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# Mizuho Economic Outlook & Analysis

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April 30, 2014

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## *Cambodia seen as a location for new production bases*

*Better investment environment puts Cambodia ahead of Myanmar*

### < Summary >

- ◆ In recent years, Japanese companies have been moving into Cambodia to build new production bases, attracted not only by the country's low wages, but also by the abundance of industrial complexes, easy access to surrounding countries, and relaxed restrictions on foreign investment.
- ◆ Many of the Japanese companies currently in Cambodia are there based on a China-Plus-One strategy to reduce their reliance on production bases in China where labor costs are rising. In future, more Japanese companies are expected to move into Cambodia from neighboring Thailand as they opt for a Thailand-Plus-One strategy.
- ◆ Myanmar is also adjacent to Thailand, but with better industrial complexes, investment incentives, and access to surrounding countries, Cambodia is likely to be the preferred choice for production bases supplementing Thailand in the foreseeable future.

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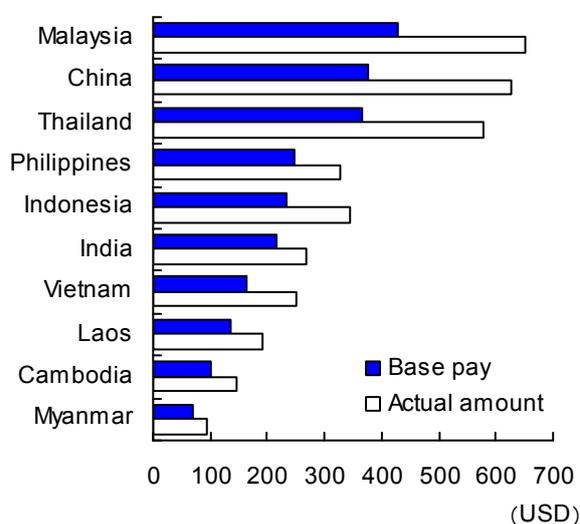
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## 1. Significant increase in Japanese investment in Cambodia

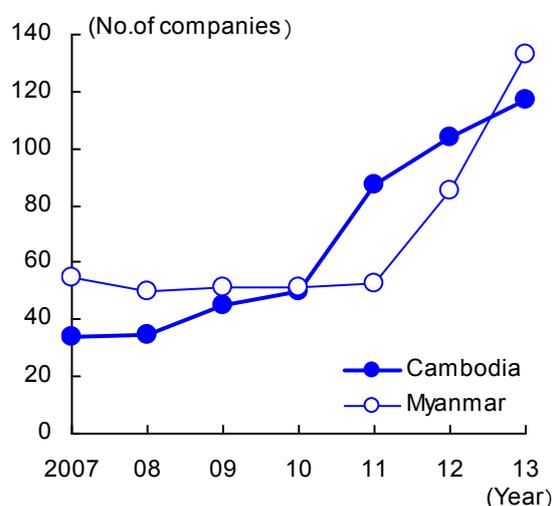
Japanese manufacturers were quick to expand to China and Thailand, but rising labor costs are now prompting them to look for new locations for their production bases. Under the circumstances, the countries attracting interest are Myanmar and Cambodia, whose labor costs are particularly low among Asian countries (**Chart 1**). For example, Myanmar has seen an increase in Japanese investment since 2012 and the number of Japanese chamber of commerce members surged in 2013 (**Chart 2**).

**Chart 1: Monthly labor cost in 2013**



Source: JETRO  
 "Survey of Japanese-Affiliated Companies  
 in Asia and Oceania"

**Chart 2: No. of Japanese chamber of commerce members**



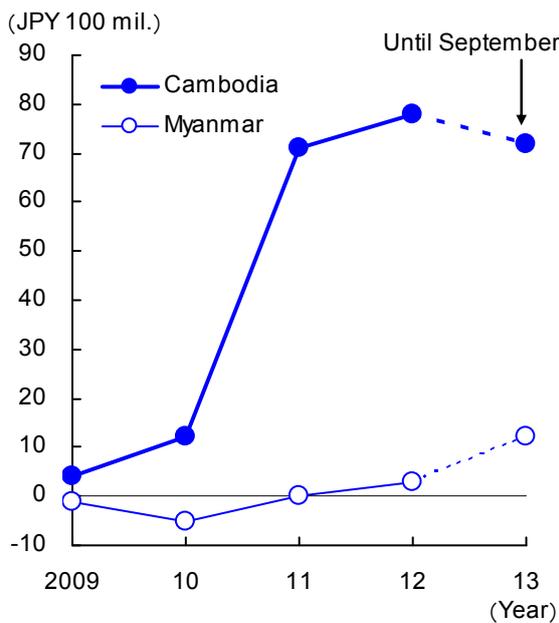
Source: JETRO

However, there has not been a major increase in Japanese direct investment in Myanmar. This indicates that most of the Japanese presence in Myanmar takes the form of representative offices with the objective of collecting local information, not quite reaching the stage of conducting business through actual investment. In contrast, Cambodia, with the second lowest wage level after Myanmar, has seen a significant increase in direct investment (**Chart 3** on page 2), and more companies are investing in Cambodia to build new production bases. The figure for direct investment by Japanese manufacturers in Cambodia was JPY 3.7 billion in 2012 (when full-year data could be obtained for all businesses). The businesses with the largest investment amounts were electrical machinery at JPY 2.7 billion, iron/nonferrous metals/metals at JPY 500 million,

and rubber and leather at JPY 300 million. The investment amount for the electrical machinery businesses is particularly high, probably due to the significant increase in labor intensive sectors such as wire harness manufacturers (involving manual work connecting wiring that is too difficult to be mechanized) moving into Cambodia in recent years.<sup>1</sup> Since Japanese investment in manufacturing in Myanmar was JPY 400 million in 2012, and half of this was concentrated in textile products, the investment in Cambodia can be described as being dispersed over a wide range of businesses (**Chart 4**).

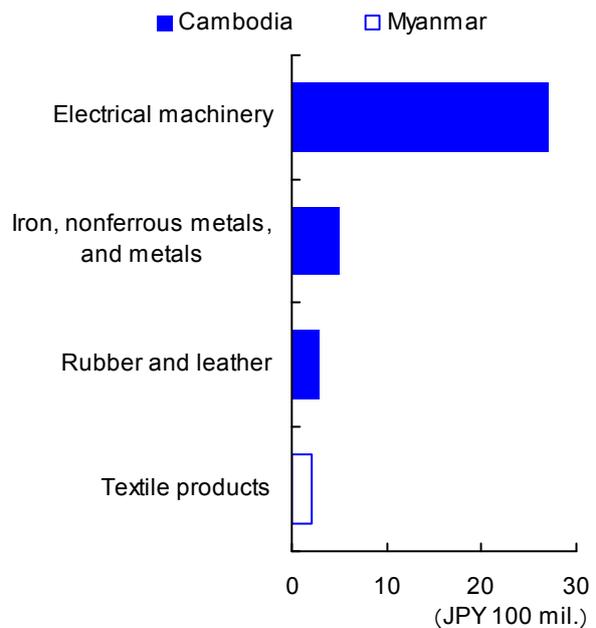
The following sections will proceed to analyze the investment environment in Cambodia, revealing its characteristics in comparison with that of Myanmar and discussing areas based on fieldwork that cannot be recognized through data. The final section will then examine the outlook of investment in Cambodia.

**Chart 3: Direct investment from Japan**



Source: Bank of Japan

**Chart 4: Direct investment from Japan ( manufacturing, 2012 )**



Note: The data has not been disclosed due to few investments or the investment amount is zero for textile products in Cambodia and other Industries in Myanmar

Sources: Bank of Japan

<sup>1</sup> There was also direct investment in foodstuffs, textile products, chemicals and health, and general machinery, but since the reported cases for each sector were less than three, the amounts remain undisclosed from the perspective of protecting individual data (Bank of Japan).

## **2. Cambodia's investment environment compared to that of Myanmar**

### **(1) Rich selection of industrial complexes**

For a company wishing to expand to Myanmar, of the 18 industrial complexes nationwide, the Mingaladon Industrial Park in the suburbs of the commercial city of Yangon is in fact the only place fully equipped with power and water/sewerage systems that would meet the requirements of Japanese companies. Furthermore, this complex is already full with no vacancy.<sup>2</sup>

Meanwhile, Cambodia has 30 special economic zones (industrial complexes), including those in the planning stages, and eight of them are the main zones in operation (**Chart 5** on page 4). These special economic zones are equipped with power, water/sewerage systems, telephone lines, and related facilities (customs office, bank, restaurants, mini-supermarkets, etc.) and they also have available space.

The special economic zones with a high concentration of Japanese companies are the Phnom Penh Special Economic Zone in the suburbs of the capital with 36 companies and the Tai Seng Special Economic Zone near the Vietnam border with 11 companies. Since there are none in the Poipet Special Economic Zone near the border with Thailand and only two each for the other special economic zones, it may be said that Japanese companies are investing more in the east rather than the west of Cambodia.

### **(2) Good access to surrounding countries**

Cambodia has good access to its surrounding countries and is a convenient location for importing raw materials or exporting completed products.

Firstly, Cambodia has a developed network of inland waterways. The Mekong River runs through Cambodia from north to south, flowing from the capital of Phnom Penh into Vietnam before reaching the city of Ho Chi Minh. A small boat from Phnom Penh to Ho Chi Minh takes 36 hours, which is longer than traveling by road (discussed later); but at half the cost, the main logistics route is currently via the Mekong River.

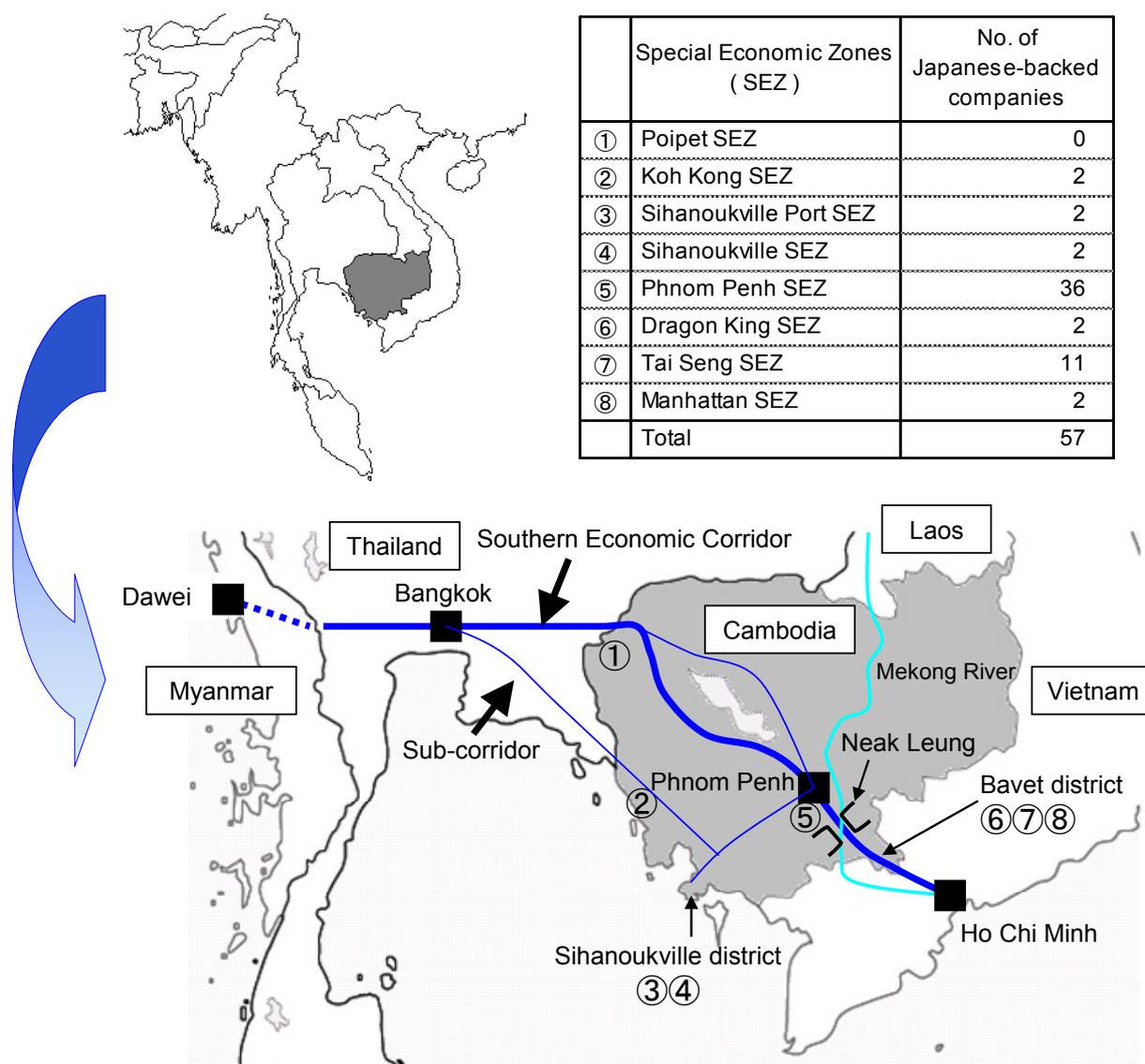
Secondly the overland route represented by the Southern Economic Corridor is also well-maintained (**Chart 5**). This Corridor extends from the Thai capital of Bangkok, cutting across Cambodia via Phnom Penh, before reaching Ho Chi Minh in Vietnam. There is one segment that is yet to be built in Neak Leung near Phnom Penh (the "missing link"), and though travelers must take a ferry ride to cross the Mekong River, the road from Bangkok to Ho Chi Minh is connected by one route. The time it takes to transport cargo, including the customs procedures at borders, is approximately 24 hours

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<sup>2</sup> Mizuho Research Institute (2013), p 209.

from Bangkok to Phnom Penh and approximately 14 hours from Phnom Penh to Ho Chi Minh (Chart 6). Since the Phnom Penh to Ho Chi Minh road competes with the river route via the Mekong River, businesses that need to hurry can choose ground shipping by paying a higher fee.

**Chart 5: Special economic zones in Cambodia and the Southern Economic Corridor**



Note: The number of Japanese companies in the special economic zones is based on preliminary figures for 2013.

Sources: Prepared by Mizuho Research Institute based on JETRO “Cambodia SEZ Map”, Council for the Development of Cambodia “Investor list in all SEZ”, and other data.

**Chart 6: Time and cost for transporting goods via the Southern Economic Corridor**

	Distance	Freight transport	Cost for freight transport	(For reference) Passenger transport
Bangkok to Phnom Penh	666km	23 hrs 54 mins	USD 1,654.22	11 hrs 30 mins
Phnom Penh to Ho Chi Minh	237km	13 hrs 59 mins	USD 593.36	5 hrs 30 mins

Note: Freight transport refers to 20-ton containers, not including document procedures before shipping, and including customs at borders.

Source: Ksoll and Brimble (2013) and measurements by the author.

For vehicles crossing borders, Cambodia and Thailand signed a memorandum enabling each country to issue cross-border passes to trucks and buses from 2012, and these passes grant exclusive passage via the Southern Economic Corridor. However, since there is a limit to the number of passes that can be issued,<sup>3</sup> not all operators can enjoy full access transport between the two countries. Interviews with logistics operators in Cambodia revealed that because of this they would sometimes change the trailer heads at the borders (detaching the trailer from the powered vehicle and attaching it to a separate powered vehicle from the other country) if they were without passes. Though this does not constitute full access transport, this method does eliminate the hassle of reloading freight.

Cambodia, Vietnam, and Laos also signed a cross-border agreement in January 2013, enabling each country to issue cross-border passes for 150 trucks and buses. These passes allow vehicles to proceed 20 kilometers across the border for 22 routes including the Southern Economic Corridor. Local interviews also revealed that the general practice is to conduct customs procedures within the special economic zones in Cambodia near the Vietnam border and to use mainly Vietnamese trucks to perform the full transport between the two countries.

Thirdly, Ho Chi Minh, which is connected to Cambodia by waterways and road, has an established port that allows the access of large ships, and this spreads the logistics network to Japan, China, and North America via the Pacific Ocean. For example, it takes about a week for goods sent from a Cambodian special economic zone near the Vietnam border by road and reloaded onto a large ship in Ho Chi Minh to reach Japan.

Meanwhile, Myanmar does not have a developed international river route. There are plans for the Southern Economic Corridor to extend from Bangkok westwards to Dawei

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<sup>3</sup> It was decided that each country should issue 40 passes during the year from 2012 when operation started.

in Myanmar, but nevertheless the Myanmar segment is yet to be opened.<sup>4</sup> Though there are ports in Yangon, the commercial capital, and Thilawa, which is a suburb of Yangon, being developed as a special economic zone, both are shallow river ports. Currently, small ships leave these ports and head for Singapore to reload to larger ships. There are plans to build a deep water port enabling large ships to dock in Dawei, and this is expected to take five to ten years to complete. The completion of a port in Dawei would provide better access particularly to India, the Middle East, Africa, and Europe via the Indian Ocean.

### **(3) Favorable restrictions on foreign investment**

There are practically no restrictions on any industries in Cambodia that discriminate against foreign investment except in the acquisition of real estate. The only areas with restrictions prohibiting private investment, domestic or foreign, are businesses that may have adverse effects on health or the environment. Apart from these, foreigners are permitted to have 100%-owned subsidiaries as a general rule.

On the other hand, in Myanmar, the new foreign investment law established in 2012 prohibits foreign investment in businesses that can be conducted by the people of Myanmar. Foreign investment was permitted in manufacturing as a general rule, and some areas do allow 100% investment. However, for businesses that compete with local companies such as processed food producers, only joint ventures are permitted with a foreign ownership cap of 80%. There are also detailed restrictions for businesses that require approval from the Ministry of Industry or businesses that require environmental assessments.<sup>5</sup>

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<sup>4</sup> Regarding the road conditions in the Myanmar part of the Southern Economic Corridor, Pacific Consultants Co. (2013) provides an easy-to-understand explanation with illustrations. Furthermore, development is underway north of the Southern Economic Corridor with the East-West Economic Corridor cutting across from Myanmar to Vietnam via Thailand and Laos. However, the road conditions of the Myanmar part of the East-West Economic Corridor is inadequate (Mizuho Research Institute (2013), p 225).

<sup>5</sup> In addition to restrictions on foreign investment, the tax regulations for foreign investment are more favorable in Cambodia than those in Myanmar. The corporate tax is 20% in Cambodia, the lowest in ASEAN after Singapore with 17%. Furthermore, companies that are certified as a qualified investment project (QIP) are eligible for corporate tax exemption for as long as nine years. On the other hand, the corporate tax in Myanmar depends on the company's residence status. A foreign investment company with a status as a local corporation is subject to a corporate tax of 25%, and a branch of a foreign company to a corporate tax of 35%. Companies that are approved based on the foreign investment law are eligible for five years of corporate tax exemption and the exemption period is shorter compared to that in Cambodia.

### 3. Field research of the investment environment

#### (1) The Southern Economic Corridor provides smooth transport between Phnom Penh and Ho Chi Minh

In October 2013, I conducted a field trip driving along the Southern Economic Corridor to study the actual conditions that cannot be assessed through data. Dividing the entire route in two parts, the first half involved driving from Bangkok in Thailand to Phnom Penh in Cambodia, and the second half, from Phnom Penh to Ho Chi Minh in Vietnam.<sup>6</sup>

For the first half, heavy rainfall from two days before my day of departure had flooded the roads in Cambodia, making it impossible to drive, giving me no choice but to travel by air. The Southern Economic Corridor in Cambodia from the Thai border to Phnom Penh takes the form of national route 5, a two lane paved road. The initial plan was to finish driving along this segment in about eight hours, but I was made very aware that heavy rainfall wreaked havoc on road conditions. There are plans to improve the conditions of this national route 5 with the help of the Japanese government by raising the road on an embankment to prevent flooding and making it wider, and this is scheduled to be completed in 2020.

The second half of the trip proceeded as planned and after a 1.5-hour car ride from Phnom Penh, I reached the Mekong River, a major land feature which is synonymous with the region. This is the only place where the Southern Economic Corridor is interrupted (the “missing link”), and cars board a ferry boat to cross to the other side. The ferry was large enough for seven or eight large vehicles (**Chart 7** on page 8), and took 30 minutes to cross including the wait, though people said it could take more than an hour with heavy traffic. The Neak Leung Bridge, which is being built with the support from the Japanese government, could be seen from the ferry. If this bridge opens in 2015 as scheduled, the overland connection from Phnom Penh to Ho Chi Minh will be improved.

About an hour after crossing the Mekong River, I arrived at Bavet, a city on the border with Vietnam. This area has three special economic zones – Tai Seng, Dragon King, and Manhattan – and it is the area with the second highest concentration of Japanese companies after the Phnom Penh Special Economic Zone. After completing immigration procedures at the border, I entered Vietnam and reached Ho Chi Minh in roughly 2.5 hours. The road from Phnom Penh to the Vietnam border was Cambodia’s national route 1, also a two lane paved road (**Chart 8** on page 8). This was a raised road on an embankment, making it less vulnerable to heavy rainfall, and thus the basic

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<sup>6</sup> The survey route was selected referring to Ishida (2010), Kakizaki (2011), and JETRO (2013b).

consensus of the local logistics operators seems to be that it is easier to drive along this road than national route 5. After entering Vietnam, the roads became wider as four lane and six lane roads, making it even easier to drive.

After actually driving along the Southern Economic Corridor from Phnom Penh to Ho Chi Minh, my impression is that it was a smoother drive than expected. However, I did not meet many large freight trucks along the way, and it seems that its role as an industrial artery is yet to come.

**Chart 7: Neak Leung River Ferry**



Source: Photographed by author.

**Chart 8: Southern Economic Corridor in Cambodia**



Source: Photographed by author.

## **(2) Most of the Japanese companies have moved into Cambodia based on a China-Plus-One strategy**

I also visited the Japanese companies in the special economic zones in Cambodia and conducted research regarding why they moved into Cambodia and the situation of their local businesses.

Electrical machinery businesses account for most of the Japanese companies in Cambodia, and many had moved into the country based on a China-Plus-One strategy. They had experienced difficulty in gathering workers at their factories in China and the rising labor costs had prompted them to choose Cambodia as an alternative to build new production bases in addition to their factories in China. Many of their businesses involved importing raw materials from Japan or China via Ho Chi Minh, and exporting the products to Japan or China back through the same route. The transport route from Ho Chi Minh to factories in the Phnom Penh Special Economic Zone would be the waterways via the Mekong River, and to factories in the special economic zones near the Vietnam border, the roads in general. The main products are labor intensive parts, exported to Japan or China for post processes.

In another interview with a sewn products manufacturer, they said they imported fabric from Thailand and exported the sewn products to Japan. This company also perceived itself as an example of the China-Plus-One strategy, as it had built a new factory in Cambodia after finding it increasingly difficult to make profits in their plant in China because of rising labor costs.<sup>7</sup>

There were also a few Thailand-Plus-One examples where the Japanese companies had moved from Thailand to Cambodia due to rising wages in Thailand as with China. My impression is that many of the Japanese companies currently in Cambodia are there as a result of a China-Plus-One strategy and the Thailand-Plus-One movement is just beginning. The local experts also commented that there are only a few examples of businesses moving into Cambodia as an alternative to Thailand at the moment.

There were also comments that the Cambodian workers were slower at work than the

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<sup>7</sup> In the case of this company, besides the fact that Cambodia had lower labor costs than China, lower tariffs for exports to Japan had also been a determining factor. To be specific, exports are covered by the FTA between Japan and ASEAN countries. When producing sewn products made with fabrics from Thailand, accumulation of origin regulations makes it possible to export to Japan with the FTA's low tariffs since both countries are ASEAN nations. It is said that the FTA makes the cost of exports 10% lower than exporting from China to Japan. Furthermore, regarding the generalized scheme of preferences (GSP) that involves developed countries granting lower than usual tariffs on produce from developing countries, Cambodia is a beneficiary as one of the least developed countries. For example, Japan only grants GSP status to Cambodia, Myanmar, Laos, and Bangladesh in Asia, and tariffs are 0% for sewn products. In addition to Japan, the US and EU also grant GSP status to Cambodia. Myanmar, Laos, and Bangladesh are only granted GSP status by Japan and the EU and not the US. Depending on the trade content, there are cases where it is better to take advantage of the GSP status rather than the FTA. For details on GSP status, see Shiino (2013).

Chinese and that productivity in Cambodia was about 65~80% of that in China. One of the factors for this may be the country's lower level of education. The literacy rate in Cambodia was 74% as of 2009, which is lower than 94% in China and 92% in Myanmar as of 2010.<sup>8</sup> Furthermore, some people also said that because the slightest things could set off labor strikes in Cambodia, they made a point of being more careful with labor management and communication with their employees than they were in their factories in China. Meanwhile, there were also positive comments that the Cambodians were kind to the Japanese and that they worked hard, following instructions diligently.

### **(3) Better infrastructure than Myanmar and easier access to Pacific shipping destinations**

I also conducted interviews asking the local Japanese companies why they chose Cambodia to establish their business and their thoughts on Myanmar.

One company said that they chose Cambodia over Myanmar because Myanmar lacked the industrial complexes and other infrastructures and thus they felt it was too early to move into Myanmar. Nevertheless, they also said that the Myanmar market had huge potential and that there was room for consideration once its infrastructure was more organized.<sup>9</sup>

On the other hand, other companies said they were not in the least interested in moving to Myanmar because it would be too far for them to deliver goods to Japan or China. These companies need to meet client demands for quicker delivery and thus it is important to have factories in locations as close as possible. For example, it would take a week for products to be transported by road from Cambodia's special economic zones near the Vietnam border to Ho Chi Minh and reloaded onto ships to reach Japan. This is only a two- or three-day delay compared to sending goods from China to Japan. In contrast, shipping products from Myanmar to Japan would require three or four weeks as the ships would need to sail around Singapore, the southern tip of the Indochinese Peninsula.

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<sup>8</sup> According to the Ministry of Internal Affairs and Communications "Sekai no Tokei (World statistics)."

<sup>9</sup> This paper compared the industrial complexes and transport infrastructure of Cambodia and Myanmar, but Cambodia also has an edge with its electricity infrastructure. According to the JETRO "Survey of Japanese-Affiliated Companies in Asia and Oceania" (conducted in October to November 2012), inadequate electricity and power-outs were pointed out as problems that Japanese companies faced by 100% of companies in Myanmar, 78% in Bangladesh, and 66% in India. In contrast, the figure was 18% for Cambodia, suggesting that the problem of inadequate electricity or power-outs is not that serious in Cambodia (JETRO (2013a), p 9-10). Rather, the problem in Cambodia would be electricity prices. The Electricity of Cambodia charges USD 0.2/kwh, which is nearly twice that of Myanmar's Yangon Electricity Supply Board at USD 0.12/kwh. However, the Yangon Electricity Supply Board often has power outages and companies end up relying on in-house power generation that costs USD 0.25-0.30/kwh, which is higher than the charges of the Electricity of Cambodia (Mizuho Research Institute (2013), p 211-212).

#### **4. More companies are likely to move into Cambodia based on a Thailand-Plus-One strategy**

##### **(1) Labor intensive businesses in Thailand are moving to other countries**

The following factors suggest that more companies will be transferring their labor intensive businesses from Thailand to other countries.

The first is that Thailand has a tight labor market with virtual full employment or an unemployment rate of less than 1%.<sup>10</sup> The minimum wage rose consecutively in 2012 and 2013, and some regions are seeing a steep rise in labor costs, increasing to nearly twice that of 2011. Secondly, the Thai government's revision of investment incentives may accelerate the Thailand-Plus-One movement. In January 2013, the government announced its draft for a new investment incentive package for the next five years.<sup>11</sup> The previous incentives were zone regulations offering more incentives and tax exemption for companies that were farther away from Bangkok, but the new incentives are based on sectors with benefits for businesses in industries that are more important to structural reform in Thailand. Meanwhile, incentives are to be terminated or reduced for wire harness manufacturers and some 80 other businesses with little added value. The Thai government has subsequently pushed back the introduction of the new investment incentives that had initially been planned for the middle of 2013 to January 2015, and although the details were to be determined by the end of 2013, they have been delayed due to the anti-government demonstrations since the end of 2013.

##### **(2) Myanmar's investment environment still has many issues for the country to become a Thailand-Plus-One destination**

The destinations for transferring labor intensive industries from Thailand are the neighboring countries of Cambodia and Myanmar which both have lower labor costs. According to JETRO's Phnom Penh office, many Japanese delegations visit Myanmar together with Cambodia, which indicates that the two countries are being compared as potential destinations.

With Myanmar planning to open its Thilawa Special Economic Zone in 2015, which would make up for the current lack of industrial complexes, some people in Cambodia now see Myanmar as a threat, saying there will be increased competition for foreign investment. The Thilawa Special Economic Zone covers a total development area of 2,400 ha (an area as large as 40% of the area within the JR Yamanote Line in Tokyo,

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<sup>10</sup> Mizuho Research Institute (2014), p118.

<sup>11</sup> Thailand Board of Investment (2013).

Japan), of which 400 ha is being developed in advance by MJ Thilawa Development, a company established in January 2014. Construction work is currently taking place so that the area to be developed in advance can be opened in stages in 2015.

Meanwhile, Cambodia's special economic zones have a total of approximately 2,900 ha in development, of which approximately 400 ha has already attracted corporate investment as of the end of 2013. According to government officials in Cambodia, though the development for some parts of remaining area is unfinished, there is plenty of vacant space to accommodate immediate investment. New special economic zones are also being established in the Sihanoukville district along the coast and the Bavet district on the border with Vietnam, and further preparations are apparently underway for a special economic zone in the Poipet district near the border with Thailand.

Examining the conditions of the industrial complexes in the two countries, it seems that Myanmar will not be overtaking Cambodia any time soon or by 2015. Furthermore, Myanmar also has other challenges that it needs to address in future; it needs to improve its hard infrastructures such as the Economic Corridor or deep-water ports and soft infrastructure such as laws and regulations regarding foreign companies.<sup>12</sup>

### **(3) Wages in Cambodia may rise but will still remain relatively low in Asia**

Meanwhile, wages are expected to rise in Cambodia. On December 24, 2013, the Cambodian government announced it would raise the monthly minimum wage from the current level of USD 80 to USD 95 in April 2014, and eventually to USD 160 in stages by 2018. The minimum wage in Cambodia applies only to workers in sewing and shoemaking factories, but it is believed that this will have an impact on wages in other industries.

The expected increase rates of the minimum wages are calculated to be a yearly average of +15%. According to JETRO's "Survey of Japanese-Affiliated Companies in Asia and Oceania," the base pay increase rates of Japanese companies in Southeast Asia in 2013 was the highest in Indonesia with +24.7% (compared to 2012), followed by 12.8% in Myanmar and 12.1% in Vietnam. The projected increase rates in Cambodia are not as high as those of Indonesia in recent years, but they will probably be slightly higher than Myanmar or Vietnam.

Meanwhile, labor unions are demanding the Cambodian government take action to raise the minimum wage to USD 160 immediately. The opposition Cambodia National

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<sup>12</sup> For example, although the special economic zone law applied to Thilawa and other special economic zones came into effect on January 23, the details stipulating the specific content still remain undisclosed. Furthermore, for the foreign investment law applied to places other than special economic zones, although the government has indicated that it will be revised, specific actions remain to be seen.

Rescue Party, which narrowly lost the general election in 2013, is also critical of Prime Minister Hun Sen, demanding an immediate increase of minimum wages in addition to their claim that there were irregularities in the election. Meanwhile, there have been labor strikes from the end of 2013 to early 2014, with demonstrators clashing with the police force on January 3, resulting in five deaths. Although there have been no major strikes since, there is an increased sense of political and social instability which may prompt the government to move for an early raise in minimum wages to try and settle the situation. Nevertheless, even if the minimum wages in Cambodia are increased to USD 160 in 2018 or earlier, the wage levels would probably also continue to rise in Thailand or Vietnam, where the current levels are roughly USD 200 and USD 130 respectively.<sup>13</sup> It is necessary to note that the absolute wage level in Cambodia is on the rise, but the situation where Cambodia has a relatively lower wage level than the other countries in Asia will probably remain unchanged.

#### **(4) Cambodia is improving its investment law to become a Thailand-Plus-One destination**

Cambodia is also preparing to revise its investment law established a decade ago to suit recent practices. The current law only categorizes manufacturers into light industry and heavy industry, which makes it difficult to apply detailed and effective incentives. Thus, the Cambodian government is working on deciding which sectors they prefer to attract and a strategy that will enable them to provide generous benefits accordingly. For example, they are planning to provide incentives targeting labor intensive industries that have become unprofitable with rising wages in Thailand. Although there is a need to examine the new investment incentives in Thailand, it is expected that the Cambodian incentives will also target businesses that would no longer be eligible for incentives in Thailand. In addition to the above, as mentioned already, Cambodia has available space in its industrial complexes and has been swift in providing good access to the surrounding countries and the Pacific region, also making actual progress in improving the Neak Leung Bridge and the Southern Economic Corridor.

Though Myanmar has high potential, it seems it will take a few years for it to organize an adequate investment environment and become an alternative for Thailand. For the moment, Cambodia has a more favorable investment environment than Myanmar and it is believed that more companies will be investing in Cambodia rather than Myanmar to build their new production bases supplementing those in Thailand.

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<sup>13</sup> For the increases in minimum wages in ASEAN nations, see Sako (2014).

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