SOUTHERN ECONOMIC CORRIDOR: OPPORTUNITIES AND CHALLENGES FOR SMEs UNDER THE AEC

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- AEC creates a single production and consumer market, thus a seamless region (ADBI, ASEAN 2030 study).
- Within ASEAN, vast majority of firms, particularly in Cambodia, Lao PDR and Myanmar, are SMEs (more than 90%).
- Main contribution of the AEC is to give SMEs the opportunity to (i) **to access the larger ASEAN consumer market, and (ii) to enter regional production chains and international production networks**.

- But with AEC, SMEs face stronger competition and the need to raise their competitiveness and move up the value chain. Happening already as growth electronics export of Cambodia and Vietnam faster than older ASEAN countries.
- To enabling SMEs to benefit and grow under the AEC, **efficient transport networks and logistics, good trade facilitation and quality growth supporting domestic policies play a major role.**
- **The case of the SEC is a very interesting one involving 4 ASEAN countries.**

- Useful to look at various kind of SMEs (Romero and Santos):
- 1.Domestic SMEs: Inputs and products all local market. Connect internal production systems.
- 2.Dependent SMEs: Inputs from external market and sales domestic market. Liitle value added except high tech.
- 3.Extrovert SMEs: Inputs from external markets, process locally, sell external market (e.g. garments).
- 4.Exporting SMEs: Local resources to produce for exports (e.g. pepper, coffee). Competitive firms in global markets.

- In the context of the AEC, growth strategies focusing on 1, 3, 4.
- Production networks organized around flagship companies which govern position and role of firms in the network.
- Lower tiers firms are expandable (price breakers and capacity buffers) (e.g. Compaq case and Taiwan computer producers).
- Productivity key to survival of lower tier firms; need specialization, productivity, linkages to upgrade skills and knowledge (Plummer and Chia).

INTERNATIONALIZATION OF SMEs

- Various theoretical models: Stages model (interplay of knowledge development and foreign market commitments);Network model (emphasizes business relationships and networking to seek knowledge and opportunities); resource based model (emphasizes internal organizational factors);
- These theories while also applicable to SMEs in developing countries all emphasize the importance of managerial practices, internal business processes, strategic management and planning.

- While management issues are also highly relevant in developing countries, the major constraints on SMEs in these economies are lack of financial resources and costs of operations associated with venturing in international markets.
- Major costs are associated with (1) Infrastructure availability; (2) Trade facilitation and policy environment; (3) Lack of knowledge, skills and market information.
- This is where the development of an economic corridor such as the SEC can greatly contribute to reducing these costs and support internationalization efforts of SMEs along the SEC.

- Experience shows 2 key components needed:
- 1. Cluster formation
- 2. Quality infrastructure
- -CLUSTER FORMATION

Industrial clusters complement production networks. Clusters encourage creation of SMEs and are port of entry for local firms/SMEs to enter international production networks. Need to look at how best be done along SEC as conditions along the SEC very different.

-QUALITY INFRASTRUCTURE INCLUDING TTF

Essential for network participation and cluster development. Good infrastructure (hard and soft) attract anchor firms and supporting firms including SMEs. Infrastructure is telecoms, logistics (roads, ports, airports, etc) to connect clusters and regional and global centers. TTF is very important to benefit from AEC, essential.

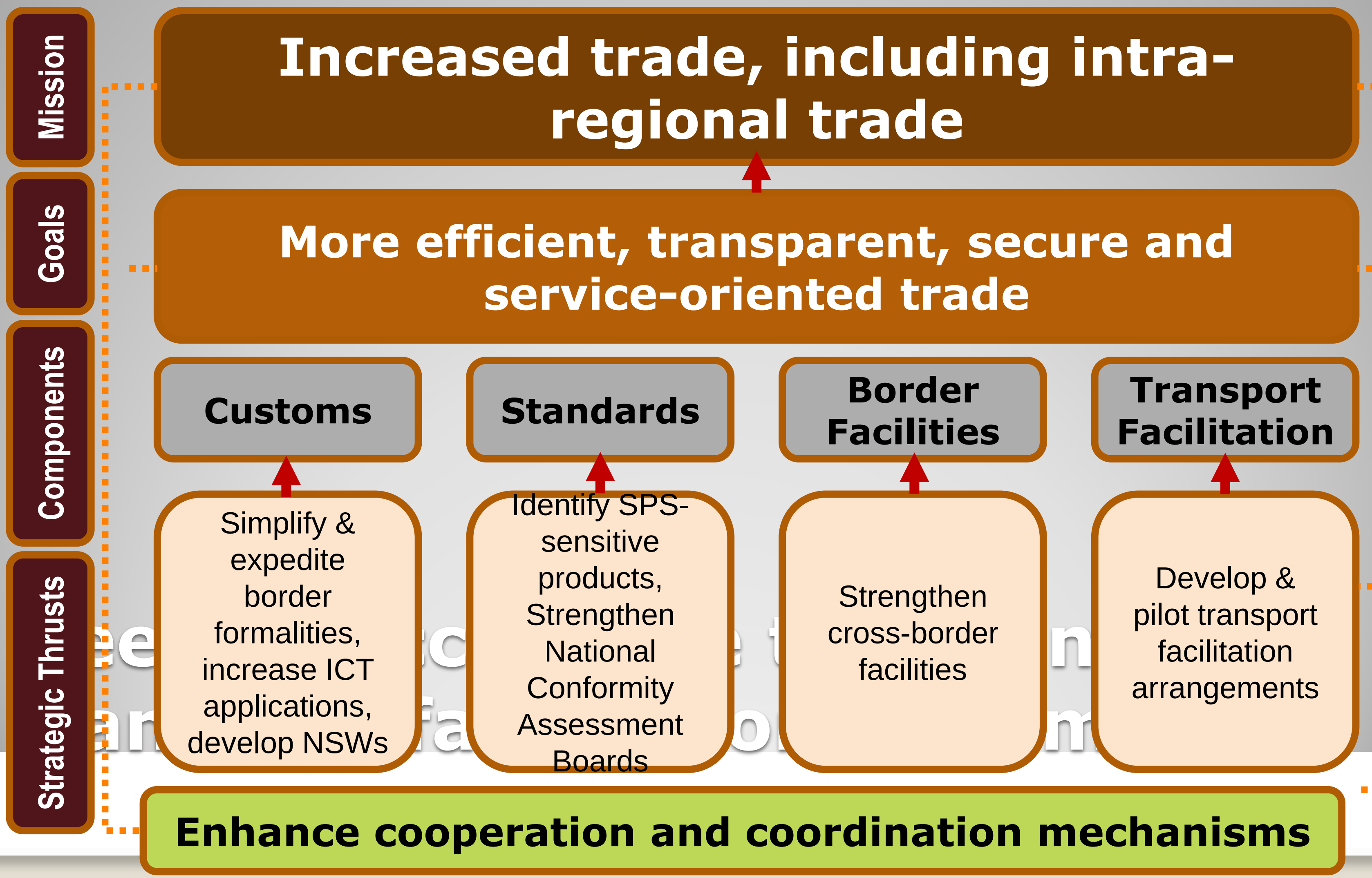

Mission
Goals
Components
Strategic Thrusts
Increased trade, including intra-regional trade
More efficient, transparent, secure and service-oriented trade
Customs
Standards
Border Facilities
Transport Facilitation
Simplify & expedite border formalities, increase ICT applications, develop NSWs
Identify SPS-sensitive products, Strengthen National Conformity Assessment Boards
Strengthen cross-border facilities
Develop & pilot transport facilitation arrangements
Enhance cooperation and coordination mechanisms

Figure 9: Transport and Trade Facilitation

Customs Modernization

- IT automation
- Accession to the WCO Revised Kyoto Convention
- Computerized customs transit system
- Advanced rulings on classification, origin and valuation (WTO valuation)
- Dispute resolution mechanism
- Private sector/customs working group and coordination

Institutional Coordination at and beyond borders

- National Trade Facilitation Committee
- Modern Risk management systems/ procedures
- Streamline pre-shipment inspection and post- clearance audit procedures
- National/ ASEAN single window regime

Operations and Services at border crossings

- Coordinated border management
- Capacity building for border agencies
- Single stop inspection procedures
- Computerized control & management systems

Technical Barriers to trade / standards

- Product standards
- Services standards
- Technical regulations
- Target ASEAN priority sectors
- Implement ASEAN Mutual Recognition Arrangements (MRAs)
- SPS certification, management and procedures

Cross-Border Logistics Infrastructure

- Border crossing/ inspection facilities
- Designated fast track lanes for qualifying commercial traffic
- Trans-shipment/multi-modal facilities
- Warehousing cold storage facilities
- Cross-border/special economic zones

Transport Facilitation and Regulations

- Traffic rights (bilateral or CBTA)
- Designated routes and entry/exit points
- Operator licenses, permits and quotas
- Vehicle standards and specifications
- Operations manuals for traffic rules and safety
- National Freight Forwarder Association
- Insurance coverage

Lampang
Phrae
Denchai
Uttaradit
Nong Khai
Nakhon Phanom
Loei
Udon Thani
Thakhek
Sukhothai
Tak
Phitsanulok
Mae-Sot
Khon Kaen
Mukdahan
Kalasin
Kaysone Phomvihane
Dong Ha
Hue
Da Nang
Intercorridor Link
Mawlamyine
Kamphaeng Phet
Nakhon Sawan
THAILAND
Chaiyaphum
Salavan
Dung Quat
Pakse
Phouvong
VIET NAM
Dieu Tri
Ye
Nakhon Ratchasima
Quy Nhon
Pleiku
Ayutthaya
BANGKOK
Dawei
Poipet
Siem Reap
Stung Treng
Aranyaprathet
Chonburi
CAMBODIA
Tonle Sap
Northern Subcorridor
Sattahip
Trat
Kampong Cham
Da Lat
Myeik
Gulf of Thailand
Koh Kong
PHNOM PENH
Moc Bai
Prachuap Khiri Khan
Bavet
Ho Chi Minh City
Southern Coastal Subcorridor
Sre Ambel
Kampot
Vung Tau
Sihanoukville
10°00'N
Chumphon
Ha Tien
Can Tho
Kawthoung
Central Subcorridor
Ca Mau
Surat Thani
Nam Can

Transport corridors need to transform into economic corridors to help create jobs…

Industrial Clusters

Urban Clusters

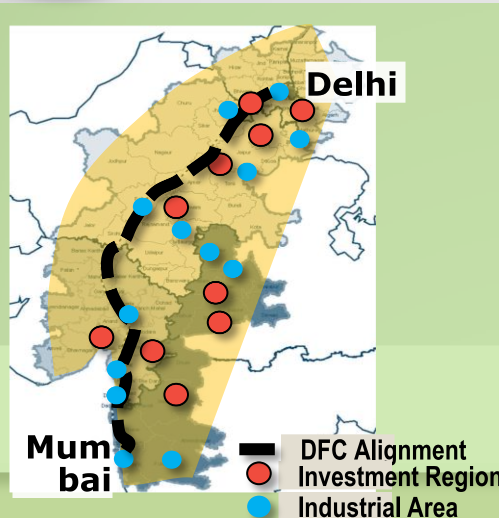
Trade and Transport Corridor

Transport Corridor
- Integrated trade facilitation
- Customs cooperation

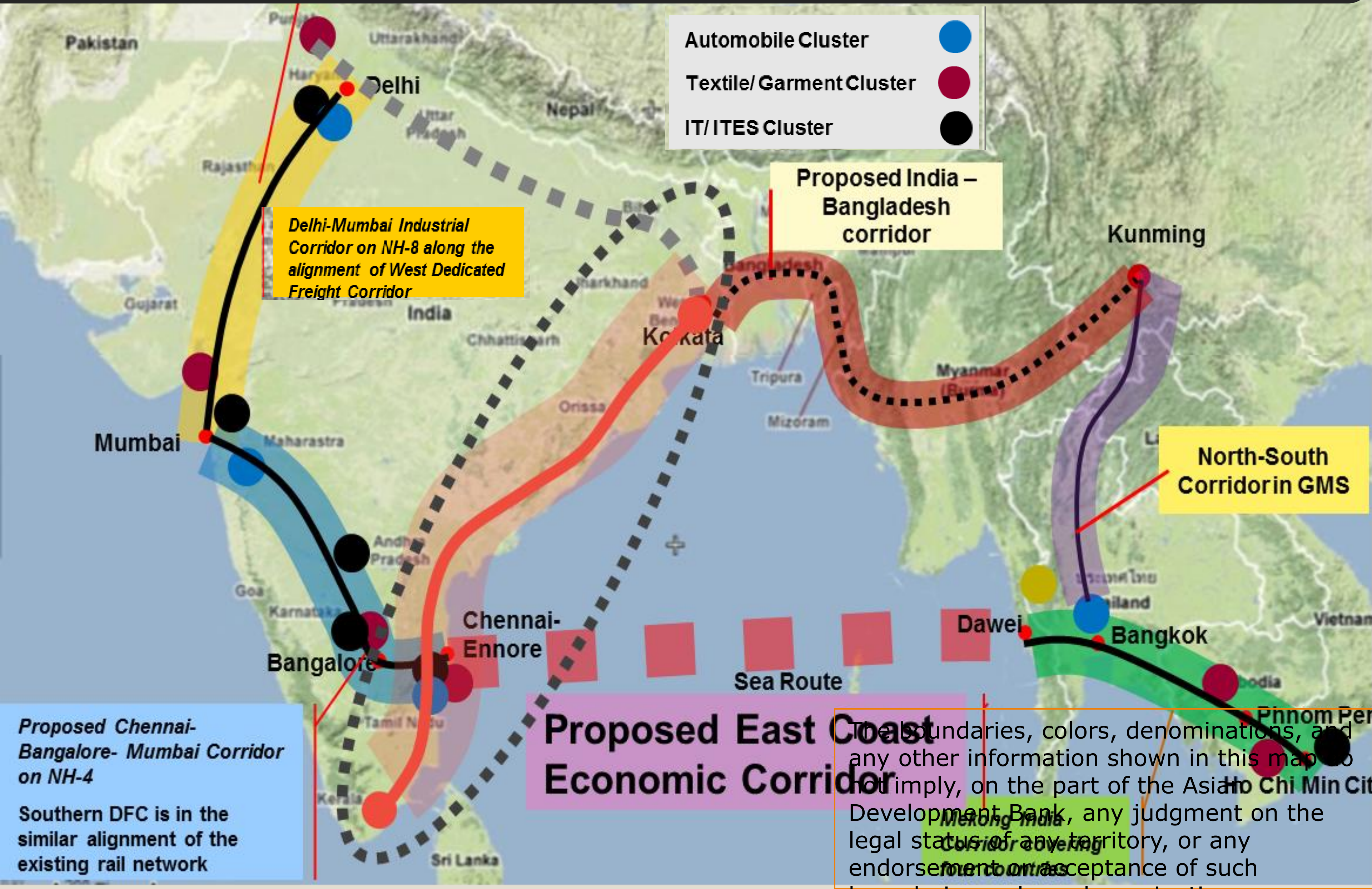
Trade Corridor
- Border policies
- Behind the border policies

Economic Corridor
- Corridor value chains
- Corridor Town development
- Corridor border investment

Delhi-Mumbai Industrial Corridor



BCIM connects potential economic corridors in South Asia and East Asia



- SOUTHERN ECONOMIC CORRIDOR HAS 3 SUB-CORRIDORS WITH DISTINCTIVE FEATURES FOR SME DEVELOPMENT:
- 1. **Central SEC** from Dawei-Bangkok-Sa Kaeo-Aranyaprathet-Poipet-Phnom-Penh-Bavet-Moc Bai-HCMC: GVC on Thai part-abundant resources in agriculture in Cambodia-Border Economic zone at Cambodia-VN border and 2 hub ports (Laem Chabang and Saigon/Vung Tau.
- 2. **Southern Coastal SEC**: Dawei-Bangkok-Trat-Hat Lek/Cham Yeam border-Koh Kong-Sihanoukville-Southern Mekong delta: agriculture, tourism, light industry and energy significant potential: industrial zones/SEZ around Koh Kong and Preah Sihanouk could link up with Thailand’s Eastern Seaboard.

- 3. **Northern SEC**: Dawei-Bangkok-Aryanarathet-Siem Reap-StungTreng, Quy Nhon.

- In terms of SMEs internationalization, portions of the 3 SEC sub-corridors are very different.
- The **Dawei to Kanchanaburi** portion is still work in progress. Outcome will depend on final design of Dawei Port and SEZ.

- The **Northern SEC after Siem Reap** crosses relatively remote areas and Quy Nhon will never become a major port. This part of the corridor will mainly serve domestic SMEs but some exporting SMEs could emerge with strong coordination between the Cambodian and Vietnamese side in establishing **a border economic zone/area in the Banlung-Pleiku border areas**. Pleiku is a major commodity center on the Central highlands in the middle of Vietnam’s coffer growing area.
- The model to look at could be the successful border development cooperation between the Ubon province of Thailand and the Champasak province of Lao (Abonyi ADB 2014). Significant investment by Thailand and Lao in border infrastructure, logistics and trade facilitation, the promotion of border linkages and trade has created a viable border economic zone. Agricultural trade and production has been increasing rapidly. The Bolivens Plateaux in Laos allows for the production of Arabica coffee and other crops requiring cooler weather. Tourism is a major growth industry with the Mekong waterfalls. Improved cross border and in country infrastructure, improved facilitation and policy support helped the development of SMEs in considered remote even a area

- **COASTAL SEC:**
- Border areas in Thailand and mainly Cambodia along the Coastal SEC offer good potential for SME development.
- Cambodia-Thai border at Cham Yeam/Hat Lek 8 km to Koh Kong, 222km to Sihanoukville port, 280Km to Phnom Penh and 350 Km to Eastern Seaboard.
- Koh Kong has SEZ (20-30% occupancy) with several Japanese and other foreign invested firms part of the value chain of the automotive industry in Thailand.
- Infrastructure links to Thailand good but border crossing facilities and TTF still needs much improvement to support SME development.
- SEZ might not be best clustering way for Banteay Meanchey and Koh Kong; Given potential in agriculture and agro-processing, promoting a BEZ similar to business the Ubon-Champasak model may be way to support SMEs, including exporting SMEs. Use better Thai infrastructure.
- Agro-processing could be done in Cambodia where land and labor is cheaper but major improvements in logistics cost and trade facilitation including improve customs procedure are needed to make Cambodian SMEs competitive.
- See survey done of Cambodian SMEs in agriculture (ADB journal).

- **CENTRAL SEC**
- Major SEC corridor with major potential for SME development.
- Link to 2 major hub ports (Laem Chabang and Saigon/Vung Tau); links directly to major industrial hubs and base of major international production networks (Thai Eastern Seaboard and HCMC industrial area).
- Cambodia with its lower wage structure has huge potential particularly for SMEs to benefit from this proximity.
- In Cambodia, several SEZ/BEZ already being developed: Poipet SEZ, Phnom Penh SEZ, Bavet/Manhattan SEZ.
- But firms in SEZs in Cambodia mainly in textiles linked to large groups. Some SMEs but few.
- Interestingly Cambodia-Vietnam border better developed as cross border TTF better.

- AEC should create seamless border but physically this is not case yet. Better at Bavet border, less so at Poipet border.
- Logistics costs in Cambodia much higher than Thailand. Transport and logistics costs are higher but biggest costs are import and export costs and time (Ksoll and Brimble). Same outcome from food industry survey (Chheang and Hamanaka 2014). Major impediment to export for Cambodian SME development and competitiveness in context of AEC.

- But domestic policies matters
- Cambodia quality cotton producer. Exports to Europe.
- Cambodia quality garment producer but relying on imported material. No midstream sector
- Cambodian domestic garment SMEs (which could become exporters) have to pay duties on imported material which makes them uncompetitive compared to large garment firms!

- SME development requires alignment of cluster environment, soft and hard infrastructure, and sensible domestic policies.