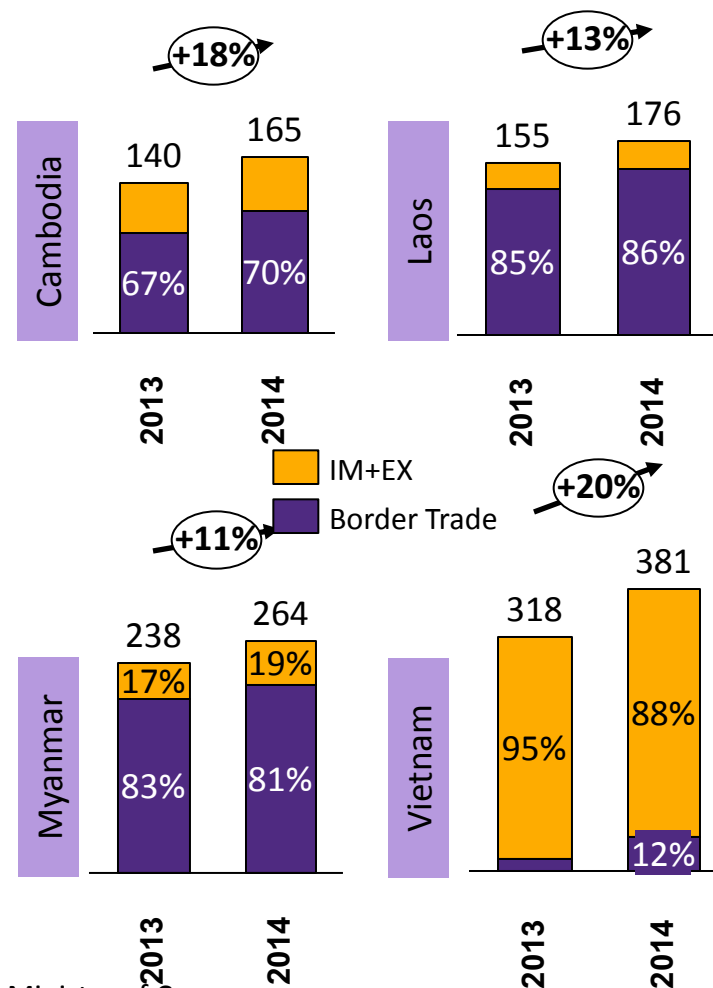
## Total Trade between Thailand and CVMV 2004-2014

Unit: Billion THB



## Cross border trade VS. Total Import-Export 2013-2014

Unit: Billion THB/ %



Source: EIC Analysis based on data from Department of Foreign Trade, Ministry of Commerce

# Thailand +1 offers an opportunity for Japanese investors to unlock labor and resource barriers at its Eastern Sea Board (ESB) base

- **CLMV** are the “last new frontier in Southeast Asia” new destinations for **labor-extensive production hubs**
- A possibility for a new business model called “**Thailand Plus One**”, links the benefits of **lower labor costs in neighboring CLM** and the industrial clusters of Thailand
- Thailand has a **strong production base, supporting industries and supply chain**, thus, it is good to be used as a base
- **Extension of parts and raw materials sourcing networks to CLM** under the Thailand+1 strategy will strengthen the competitiveness of the Japanese companies

## Thailand: Central hub

### Cambodia: labor-intensive

- Low labor cost
- Open sky policy
- Lack of technology
- Lack of infrastructure

### Laos: abundant resources

- Low labor cost
- Battery of ASEAN
- Full of natural resources
- Lack of technology
- Lack of infrastructure

### Myanmar: labor-intensive

- Low labor cost
- Full of natural resources
- Lack of technology
- Lack of infrastructure



## A shift through Thailand+1 model can be observed from a change in border trade import pattern from Laos and Cambodia

Trading partner	Thailand's imports			
	2009	Share (%)	2014	Share (%)
Cambodia	Oil crops & oils	27.0	Electronic parts	34.8
	Vegetables	23.8	Wire & cable	12.4
	Cereals	12.2	Machinery	12.1
	Metals	9.0	Vegetables	11.7
Laos	Copper	62.5	Copper	61.9
	Wood	13.7	Electronic parts	16.9
	Cereals	6.2	Wood	4.2
	Wire & cable	1.6	Vegetables	4.0
Myanmar	Natural gas	95.0	Natural gas	95.5
	Crustaceans	2.7	Livestock	1.4
	Wood	0.7	Wood	0.7
	Ores	0.1	Crustaceans	0.5

Source: SCB EIC analysis based on information from Department of Foreign Trade, Ministry of Commerce

## Thailand remains the most suitable location as a central hub with high scores on Infrastructure and Business sophistication

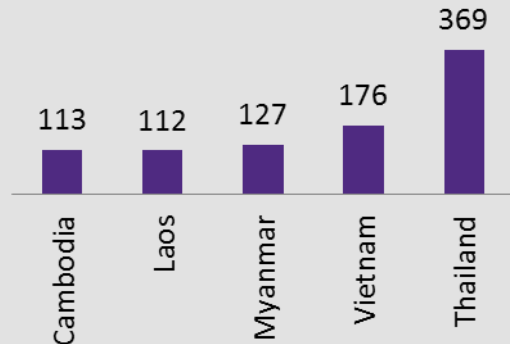
	Cambodia	Laos	Myanmar	Thailand	Vietnam
<b>Overall Competitiveness</b>	3.9	3.9	3.2	4.7	4.2
<u>Basic Requirement</u>					
Institutions	3.2	3.9	2.8	3.7	3.5
Infrastructure	3.1	3.4	2	4.6	3.7
Macroeconomic environment	4.6	3.8	4	6	4.7
Health and primary education	5.4	5.4	4.6	5.8	5.9
<u>Efficiency</u>					
Higher education and training	2.9	3.3	2.4	4.6	3.7
Goods market efficiency	4.2	4.4	3.7	4.7	4.2
Labor market efficiency	4.6	4.6	4.2	4.2	4.4
Financial market development	3.8	3.7	2.6	4.6	3.8
Technological readiness	3	2.8	2.1	3.9	3.1
Market size	3.3	2.7	3.7	5.1	4.7
<u>Innovation</u>					
Business sophistication	3.5	3.9	2.9	4.4	3.6
Innovation	2.8	3.1	2.3	3.3	3.1

Source: SCB EIC analysis based on information from WEF Global Competitiveness Report

## While CLMV countries are suitable for labor-intensive industries with abundant unskilled and semi-skilled labors available

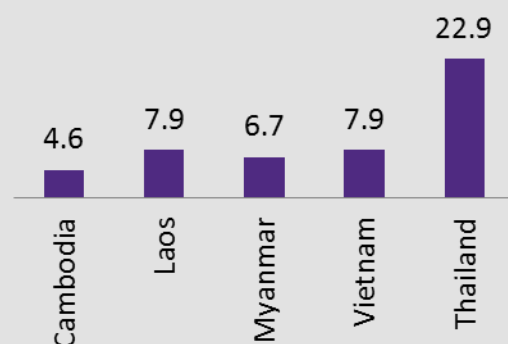
### Wage of manufacturing workers

Unit: USD/ month



### Labor productivity (2012)

Unit: GDP per worker (USD)

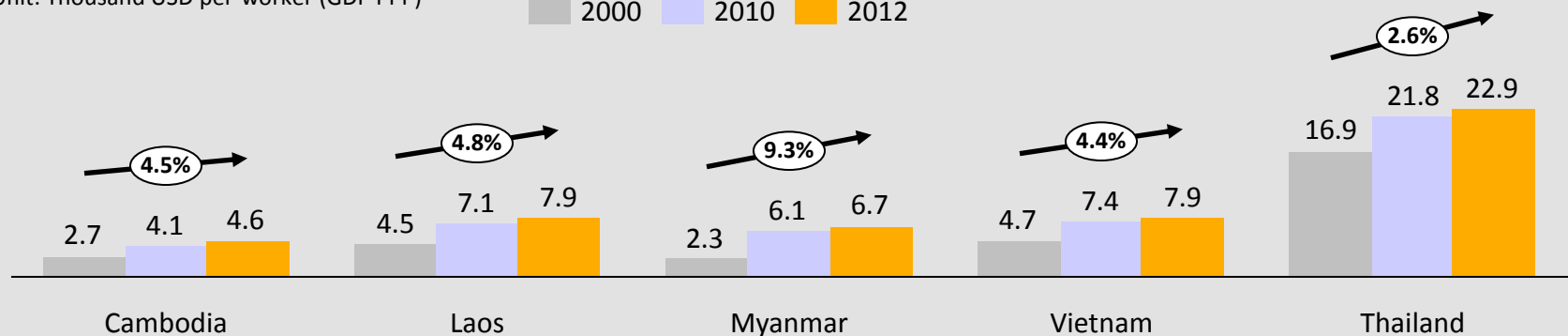


Despite cheaper labor in CLMV compared to Thailand, investors have to note that the productivity and quality levels will not be the same

### Labor productivity growth

Unit: Thousand USD per-worker (GDP PPP)

2000 2010 2012

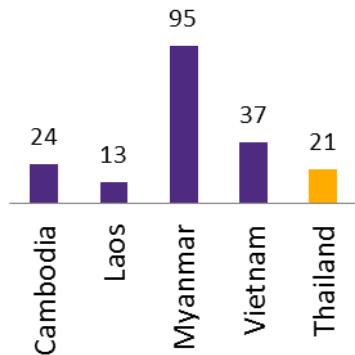


Source: EIC analysis based on data from JETRO and APO

# On other infrastructure aspects, electricity is the biggest challenge for Cambodia, and water for Myanmar

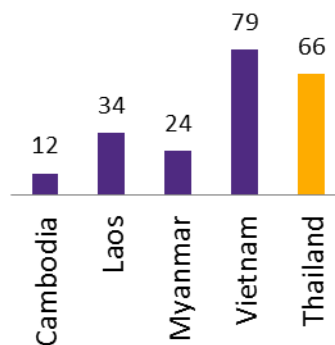
## Office rent

Unit: USD/ sq.m./month



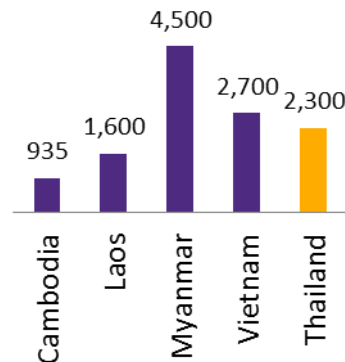
## Store rent in city center

Unit: USD/ sq.m./month



## Housing rent

Unit: USD/ month

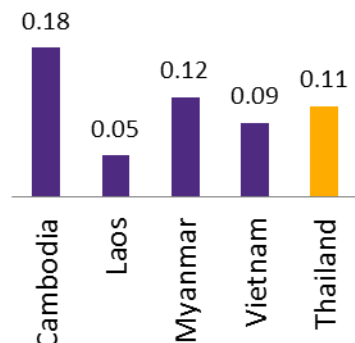


## Overall ranking (1= cheapest)

Country	Ranking
Laos	1
Vietnam	2
Thailand	3
Cambodia	4
Myanmar	5

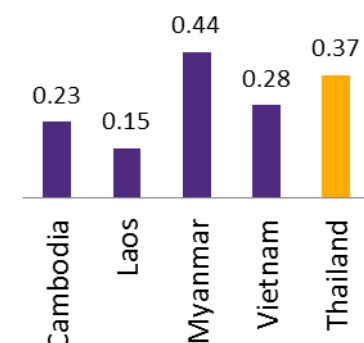
## Electricity price

Unit: USD/ unit

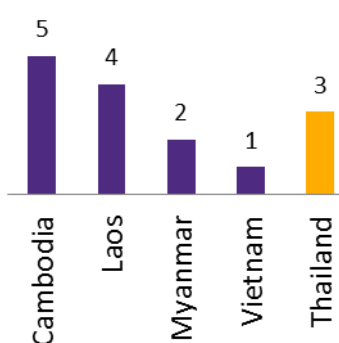


## Water price

Unit: USD/ cubic meters



## Food price ranking<sup>1</sup>

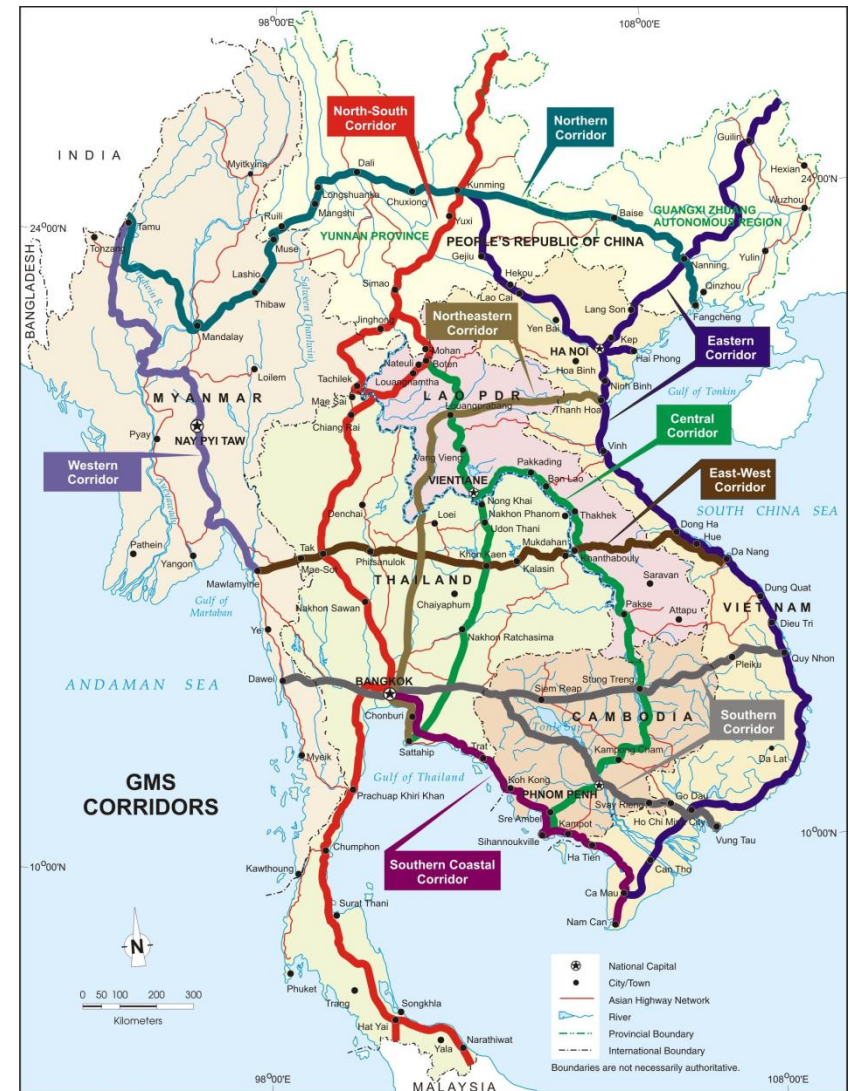


1. Includes groceries and prices of food in restaurants

Source: EIC analysis based on data from Jetro, and Numbeo

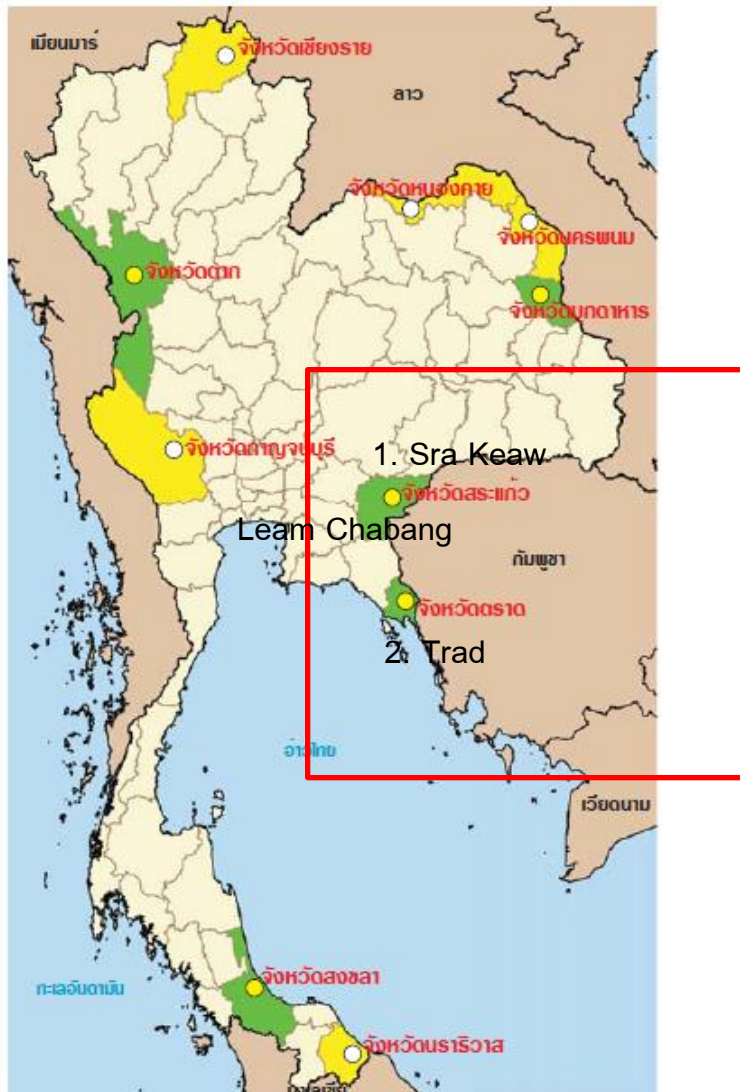
# Logistic Infrastructure linkage will enable the efficiency of the rising regional supply chain

1. **Southern, East-West, and North-South Corridors:** THB 5.5 tn (\$ 179.85 bn) infrastructure investment planned by TH government to 2019
2. **Four-lane highways to Thailand's nine biggest border crossings** at THB 243 bn (\$7.95 bn)
3. **Double-track of 768 km of existing rail lines and extending lines to Laos and Cambodia** at THB 403 bn (\$13.18 bn)
4. **High-speed rail projects:** first phase on passenger traffic to Thai cities inland, second phase to link these lines to the Singapore-Kunming rail line (SKRL)
5. Government of Lao PDR is on track to **complete a road connecting Thailand to Vietnam**
6. **Integrated deep-sea port amounted \$8 bn in Dawei** started construction in 2014 (completion expected within 5 yrs)



Source: SCB EIC analysis based on information from Government of Thailand

# Thailand's border SEZs: The New Opportunity



**2 out of 5 recent announced SEZs along Thai borders showed potentials for ESB investors for expansion**

## **1.) Aranyaprathet district in Sra Keaw province**

- 260km from Bangkok (through highway 304)
- Permanent border-crossing point with highest border trade
- **250km to Leam Chabang**
- Connected to highway 6 of Cambodia and highway 71 to Phnom Penh
- Near Poipet-O-neang SEZ in Cambodia

## **2.) Klong Yai district in Trad province**

- 420km from Bangkok (Through highway 344,3 and 31)
- Permanent border-crossing point connecting to Koh Kong province of Cambodia
- **340km to Leam Chabang**
- **250km to Sihanoukville port in Cambodia**
- Near Koh Kong SEZ of Cambodia

Source: SCB EIC analysis based on information from NESDB (NEDA)

# Labor intensive industries may choose Cambodia, while industries with capital intensive may take SEZs along Thai borders into consideration

	Cambodia SEZs	Thailand SEZs								
Income tax	<table><tr><td>Up to 9 years</td><td>Exempted</td></tr><tr><td>Years 9 onwards</td><td>20%</td></tr></table>	Up to 9 years	Exempted	Years 9 onwards	20%	<table><tr><td>Up to 8 years (BOI)</td><td>Exempted</td></tr><tr><td>Up to 10 years (non-BOI)</td><td>Reduction to 10%</td></tr></table>	Up to 8 years (BOI)	Exempted	Up to 10 years (non-BOI)	Reduction to 10%
Up to 9 years	Exempted									
Years 9 onwards	20%									
Up to 8 years (BOI)	Exempted									
Up to 10 years (non-BOI)	Reduction to 10%									
Import duties	<ul style="list-style-type: none"><li>Exempted for i.e. raw materials, machinery, and equipment</li></ul>	<ul style="list-style-type: none"><li>Exempted for i.e. raw materials, machinery, and equipment</li></ul>								
Land use	<ul style="list-style-type: none"><li>Foreigners lease for up to 50 years + renewal</li></ul>	<ul style="list-style-type: none"><li>Foreigners can own land (but must sell off once cease the operation)</li></ul>								
Foreign labor	<ul style="list-style-type: none"><li>Right to hire 10% foreign labor</li></ul>	<ul style="list-style-type: none"><li>Cross border foreign labor allowed up to 7 days per time</li></ul>								
Notes	<ul style="list-style-type: none"><li>Bigger pool of unskilled labors</li><li>Rough infrastructure (higher cost of Electricity, Transportation)</li><li>Starting business cost is higher</li><li>Export-Import cost is higher</li><li>Legal aspects remain challenges</li></ul>	<ul style="list-style-type: none"><li>Labors are more expensive but unskilled labors are allowed to cross for work up to 7 days per permit</li><li>Better infrastructure and transportation system to port</li><li>Export-Import cost is lower</li></ul>								

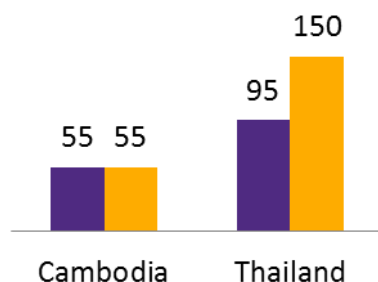
Source: EIC analysis based on data from Royal Government of Cambodia, BOI, NESDB

# Among important investment costs, only Cambodia's SEZ land price, labor, and water costs are cheaper than Thailand's, the rest are relatively more costly

## SEZ or I/E land price<sup>1</sup>

Unit: USD/ sq.m.

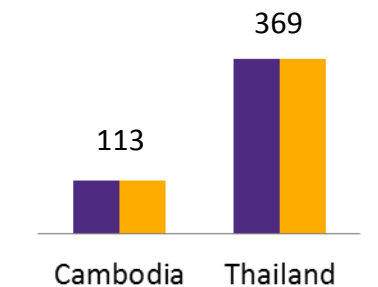
■ Near port ■ Near capital



## Labor (manufacture worker)

Unit: USD/ month

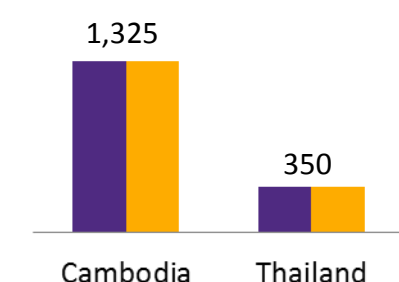
■ Near port ■ Near capital



## Starting business cost

Unit: USD

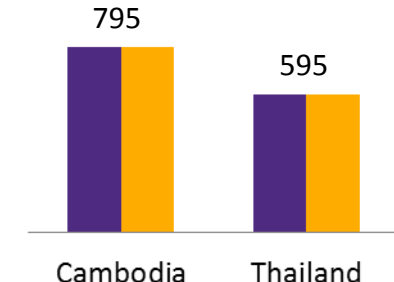
■ Near port ■ Near capital



## Exporting cost

Unit: USD/ container

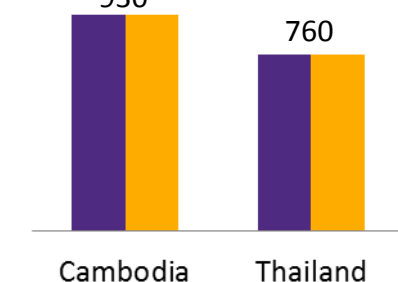
■ Near port ■ Near capital



## Importing cost

Unit: USD/ container

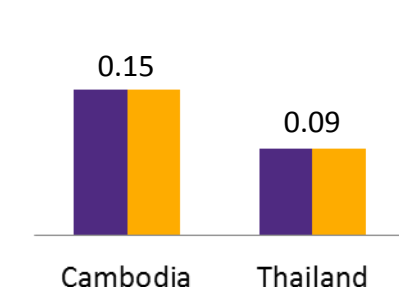
■ Near port ■ Near capital



## Electricity cost

Unit: USD/ unit

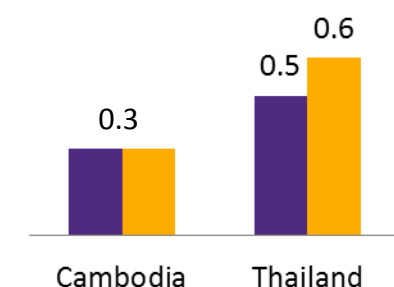
■ Near port ■ Near capital



## Water cost

Unit: USD/ cubic meters

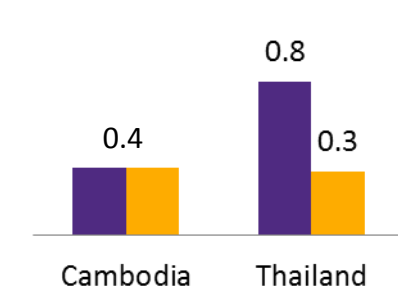
■ Near port ■ Near capital



## Water treatment cost

Unit: USD/ container

■ Near port ■ Near capital



1. Price for Cambodia is per 50 years rental versus for Thailand is for buying the land

Source: EIC analysis based on data from company information, IDE, Doing business, JETRO, and National Institute of Statistics

## Summary

- CLMV are the last new frontier of ASEAN with economy growing steadily
- Thailand + 1 strategy can help Japanese firm to unlock its labor and resource scarcity in Thailand
- Transportation infrastructure plans are in place and will enable better regional supply chain
- Caution on other infrastructure aspects (Electricity, Water, land price etc.), and the ease of doing business
- If labor is the top priority, it could be worth to relocate to CLM (bordering Thailand)
- If other aspects are also the concerns, then, SEZs along Thai borders are another options to consider
- SEZs at Sra Keaw and Trad provinces are recommended as they are not far from ESB, and that they can source Cambodian labors from the border , while still enjoying the facility on the Thai side