

4. Bangkok–Phnom Penh–Ho Chi Minh Corridor, Greater Mekong Sub-region

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4.1 INTRODUCTION

Cities and towns in the Greater Mekong Subregion (GMS) are becoming engines of economic growth, and centres of culture and innovation. They currently account for about 70–80 percent of the subregion’s economic production. The subregion’s urbanization forms a pivotal part of the paradigm shift from predominantly agriculture to manufacturing, service and knowledge-driven economies. These rapid developments raise a whole range of issues such as transport, water supply, infrastructure, waste management, sanitation, environmental sustainability, poverty, shelter and a new framework for urban development.

The Asian Development Bank (ADB) and other international finance institutions and development assistance agencies are focusing on corridor growth development within the GMS, as a corridor approach provides the opportunity to take an integrated approach to economic development. To date, the overwhelming focus of support has been on logistics and border crossings, but attention is now shifting to broader development issues such as catalysing private sector development along the corridor. There is also increased emphasis on the areas outside the megacities bracketing the corridor as there is a perception that those megacities have benefited disproportionately from investment thus far and that the private sector has not taken up investment in areas other than major centres.¹⁶⁶

This case study focuses on the Southern Economic Corridor of the GMS linking Bangkok and Ho Chi Minh City (HCMC). The corridor has a ‘spur’ to Dawei in Myanmar and transits Prachin Buri in Thailand, and Poipet, Battambang, Phnom Penh and Bavet in Cambodia. It also has spurs to Vung Tau and Can Tho in Viet Nam.

4.1.1 The Southern Economic Corridor

The Southern Economic Corridor (also often referred to as the SEC) supports three of the five strategic thrusts of the GMS Strategic Framework:¹⁶⁷ (i) strengthening infrastructure linkages through a multisector approach; (ii) facilitating cross-border trade and investment; and (iii) enhancing private sector participation in development and improving its competitiveness.

The corridor comprises the following connections between major towns and cities in the southern GMS: (i) Central Subcorridor: Bangkok–Phnom Penh–Ho Chi Minh City–Vung Tau; (ii) Northern Subcorridor: Bangkok–Siem Reap–Stung Treng–Rattanakiri–O Yadav–Pleiku–QuyNhon; (iii) Southern Coastal Subcorridor: Bangkok–Trat–Koh Kong–Kampot–Ha Tien–Ca Mau City–Nam Can; and (iv) Inter-corridor Links: Sihanoukville–Phnom Penh–Kratie–Stung Treng–Dong Kralor (Tra Pang Kriel)–

Pakse–Savannakhet, which links the three subcorridors of the Southern Economic Corridor with the East–West Economic Corridor.

Policies and regulations along the corridor are vital to its development, as they determine the form, level and use of infrastructure investments. The public sector plays a key role in developing policies and conducive regulatory environments to facilitate private sector investment. The GMS flagship initiative on Facilitating Cross-Border Trade and Investment is a key step in this regard. The agreement simplifies customs procedures, facilitates cross-border travel, and minimizes the need for trans-shipment, among many other advantages; it also includes a human resource development programme for the transport sector.

This interaction between regulation and investment is demonstrated by the results of a pilot test involving single-stop customs procedures that would reduce transportation time and other transaction costs along the corridor at the Cambodia–Viet Nam border at Bavet–MocBai. Cambodia and Viet Nam increased their border trade by 40 percent and cross-border passenger traffic by 53 percent yearly. Cross-border tourism rose. The pilot test also led to the setting up of special economic zones (SEZs) in the border areas, such as the Bavet–MocBai SEZs.

Figure 4.1 The Southern Economic Corridor (SEC) of the Greater Mekong Subregion (GMS)



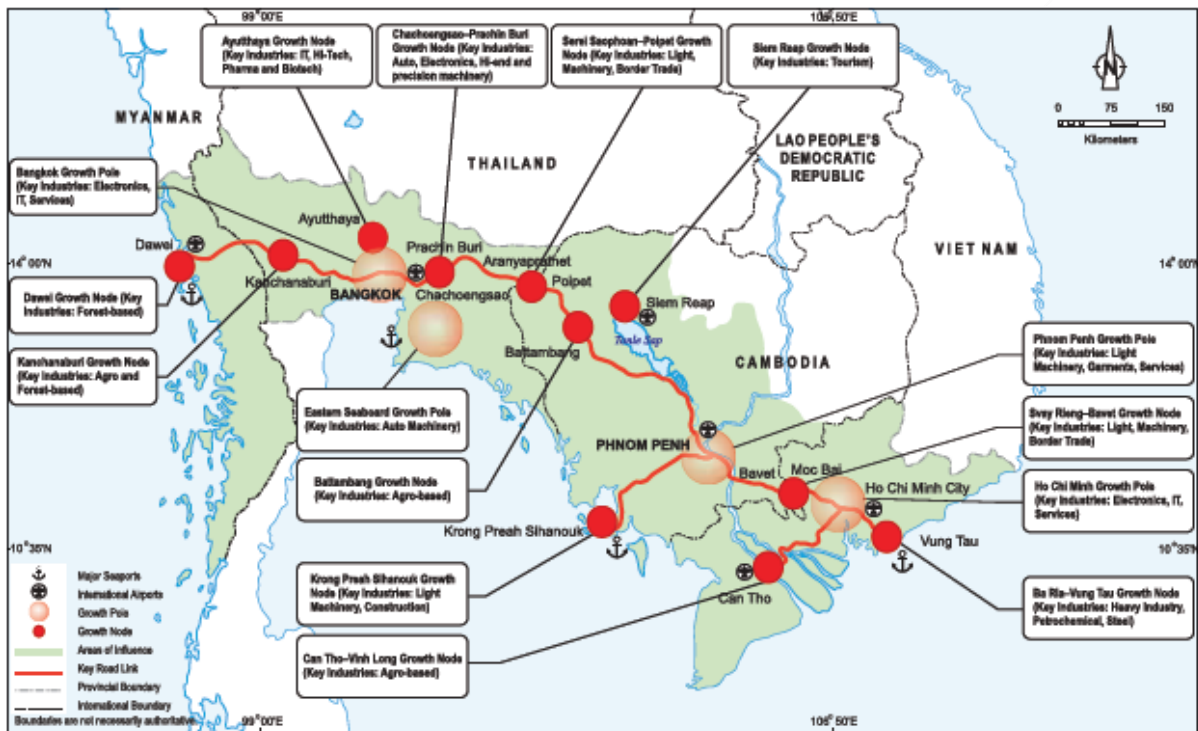
Source: J. Yuen, 'Thailand: ASEAN's Key Logistics Hub' (Hong Kong Trade and Development Council Research, 2015).

4.1.2 Development of the Corridor

The development of the Southern Economic Corridor (Figure 4.2) is embedded in the regional integration efforts of the ADB. The ADB's main objectives in developing economic corridors in Asia include trade facilitation, movement of goods and people, and poverty reduction.¹⁶⁸ In the Greater Mekong, sub-regional cooperation on corridor development started through a ministerial conference attended by Cambodia, Laos, Myanmar, Thailand, Viet Nam and the Yunnan Province of the Peoples' Republic of China (PRC) held in Manila in October 1992. The transport, telecommunication, energy, human resources, environment, and trade and investment sectors were represented at the conference. However, the improvement and construction of cross-border sections of major roads facilitating trade and investment among economies along the GMS corridor had the highest priority. The Subregional Transport Forum, a working group under the GMS senior officials' meetings, played a key role in mapping out the GMS Transport Sector Strategy Study as the subregion's 10-year blueprint. This was approved in 2007

and updated by the new GMS Economic Cooperation Program Strategic Framework, 2012–2022. South and Central Asia also have such corridors under development each with their own subregional frameworks.¹⁶⁹ In Central Asia, the ADB’s Greater Silk Road Initiative promotes the economic growth of Central Asian economies and beyond, through traditional trade links and regional economic cooperation.¹⁷⁰

Figure 4.2 Connecting Bangkok, Phnom Penh and Ho Chi Minh City – The Southern Economic Corridor (SEC): The Viet Nam and Cambodia Connection



Source: ‘Promoting intra-regional connectivity for economic growth: Cambodia and ASEAN in 2012’, *Cambodia Outlook Brief*, No. 3 (Phnom Penh: CDRI, 2012); See also: A. Maulion and F. Steinberg, ‘Bangkok to Ho Chi Minh: Competitiveness of cities along corridors in South East Asia’, in F. Steinberg and J. Hakim, *Urban Development in the Greater Mekong Subregion* (Manila: ADB, 2016).

4.1.3 The Greater Mekong Subregion

The GMS Framework 2012–2022 provides a spatial and thematic focus for trade and investment development. It expands the conventional infrastructure development approach to multisector investments designed to foster both economic corridor and urban development. The ADB’s strategy for corridor development highlights the need for carefully planned investments aimed at strengthening urban development, upgrading logistics, improving the network of feeder and rural roads, and developing other transport modes.^{171,172} Stronger cross-sector linkages, better consideration of the spatial aspects of regional economic development, greater local and private stakeholder involvement in

developing new markets and investments, and more effective monitoring and evaluation of development practices and prognosis are other important aspects of the strategy

As part of the strategic framework, the GMS economies agreed to pursue several flagship programmes: (i) build a telecommunications backbone; (ii) develop regional power interconnection and trading arrangements; (iii) facilitate cross-border trade and investment; (iv) enhance private sector participation and competitiveness; (v) develop human resources and skills competencies; (vi) develop a strategic environmental framework; (vii) enhance flood control and water resource management; and (viii) develop GMS tourism.

The ADB is the primary support agency for the development of the economic corridor. The corridor concept links production to market, fostering trade, through the provision of infrastructure within a specific geographical framework. While the focus is on urban centres, rural areas also benefit from the expansion of markets for agricultural produce and access to employment opportunities.

The cities and towns in the Southern Economic Corridor are receiving major support from the ADB as part of its regional cooperation and integration initiatives. The ADB's current support for towns along the GMS transport corridors represents an effort to deepen development efforts along these corridors and emphasizes the conversion of transport corridors into viable economic corridors fostering the sustainable development of the region. Assistance needs to focus particularly on environmental and social inclusiveness issues.¹⁷³

The three major cities in the corridor – Bangkok, HCMC and Phnom Penh– are described briefly in the next sections, with focus on their competitiveness. A more general discussion of the issues follows, relating to cities in the remainder of the corridor, including Poipet, Battambang, Bavet, MocBai and Dawei.

4.2 MAJOR CORRIDOR CITIES

Photo 4.1 Bangkok's Old City Centre



Credit: Florian Steinberg.

4.2.1 Metropolitan Bangkok

Bangkok – the capital city of Thailand – occupies 1,568.7 square kilometres in the Chao Phraya River delta. The city shares borders with the provinces of Nonthaburi, Pathum Thani, Samut Prakan, Samut Sakhon and Nakhon Pathom. These five provinces, along with Bangkok, form the conurbation known as the Bangkok Metropolitan Region, a highly-urbanized triangle in central and eastern Thailand stretching from Nakhon Ratchasima to the heavily industrialized eastern seaboard. Bangkok is home to over 8 million people, or 12.6 percent of Thailand's population. The Bangkok Metropolitan Region has over 14 million people (22.2%), making Bangkok an extreme primate city, dwarfing Thailand's other urban centres in terms of importance.

4.2.1.1 Economic Environment

In 2010, Bangkok's economic output was approximately USD 98.34 billion, or 29.1 percent of Thailand's GDP. This amounted to a per capita GDP value of THB 456,911 (USD 14,301), almost three times the average for Thailand of THB 160,556 (USD 5,025). The Bangkok Metropolitan Region had a combined output of THB 4.773 trillion (USD 149.39 billion) or 44.2 percent of Thailand's GDP. Bangkok's economy, which is focused on high-level services, finance and tourism, ranks 6th among Asian cities in terms of per capita GDP, after Singapore; Hong Kong, China; Tokyo; Osaka–Kobe; and Seoul.¹⁷⁴ A major centre of industrial activity in the Bangkok Metropolitan Region is the eastern seaboard area, around Chonburi.

Thailand advocates a free market economy. The government retains control over certain core services, such as power generation, some transportation and communications. The majority of industrial and economic activity however is in the hands of the private sector. The agricultural sector remains significant in terms of exports and employment. Manufacturing is also important, with a diversified base that includes steel, electronics and computers, electrical appliances, processed food, garments, footwear, toys, plastics, gems, jewellery and furniture.

The government strongly encourages foreign investment in knowledge-based and high-technology industries such as electronics and automobile manufacturing. The economy has already attracted auto heavyweights such as Toyota, Ford and Mercedes to manufacture there. Such foreign investments have important knock-on effects. For example, the economy's rise as a hub for automobile manufacturing has created higher demand for steel, which has led to opportunities in steel production.¹⁷⁵

4.2.1.2 Business Environment

Bangkok is highly connected with the import and export trade. The city rates 61st overall in the Economist Intelligence Unit's Hot Spots index, which assesses the competitiveness of 120 global cities,¹⁷⁶ and 60th in the 'economic strength' component, a creditable performance. The Hot Spots Index cited Bangkok's dynamism as the most important factor in its competitiveness. The 2011–2012 World Economic Forum (WEF) Global Competitiveness Report ranks Thailand 4th in terms of 'macroeconomic environment' and 3rd in 'goods market efficiency' among eight ASEAN members.¹⁷⁷

The capital is an important venue for the regional headquarters of transnational corporations as well as multilateral and regional organizations. There are 27 banks headquartered there, and about 300,000 SMEs, with 73 shipping companies and 88 airlines servicing the city. Within the Bangkok Metropolitan Region, there are 11 companies on the 50 Southeast Asia Challengers list: Banpu, Central Group, Charoen Pokphand Group, Indorama Ventures, Minor International, Mitr Phol Corp, Pruksa Real Estate, PTT, Siam Cement Group, Sri Trang Agro-Industry and Thai Union Frozen.¹⁷⁸ Their revenues range between USD 500 million and USD 63 billion annually.

The Bangkok Metropolitan Region is a major transport hub. It features large port facilities; and the Suvarnabhumi International Airport. The airport's two runways, two taxiways and a 76-flight-per-hour handling capacity make it one of the 50 busiest airports in the world.¹⁷⁹ Suvarnabhumi International Airport registered 47,910,744 passengers in 2011, a 12 percent increase from 2010.¹⁸⁰

Bangkok is also home to some of Asia's largest convention centres and has superb hotel accommodation with their own meeting facilities. The city has a growing reputation for hosting Meetings, Incentives, Conventions and Exhibitions (MICE). Major international events in the city include the Asia-Pacific Economic Cooperation (APEC) Summit and the Miss Universe Pageant. The International Congress and Convention Association (ICCA) ranks Bangkok as one of the most popular destinations for international meetings.

4.2.1.3 Cross-Border Trade

Thailand exports a diverse range of products. It is considered the regional centre of the East Asian automotive industry with engines and automobile components and spare parts among its major export items. Other exports are motorcycles and their spare parts, cement, livestock, feeds, petroleum, woven fabrics and chemical fertilizers.

Active cross-border trade between Thailand and Cambodia, including Viet Nam, has spurred significant urban development in Thailand, especially along the Aranyaprathet–Poipet border.¹⁸¹ Data on formal cross-border trade between Cambodia and Thailand show that total cross-border exports from Thailand to Cambodia rose from THB 53.9 billion (USD 1,618,187) in 2009 to THB 74.3 billion (USD 2,460,735) in 2010, representing an increase of 37.8 percent. In 2009, the Aranyaprathet border checkpoint (Central Subcorridor) accounted for about half of the total cross-border exports of Thailand to Cambodia, followed by the Klong Yai border checkpoint (Southern Coastal Subcorridor) with about one-third. Around two-thirds of the total cross-border exports of Thailand to Cambodia have taken place in the Central and Southern Coastal Subcorridors of the Southern Economic Corridor.

In 2011, the economy's total export turnover (up to November) amounted to nearly USD 87.36 billion, up by 35 percent year on year, surpassing the 25 percent full-year target. Import turnover stood at USD 96.2 billion, a 26.5 percent increase year on year, while the targeted figure was 23.6 percent. Goods imported from Cambodia rose from THB 2.66 billion (USD 79,831,932) in 2009 to THB 6.86 billion (USD 227,302,849) in 2010, an increase of 158 percent.

4.2.1.4 Innovation and Business Support

The 'smart economic policies' implemented by the Thai government led the World Bank to upgrade Thailand's status as a middle-income economy in July 2011. Well-defined investment policies focusing on liberalization and free trade encourage industries to establish themselves in the city. The government actively promotes foreign investment that contributes to the development of skills, technology and innovation.

In the automotive industry for example, one of the major steps taken by the Thai government to promote industrial development and the specialization of domestic manufacturing was to allow foreign capital to dominate investment in car assembly plants while local players focused on developing supply and production chains for related components. In the beginning, factories established by local Thai investors produced low-priced, usually low-tech, items, such as those related to exterior modification. The firms mainly served local price-conscious customers or budget auto repair shops. In order to establish industrial scale, the government helped local industry build its supply chain, set rules for foreign automobile manufacturers, implemented local content requirements via import substitution and spurred production localization of key components.

Two main categories of industrial estates are available to investors. The General Industrial Zone is reserved for industries manufacturing for domestic and/or export consumption; while the Export Processing Zone is for industries manufacturing for export only. The Board of Investment provides a range of incentives to investors in such zones. Investors

enjoy tax incentives, support services, and import duty exemptions or reductions to an extensive list of promoted activities. Companies receiving investment privileges from the Board of Investment are not subject to foreign equity restrictions in the manufacturing sector, and there are neither local content requirements nor export requirements, as Thailand's investment regime is in total compliance with WTO regulations.

In line with such policies, the Bangkok Metropolitan Region has established a one-stop service centre, which enables foreign staff of Board of Investment-promoted companies to obtain work permits and long-term visas within three hours or less. There is also a 'one start one stop investment centre', which facilitates a range of services and streamlines investment procedures by bringing representatives from more than 20 government agencies under one roof.

The results of existing policies are seen in the Economist Intelligence Unit's Hot Spots index, where Bangkok ranks 38th in terms of 'global appeal'. Its business services infrastructure, particularly finance, is relatively well-developed; Thailand has a large and deep capital market. It ranks 32nd in the 'financial maturity' component of the Hot Spot index. However, other issues could affect Bangkok's business climate, like the 2011 floods. The need is seen for policy reforms that focus on mainstreaming climate change adaptation into the city's development initiatives.

4.2.1.5 Human Resource Development

Bangkok is the centre of higher education, research and development. It has a high number of educational and vocational/technical institutions, and a large labour pool with an unemployment rate of only 0.95 percent (2010 survey).¹⁸² The Office of the Vocational Education Commission (OVEC) of the Ministry of Education administers 415 public colleges and 427 private vocational schools and colleges throughout Thailand.¹⁸³ Technical and vocational education and training in Thailand is relatively well developed, with clear pathways from certificate to diploma levels, and provision for progression to bachelor's degree programmes.¹⁸⁴

In a labour market efficiency survey conducted in 2011–2012 and published by the World Economic Forum (WEF) in its Global Competitiveness Report, Bangkok ranked 30th out of 142 cities. Bangkok rates 42nd in the 'human capital' component of the Economist Intelligence Unit's Hot Spots index, substantially above Manila and most other developing-nation cities. However, the WEF Global Competitiveness Report 2011–2012 ranking of Thailand in terms of higher education and training was 62nd out of 142 economies, a less satisfactory performance.

4.2.1.6 Cost of Doing Business

At USD 26 per square metre for rental of commercial space and USD 0.40 per kilolitre for water, Bangkok is comparable with other cities and towns in the Southern Economic Corridor. It has a lower average cost for fixed line international calls at USD 0.16 per minute. However, the city has few fixed line providers, limiting the options available to business enterprises.

In terms of raw materials for its industries, Thailand has access to agricultural products and to the high-technology component inputs needed to produce higher value-added goods, which lowers production costs.

However, labour cost in Bangkok is higher compared to other towns and cities along the Southern Economic Corridor. In 2005, the minimum wage rate was already USD 4.84 per day; and in 2012, the Thai government raised the minimum wage to THB 300 per day (USD 9.60) per day. The introduction of a minimum wage is in line with the government's plans to promote knowledge-intensive industries and services (cheap labour is a significant factor in labour-intensive industries, but less of a comparative advantage for skills- or knowledge-intensive industries). This policy shift could lead to the relocation of labour-intensive industries such as garments and shoes to other GMS economies.

Thailand ranks 17th in 2011 in overall 'ease of doing business' according to the International Finance Corporation (IFC); and it has consistently been in the top 20 over the previous eight years.¹⁸⁵ Thailand also ranks in the top 20 in 'dealing with construction permits', 'protecting investors' and 'trading across borders'. The Bangkok Metropolitan Region, as the commercial centre of Thailand, is the primary beneficiary of this conducive business environment.

4.2.1.7 Infrastructure Assessment

Growth and development in Bangkok could be attributed in large part to the infrastructure in the city. The city ranks 75th in the 'physical capital' component of the Economist Intelligence Unit's Hot Spots index.

Generally, the water system is good (although Bangkok still lacks a sewerage system). However, Bangkok is prone to flooding. The 2011 floods, the worst in seven decades, raised concerns over the resilience of city in the face of climate change-related disasters. The flood affected industry, disrupting supply chains and increasing the cost of doing business. Among various impacts, the flooding led to a global shortage of computer hard disk drives. The significant consequences to business and industry prompted the government to rethink its policy on climate-resilient structures and to look at adopting green practices.

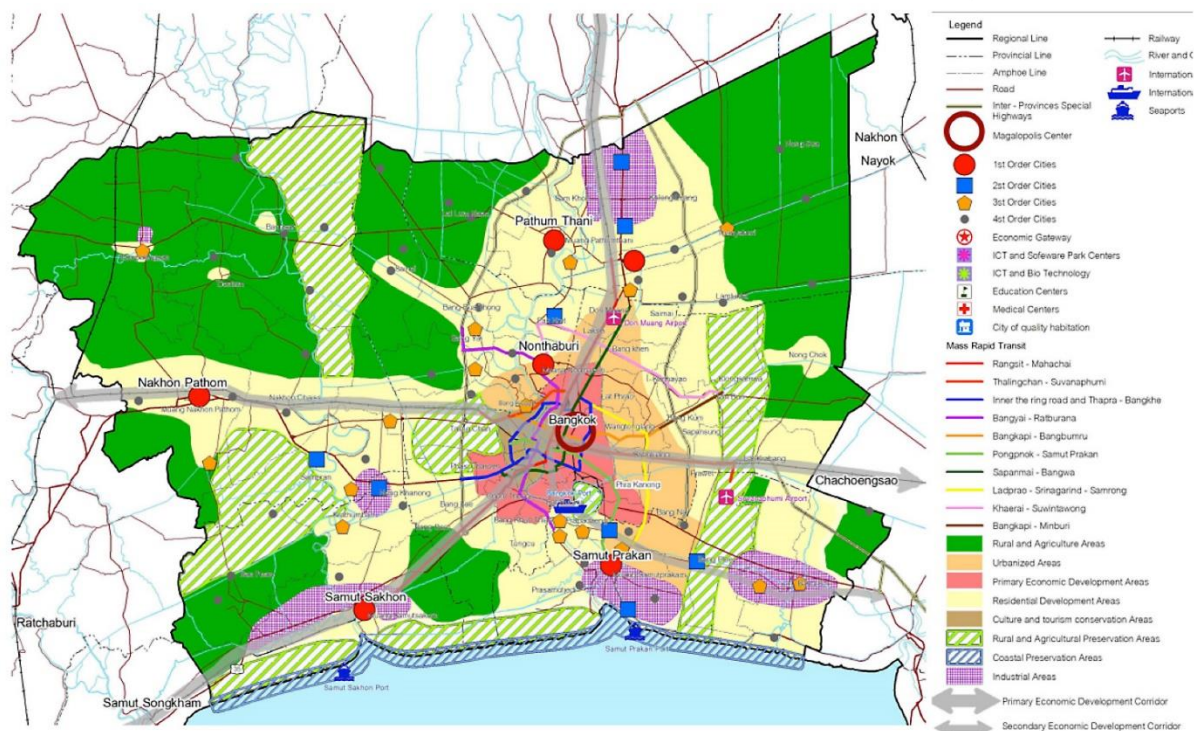
Bangkok also has a developed road network, despite the dominance of water transportation for much of the city's history. For 60 years after the city was established in 1782, water transportation dominated, and the city grew along the Chao Phraya River and the canals branching from it. The consequent urban forms restricted the development of road transportation. The role of water transportation has declined since the 1950s, and land transportation has become the main transport mode.

The development of the city's road network has generally been limited to capacity expansion, for example, the widening of highways to a minimum of four lanes, and road safety. In terms of road networks, the Bangkok–Chon Buri (81.75km) and the Eastern Outer Ring Road (64km) motorways link Bangkok and the surrounding industrial areas, serving as a commodities transport route from the northern part of the region to Laem Chabang Port. The expressway network is limited to Bangkok and its vicinity comprising

a total distance of 150km. Due to unclear regulations and weak enforcement of load limits for trucks, road quality has deteriorated in recent years.

Traffic has become a serious issue. In 2007, Bangkok had 5.6 million registered vehicles, contributing to the city's worsening air pollution. The challenge is to reduce congestion on the city's arterials by improving public transport. Buses are the backbone of the passenger transportation system in Bangkok, accounting for more than 50 percent of all passenger trips, and 75 percent of trips during the peak period. To address worsening traffic congestion and pollution, Bangkok has also invested heavily in rail-based public transport (Figure 4.3).

Figure 4.3 Bangkok Regional Plan 2057



Source: Bangkok Regional Plan 2057, in Ministry of Land, Infrastructure, Transport and Tourism, Japan, 'An overview of spatial policy in Asian and European countries', accessed 28 May 2016, http://www.mlit.go.jp/kokudokeikaku/international/spw/general/thailand/index_e.html

Bangkok also has air and seaport facilities capable of handling large passenger and cargo traffic. The seaport has a capacity of 47,050,000 TEUs (twenty-foot equivalent unit). Total international air freight stood at 12,792,000 tons in 2008. Bangkok Port's international sea freight (outbound and inbound) in 2010 reached 1,453,000 TEUs with 2,681 vessels from 1,310,000 TEUs in 2009, an increase of 10.9 percent.

To further increase connectivity, the Thai government, together with the government of China, plans to build a high-speed train as part of the proposed transnational railroad network linking the eastern end of the Southern Economic Corridor to China in the north and Malaysia in the south. The train's top speed is planned as 200km/hr. This link will

run from Kunming, in China, to Bangkok and Rayong and connect to the border with Malaysia. Links to Lao PDR and Cambodia are also envisaged.

4.2.1.8 Social and Environmental Quality

Quality of life. Bangkok has 138 private and public hospitals, the most among the cities and towns along the Southern Economic Corridor. Though Bangkok has a good number of hospitals, its population to hospital bed ratio is 478:1, indicating the need for more investment in health services. Given its vulnerability to floods, its ranking of 38th in the ‘environmental and natural hazards’ component of the Economist Intelligence Unit’s Hot Spots index is very creditable.

Local authorities have often overlooked the possibility of incorporating environmental assessment as a legal requirement in their by-laws. Thailand does not have an environmental assessment requirement for small and medium scale infrastructure development projects in municipal by-laws, even though such projects, particularly roads, could create adverse impacts on the environment if not planned, designed and constructed properly.

A main concern for Bangkok is the high level of car use, and the associated air pollution and traffic congestion.¹⁸⁶ The improvements in the transport system like the sky train and the underground metro have made movement within the city core more efficient; but worsening traffic conditions still affect the city’s productivity. Air pollution remains a problem, although the situation is improving.

The Department of Local Administration (DoLA) has recommended the local authorities to set up committees to oversee local development work. One of the tasks of such a committee is to develop an Environmental Management System (EMS) suitable for use at the local government level. However, this task is quite challenging for most local authorities since there is an absence of a separate unit in charge of environmental management at the local-authority level.

Inclusiveness. Bangkok is the nexus of competing political forces in Thailand, and the current conflicts focus on Bangkok. The consequent disruption is adversely affecting the economic competitiveness of the city. Its ranking in the ‘social and cultural character’ component of the Hot Spots index is 56th.

4.2.1.9 Urban Governance

The Thai administration is relatively effective. It rates quite well among developing nation cities in the Economist Intelligence Unit’s Hot Spots index, at 70th with a score of 54 out of a possible 100.¹⁸⁷

The city of Bangkok is governed by the Bangkok Metropolitan Administration.¹⁸⁸ The area is considered a province (*changwat*) but unlike other provinces in Thailand, Bangkok is a special administrative area headed by a directly elected governor. Policymaking functions are held by an executive body made up of the governor and four appointed deputies; while legislative functions, including municipal ordinances and the city’s budget, are the responsibility of the Bangkok Metropolitan Council. This council is made

up of city councillors elected at district level. Bangkok is subdivided into 50 districts (*khet*), which are further divided into 169 subdistricts (*khwaeng*). Each district is managed by a district director appointed by the governor.

The Bangkok Metropolitan Administration is divided into 16 departments, each overseeing different aspects of the administration's responsibilities. Most of these responsibilities concern the city's infrastructure, and include city planning, building control, transportation, drainage, waste management and city beautification, as well as education, medical and rescue services. Many of these services are provided jointly with other agencies, and this sometimes causes coordination problems.

The urbanisation process is a challenging task as the city grows beyond administrative limits without adequate backbone support from infrastructure networks, land-use planning guidance or development control. As a consequence, it is commonly seen that environmental problems arise in the city and the fringe areas of the city where urbanisation is allowed to spill over the city limits. In this context, the local authorities of the Thai cities need to transcend their conventional role of urban management to embrace urban environmental management and promote sustainable urban development.

4.2.2 Phnom Penh Metropolitan Area

Located on the banks of the Tonlé Sap and Mekong River, the Phnom Penh metropolitan area is home to about 2.2 million of Cambodia's population of over 14.8 million. Phnom Penh is Cambodia's economic centre. The main economic activities are services, commerce, garments and tourism.

Photo 4.2 Phnom Penh – City Centre near the Tonle River



Credit: Florian Steinberg.

4.2.2.1 Economic Environment

Phnom Penh has been the capital of Cambodia since French colonization. It was considered to be an exceptional example of French colonial cities in Indochina in the 1920s. Founded in 1434, Phnom Penh was the royal capital from 1434 to 1505, but was then abandoned for 360 years – until 1865 – due to internal fighting between competing royal factions. It was not until 1866, under the reign of King Norodom I, that Phnom Penh became the permanent seat of government and the capital of Cambodia. Starting in 1870, the French turned a riverside village into a colonial city with modern infrastructure and buildings such as hotels, schools, prisons, barracks, banks, public works offices, telegraph offices, law courts, and health centres. In 1872, its first concrete housing project was constructed by a French contractor, Le Faucheur, for sale and rent to Chinese traders.

By the end of the 1920s, railways to Sihanoukville and the Pochentong International Airport (now Phnom Penh International Airport) were built. Phnom Penh's infrastructure saw major modernization under the Sihanouk administration. During the Viet Nam War, thousands of refugees flooded the city to escape the fighting between their own government troops, the North Viet Nameese army, the South Viet Nameese army and its allies, and the Khmer Rouge. In 1975, the city fell to the Khmer Rouge. Pol Pot, its leader, sought a return to an agrarian economy; and the city's residents were forced to work in rural farms. Those perceived as educated or 'lazy', or as political enemies, were killed. Infrastructure was seriously damaged and within three and a half years, Phnom Penh was a ghost city. The Khmer Rouge was deposed in 1979 and the city was rebuilt.

Phnom Penh is now the capital of Cambodia and its largest city; and it has evolved to become the centre of the nation's economic and industrial activities, as well as the hub of security, politics, economics, cultural heritage and diplomacy. The city is located in the south-central region of Cambodia, at the confluence of the Tonlé Sap, Mekong and Bassac rivers. These rivers provide fresh water and are important river ecosystems providing marine resources. Phnom Penh is the wealthiest and most populous city in Cambodia.

The city's economy is based on commerce and trade. Industry includes a range of small and medium enterprises, in particular in the garment trade. In the past 3 years, the real estate sector has boomed. With tourism becoming a major contributor to Cambodia's economy in general, and the city's growth in particular, more investors have been building hotels, and shopping and commercial centres. According to the World Travel and Tourism Council, tourism made up 17.5 percent (USD 2.1 billion) of Cambodia's GDP in 2009 and accounted for 13.7 percent of total employment. Phnom Penh's disposable income was the highest in Cambodia; three times the Cambodian average.¹⁸⁹

4.2.2.2 Business Environment

Phnom Penh's location between Bangkok and Ho Chi Minh City puts it at the centre of the Southern Economic Corridor. Cambodia's integration in ASEAN and the WTO will mean greater market access for both goods and services including tourism. Phnom Penh has more than 50 percent of the hotel rooms, 30 percent of the guest houses and 60 percent of the travel agencies in Cambodia, making it the most important in terms of tourism activity in Cambodia, ahead even of Siem Reap, the site of Angkor Wat.

To compete in a highly competitive global business environment, the government of Cambodia has liberalized export policies and licensing and implemented tax reforms, providing various incentives to investors. Its fully serviced Phnom Penh Special Economic Zones, including free trade zones, are considered engines of growth to boost manufacturing and exports, and generate employment.

According to the Provincial Business Environment Scoreboard in Cambodia, Phnom Penh, though the wealthiest and with the highest per capita income, is weak in governance. However, it has one of the lowest entry costs, informal charges and taxation. Phnom Penh is the largest market in Cambodia, with UN-Habitat predicting that its population will more than double between 2005 and 2025.¹⁹⁰

It has the highest number of fixed telephone and internet service providers in the GMS, providing residents and businesses with the luxury of choice. It is second to Bangkok in the number of commercial airlines and shipping lines serving it. This facilitates mobility of goods and people. But the city has low per capita income and few banking institutions. Credit is available but not affordable or accessible, especially to SMEs.

4.2.2.3 Cost of Doing Business

Phnom Penh has one of the lowest minimum wages and costs for roaming calls, an attraction for labour-intensive industries. But it has one of the highest electricity tariffs in the region and the highest cost of international calls on a per minute basis. The high electricity rate increases the cost of transport and goods.

4.2.2.4 Cross-Border Trade

Cambodia became the sixth largest garment exporter in the world in 2007.¹⁹¹ The garment industry, which is centred in Kandal Province, created half a million jobs in Cambodia and generated some USD 0.3 billion in monthly payments for the employees. Agricultural exports, many processed in the Phnom Penh area, are increasingly important, as palm oil, peanuts, rice, pepper and other rural products become more popular in the international markets.¹⁹²

The handicrafts industry is one of the fastest-growing sectors. There are several reasons for this: a large and relatively stable market with opportunity for export-driven expansion; demand from tourists, particularly those visiting Siem Reap; and high levels of donor involvement at all levels of the handicrafts value chain. The production of handicrafts is easily outsourced; this allows household-based employment and income generation, which benefits the disadvantaged and vulnerable who have limited or no education, few marketable skills and who wish to avoid urban migration. The export demand for Cambodian handicrafts currently exceeds the amount that local producers can supply. There are an estimated 100 to 150 organizations involved in handicrafts production in Cambodia, from private sector firms to not-for-profit organizations and non-governmental organizations.

4.2.2.5 Human Resource Development

The city has a labour force of around 600,000. The skilled employment rate is low as the city has few higher and vocational/technical institutions. The low skill base is a key factor in attracting investment and businesses. Boosting educational investment and the number of institutions is vital to improving the competencies and skills of the labour force.

4.2.2.6 Infrastructure Assessment

As a major Asian hub, Phnom Penh benefits from the service of significant transport infrastructure. The city's main forms of transport include taxis, pick-ups and minibuses, most of which are used within the city and for both entering and exiting.

The city has the use of a significant 27 bridges; and several highways connect Phnom Penh to other economic and tourist centres in Cambodia. Of most importance, Phnom Penh is linked through two transportation networks: (i) Bangkok to Mekong Delta: NR5-NR6-NR1 rail, and the sea-Lao boat route; and (ii) Phnom Penh to Sihanoukville: NR4-NR1 rail, NR6 and additional rail services. The city also has an international airport, strategically located 7km north of the city, as well as a seaport providing fast and reliable storage and loading facilities for both import and export of goods and services.

Phnom Penh has a Special Economic Zone (SEZ) which is equipped with modern infrastructure, including backup water and power. It has a dry port providing fast and reliable loading and storage facilities, wastewater treatment and good access to telecommunication services.

However, major roads are in poor condition, including National Highways No. 1, No. 5 and No. 6 connecting Viet Nam and Thailand. Many of the roads remain unpaved. This is despite 70 percent of the economy's total freight going through Phnom Penh's road network. Additionally, trucks cannot enter Phnom Penh during daytime hours; and there are no facilities to transfer cargo between large trucks and small to medium trucks.

4.2.2.7 Responsiveness of City Government to Business Needs

Phnom Penh has a Master Development Plan and a City Development Strategy to address the infrastructure challenges facing the city, including its electricity and water requirements. The Stock Exchange was launched as a 'full-time' exchange in February 2015, with the Phnom Penh Water Authority the first listing. The promulgation of globally and regionally compatible regulatory frameworks, e.g. the 2001 Land Law, and the ADB-GMS initiatives, have boosted foreign direct investment (FDI) and integration into regional supply chains, and led to the formation of knowledge transactions with transnational firms, research institutions, and other knowledge networks.

The length of time for registering a business is still long by international standards. There is a need to further streamline business registration and lower transaction costs, both formal and informal. Though the solid waste management system in Phnom Penh city, in general, has been upgraded since the waste collection service was franchised out to the private sector, the performance of the existing system is still low. Unreliable and irregular collection services still exist. These shortcomings need to be corrected.

4.2.2.8 Quality of Life

Travel time to and from work within the city is shorter compared to other cities studied. This may be due to fewer vehicles on the road, as the city has a road density of only 1.62. Phnom Penh SEZ achieved both ISO 9001 and ISO 14001 certificates in early 2010. It follows professional and transparent international corporate standards while espousing corporate social responsibility.

The city lacks health services like hospitals and adequate hospital beds for its growing population. It also needs to institutionalize international standards and conformance, e.g. ISO, HACCP, etc. Its sewage and drainage system requires upgrading to address flooding.

4.2.3 Ho Chi Minh City Metropolitan Region

The metropolitan area, which consists of the Ho Chi Minh City metropolitan area, Thủ Dầu Một, Dĩ An, Biên Hòa and surrounding towns, has more than 9 million people, or over 8 percent of Viet Nam's population, making it the most populous metropolitan area in Viet Nam. The area accounts for 20 percent of Viet Nam's GDP, 28 percent of its industrial output and 34 percent of its FDI projects in 2005.

Photo 4.3 Ho Chi Minh City – Central Area



Credit: Florian Steinberg

The economy of Ho Chi Minh City consists of a wide range of industries ranging from seafood and agricultural processing, to construction, tourism, finance, trade, and industry

– in particular, garments and electronics. The state-owned sector makes up 33.3 percent of the economy, the private sector 4.6 percent, and the remainder comes from foreign investment. The service sector accounts for 51.1 percent, and industry and construction account for 47.7 percent, with almost no primary industry.

4.2.3.1 Economic Environment

Ho Chi Minh City (formerly Saigon) started as a small fishing village known as Prey Nokor. Originally swamp land, it was an important Khmer seaport for centuries before annexation by the Viet Nameese in the seventeenth century. In 1698, Nguyễn Hữu Cảnh, a Viet Nameese noble was credited with expanding Saigon into a significant settlement area. Under French colonial rule, Saigon was the capital of the Cochinchina. A number of classical Western-style buildings and French-style villas were built in the city. In 1976, after Viet Nam was reunited, Saigon merged with the surrounding Gia Định Province and was officially renamed Ho Chi Minh City.

Ho Chi Minh City has an area of approximately 2,094 square kilometres. Crucially, it is the transport hub of the southern region and the main gateway of Viet Nam to the world. It has the largest port system and airport in Viet Nam. The city is 1,730km from Ha Noi by land and is at the crossroads of international maritime routes.

Ho Chi Minh City is at the centre of the burgeoning Viet Nam economy and the economy's industrial heart. The Southern Key Economic Zone accounts for 50 percent of Viet Nam's GDP, and 60 percent of its FDI. The city's total export turnover between January and October 2011 reached USD 22.2 billion, a tremendous increase of 18.9 percent over the same period in 2010.¹⁹³ Crude oil and gold were the city's main exports, amounting to a third of the city's total export earnings. Garments and textiles accounted for more than 16 percent of the city's total export value in the first 10 months of 2011, and fetched nearly USD 1.8 billion, up 18.9 percent over the same period in 2010. The City Statistics Office reports that with shipments of approximately 2.4 million tons in 10 months, rice contributed USD 1.14 billion to the city's total export turnover, up 10.8 percent from 2010. Export of footwear surged 18.2 percent to nearly USD 500 million while seafood exports rose 13.5 percent to nearly USD 339 million.

The city itself, in contrast to the broader region, plays a strategic role in Viet Nam's development, accounting for 20 percent of the economy's GDP, 30 percent of the industrial output, 29 percent of the total retail sales and services, 40 percent of the export turnover and 33 percent of the State budget in 2010.

The capital hosts one high-tech park, two software parks, three export processing zones, and eighteen industrial parks (collectively SEZs). These SEZs provide one-stop shops for investors. Services include online processing of business registration and online inquiry to the 42 government agencies linked. They also facilitate face-to-face meetings between and among foreign investors, business consultants and lawyers.

The central government provides city governments with State credits for investment development, policy support, and incentives for the development of key industrial sectors such as garments and engineering products. Among the incentives are financing mechanisms for shipbuilding, and exemption of land rent and land-use fees for businesses

engaged in software development. The Ho Chi Minh City People's Committee has issued a directive to implement a programme supporting business modernization at low cost, with the aim of improving the city's competitive edge and promoting exports.

In addition, investors enjoy a set of incentives that include corporate income tax of 15–20 percent (depending on localities), exemption from corporate income tax over four years, incentives on value-added tax, and exemption from import tariffs for materials used to produce software for export. The individual income tax rate for foreigners with resident status is also the same as that of a Viet Nameese.

4.2.3.2 Business Environment

Ho Chi Minh City is the second largest market and most densely populated area in the Southern Economic Corridor. It has the second largest number of commercial banks and hosts 15 economic zones, the largest of the studied areas. Ho Chi Minh City has 92,000 registered SMEs and the second highest per capita income in the Southern Economic Corridor. Overall, Ho Chi Minh City rates 109th in the Economist Intelligence Unit's Hot Spots index, but 36th in the 'economic strength' component.

Despite its strengths, the city has the highest inflation rate in the Southern Economic Corridor at almost 19 percent at the end of 2011. It also offers only limited telecommunication services in fixed-line, mobile and internet access. This may be due to the strict regulations implemented in the economy as a whole.

Commercial banking has developed rapidly, and now contributes significantly to the economy. Much more could be done to facilitate its growth, particularly in terms of improving the legal framework for the sector and enforcing policies and regulations related to such issues as charter capital expansion, risk management, human resources and minimum technical capabilities in the banking system.¹⁹⁴ Institutional reforms must hinge on a thorough grasp of existing problems, reflect on the sector's need to adapt to a new economic landscape, and the numerous enhancements required to improve enforcement efficacy.

4.2.3.4 Cost of Doing Business

The city has low electricity and water supply tariffs due to government price controls. In addition, industries, especially shoe makers, source 60 percent of their raw materials locally. The availability of air and sea access also decreases transport costs. Disincentives for potential investors include high rental and lease costs for commercial space and industrial land; and the high minimum wage.

4.2.3.5 Cross-Border Trade

Ho Chi Minh City registered USD 24.45 billion of exports in the January–November 2011 period, up 18.9 percent year on year, and spent USD 24.57 billion on imports, a 26.2 percent year-on-year increase. Based on a study by the Cambodia Development Resource Institute, vegetables exported to Cambodia via MocBai provide almost 70 percent of Cambodia's vegetable demand. The last few years witnessed an increasing share of vegetables from Viet Nam, displacing Thailand as the major supplier. Vegetables from

Viet Nam are highly traded during the months of April to November, with the volume of daily imports ranging between 40 and 160 tons, depending on the season.

There are six groups involved in the vegetable trade: Viet Nameese suppliers based in Ho Chi Minh City, Viet Nameese importers, Viet Nameese ethnic traders, Cambodian sellers at Phnom Penh wholesale markets, provincial or Phnom Penh wholesalers, and provincial or Phnom Penh retailers. The trade flow shows that the Viet Nameese importers buy their vegetables from Viet Nameese suppliers at the source markets and directly supply to the Cambodian sellers at Phnom Penh wholesale markets.¹⁹⁵ The Cambodian sellers have their own agents or sell to ethnic Viet Nameese traders who are based in Cambodia. These traders supply to the wholesale markets. Then the wholesale market sells to provincial wholesalers and/or retailers.

4.2.3.6 Human Resource Development

The city has a high employment rate and a well-educated and skilled working age population. The tourism sector has grown rapidly, resulting in micro and small businesses such as vending and transport businesses. Overall, Ho Chi Minh City needs to upgrade its human resource development and training, as the city does not have enough quality technical and tertiary schools to match industries' dynamic and changing requirements. Ho Chi Minh City rates 91st in the 'human capital' component of the Economist Intelligence Unit's Hot Spots index, again above Manila.

4.2.3.7 Responsiveness of City Government to Business Needs

Of the three core cities of the Southern Economic Corridor, Ho Chi Minh City has the shortest time for processing investment registration. It has a set of incentives for investors and a one-stop service centre to facilitate business registration. However, it also has the most onerous documentary requirements for starting a business or investing in the city. This is reflected in the ranking of Ho Chi Minh City in the 'global appeal' category of Economist Intelligence Unit's Hot Spots Index – at 80th. Its business services infrastructure, particularly finance, is also relatively weak with a rank of 90th in the 'financial maturity' component of the Hot Spots index.

4.2.3.9 Infrastructure Assessment

In general, Viet Nam's transportation system is outdated and dominated by small-scale enterprises.¹⁹⁶ Viet Nam does not have enough deep-water seaports, and its highways largely do not meet international standards. Also, the road systems in major cities have not been fully integrated into the highway system. However, many current projects are designed to address these deficiencies.

In Ho Chi Minh City, the city is rapidly outgrowing its old infrastructure system. According to the Deputy Chairman of the Ho Chi Minh City People's Committee Nguyen Trung Tin: 'Roads are being developed by two per cent while the number of vehicles grows by 10 percent per year, leading to the overload on the City's infrastructure facilities'.¹⁹⁷ This suggests the need for new models of urban renewal.

Most inner roads in Ho Chi Minh City are narrow. Only 14 percent of them are over 12m wide and suitable for bus transport; 51 percent are 7m to 12m wide, suitable for cars and minibuses; and the remaining roads are less than 7m in width, allowing only motorbike and cycle access. As of 2008, the number of registered vehicles was 3,926,730, comprising 361,411 cars (10.63 percent higher than in 2007) and 3,565,289 motorbikes (6.8 percent higher than in 2007).

The 17.8km Bac Nha Be–Nam Binh Chanh Highway (also called Binh Thuan Highway) is a major development.¹⁹⁸ It stretches from Tan Thuan Export Processing Zone to Binh Chanh District and links with National Highway 1. The 120m wide, 10-lane road facilitates the transport of goods to Saigon Port. The highway, also an important beltway of the city, runs parallel to the Te and Doi canals (east–west from Saigon to Cholon).¹⁹⁹

The city's location on the Saigon River makes it a significant port for cargo as well as passengers. There are regular cargo and passenger services to and from various destinations in southern Viet Nam and Cambodia. Over the years, traffic along these routes have increased.²⁰⁰ The Doi and Te canals, the main routes to the Mekong Delta, are traversed by 100,000 waterway vehicles every year, representing around 13 million tons of cargo.²⁰¹ Links with the deep-sea port at Vung Tau have also improved.

The city provides quality telecommunications and internet services, including high-speed access, with charges either lower or the same as economies in the region. IT parks are allowed to connect their own gateways to the international internet system so that they can have convenient web access at competitive prices. Internet usage has been growing rapidly, with more than 2 million subscribers and 5 million frequent users. Internet access is regulated, and websites containing sensitive political or religious content are routinely blocked.

Logistics is facilitated by its airport and seaports. Tan Son Nhat Airport is not only an important gateway to the main economic regions of Viet Nam but is also a major international airport hub in Southeast Asia. The airport counts nearly 100 flights to and from other capitals and large cities all over the world. Twenty-two international airlines operate regular flights to and from the airport, with connections to 20 economies. There are plans to move the international airport outside the city, with projected capacity of 100,000 passengers a day by 2030. Ho Chi Minh City also has the biggest port system in Viet Nam. The container capacity of its seaport is second only to Bangkok; there are also plans to move it outside the city.

4.2.3.10 Social and Environmental Quality

Quality of life. The city has 100 hospitals, and there are many open green spaces such as parks in and around the city with recreational and wellness facilities. In terms of standards and certifications, ISO certification in Viet Nam was still low in 2009, at 16.72 percent of all firms. With increasing wealth and industrial activity, the city is becoming more congested and polluted. As a city at risk from climate change impacts, the government needs to integrate climate-change mitigation and adaptation policies into its urban development plans. The city is highly vulnerable to typhoons and floods, as reflected in its ranking of 108th in the 'environmental and natural hazards' component of the Economist Intelligence Unit's Hot Spots index.

Inclusiveness. Although inequality is worsening, the city is relatively prosperous within Viet Nam, and public services are generally available, in some measure, to all its citizens. Poverty remains a pressing issue, however. Its ranking in the ‘social and cultural character’ component of the Hot Spots index is 109th.

4.2.3.11 Urban Governance

Ho Chi Minh City has the administrative status of a province. The city is divided into 24 administrative divisions (districts). Five of these (area totalling 1,601km²) are designated as rural. The remaining districts (494km²) are designated urban or suburban. Each district is subdivided into wards. The city has 259 wards, 58 communes and 5 townships. It could be seen therefore that the city administration controls the majority of the urban areas. However, some economically significant areas, including the port of Vung Tau, fall beyond its boundaries; and coordination between provinces is the responsibility of the central government – an arrangement that is not always as efficient as it could be. The city’s administration falls short in comparison with other cities in the Economist Intelligence Unit’s Hot Spots index, at 103.

4.3 INTERMEDIATE CORRIDOR TOWNS

With the exception of the two ports, Vung Tau and Daxin, the intermediate towns in the corridor, including Phnom Penh, must focus on tourism, agricultural processing and highly land-intensive or very labour cost-sensitive manufacturing (the latter in Cambodia and Myanmar). Border towns, particularly in Cambodia, take advantage of regulatory and/or factor-cost differentials, and the potential of ‘casino tourism’. The tourism and agro-processing industries are mainly dependent on the natural capital of the areas surrounding the corridor. Secondly, there is a need to support the private sector in the areas of human capital development, business support, infrastructure and finance. Such support needs to be given in the context of the environmental carrying capacity of the land and of the traditional communities that occupy the land.

The economic characteristics and zoning of the Southern Economic Corridor, as assessed by a regional multi-sector investment framework transport study, is summarized in Table 4.1.

Table 4.1 Features of the Southern Economic Corridor

Factor	Indicators	Examples
Demographic Situation	Population profile	Urban (Ho Chi Minh City and Vung Tau in Viet Nam; Bangkok, the eastern seaboard and Prachin Buri in Thailand; Dawei in Myanmar), otherwise largely rural.
	Ethnic minorities	Particularly in Viet Nam, Cambodia and Myanmar.
Infrastructure	Current traffic volume	Strongest toward the end points. Agricultural produce might divert to Bangkok, Thailand.
Connectivity	Number of airports along the route	8 (3 international).
	Proximity to railroad	Most major urban centres have railways, but with limited feeder infrastructure.
	Access to seaports	Vung Tau (Viet Nam) and Dawei (Myanmar).
Assets	Forest resources (timber and wood processing)	Corridor crosses large forest areas.
	Agriculture potential	Rice paddy in Chao Phraya basin and Isaan (Korat Plateau); fish in Tonlé Sap Lake; timber and high-value agriculture in Cambodia; high-density paddy in coastal Quang Tri to Da Nang (Viet Nam).
	Plantations	Eucalyptus, growing amount of rubber in Central Annamites (central and southern Lao PDR).
	Tourism potential	Casino tourism in Cambodia (Bavet, Phnom Penh, Poipet); eco- and/or ethno-tourism; history tourism (Indochina war). Large tourism potential in Myanmar as a newly opened economy.
Processing, markets, and export nodes	Processing	Medium concentration of economic zones in Da Nang around Ho Chi Minh City (Viet Nam); border economic zones (BEZs) at border crossings; concentration of economic zones is expected to increase along Andaman coast (Yangon–Mawlamyine–Dawei, Myanmar).
	Export nodes and/or market access capabilities	Bangkok and its eastern seaboard, Ho Chi Minh City, Vung Tau (airport, port).
	Industrial composition of exports	Electronics, car and car parts, food and food products, chemicals, food and food products, timber

Source: Based on Asian Development Bank, *Economic Corridor Development for Inclusive Asian Regional Integration: Modeling Approach to Economic Corridors* (Manila: ADB, 2014).

Responding to the potential conflict between corridor development and natural-capital depletion, the ADB and GMS economies designed the Core Environment Program and Biodiversity Conservation Corridors Initiative (CEP-BCI). The aim is to ensure sustainability in the GMS, including environmentally sound economic corridors:

*The main goal is to embed environmental considerations into all steps of the planning cycle, in particular through introducing environmental assessment and evaluation techniques to strategic and investment planners, piloting green investments, exploring links to market mechanisms, and promoting monitoring and performance assessments.*²⁰²

The significant external support to the Southern Economic Corridor has played an important role in boosting the competitiveness of cities and urban areas along this transport/economic corridor. The corridor shows forces both of agglomeration and fragmentation, characteristic of production and distribution networks in Asia. Some economies and cities may attract more firms and population, such as Bangkok and Ho Chi Minh City; others, such as peripheral towns in Cambodia like Poipet, may be less attractive to investors due to lack of education and training, poor inter-modal transport systems, and undeveloped financial services. To obtain the full benefits of economic integration, cities and urban areas need to promote appropriate support to local industrial-cluster development.

Bangkok–Ho Chi Minh City: Complementary Cities. The Bangkok–Phnom Penh–Ho Chi Minh City Corridor, the largest and most developed region among the four subcorridors, is part of the Southern Economic Corridor. It offers both markets and resources by linking three major populations and economic and trade hubs (Table 4.2). The competitiveness of this corridor can be attributed to the rapid development in Bangkok and Ho Chi Minh City. This was the subject of a study on *Competitiveness of Cities along Corridors in South-East Asia: Bangkok to Ho Chi Minh City*.²⁰³ The corridor integrates the social, commercial and economic/natural resources of the three cities and urban areas along the corridor, such as Poipet, Battambang, Phnom Penh, Bavet and MocBai. These rapidly urbanizing towns are part of a major growth corridor in Southeast Asia. As part of the Southern Economic Corridor, these cities and towns receive major support from the ADB as part of its regional cooperation and integration initiatives. The emerging urban centres between Bangkok and Ho Chi Minh City have yet to demonstrate the benefits of corridor development or show increased competitiveness with tangible data.

Table 4.2 Key Economic Facts – Bangkok, Phnom Penh, Ho Chi Minh City

	Bangkok	Phnom Penh	Ho Chi Minh City
Population	11,190,037 (2012)	2,301,725 (2012)	7,521,138 (2011)
Area (km ²)	1,568.7	678.46	2,094
GDP (USD, billion)	129.38 (2013)	2.053 (2009)	71.1 (2015)
Nominal GDP per capita (USD)	15,192 (2013)	1,130 (2014)	5,538 (2014)
Share of Economy's GDP (%)	30.8 (2013)	25 (2014)	38 (2014)
GDP growth (%)	4.3 (2012)	6.1 (2012)	9.2 (2012)

Sources: 'Bangkok statistics', *Bangkok*, accessed 28 May 2016, <http://www.referbangkok.com/bangkok/bangkok-statistics.php>; Organisation for Economic Co-operation and Development (OECD), 'Structural policy country notes: Thailand' (OECD, 2013); Economic Institute of Cambodia, accessed 12 April 2012, <http://www.eicambodia.org/>; 'Asia/Cambodia (Phnom Penh)', *Getamap.net*, accessed 12 April 2012, <http://www.getamap.net/about/cambodia/economy.html>; *Statistical Office in Ho Chi Minh City*, accessed 29 May 2016, <http://www.pso.hochiminhcity.gov.vn/web/guest/home;jsessionid=245FFBFF45D3CF060FFBDDDE714F0C4>; 'Phnom Penh City, The Charming City', *Phnom Penh Capital Hall*, accessed 29 May 2016, <http://www.phnompenh.gov.kh/phnom-penh-city-facts-99.html>; Viet Nam Briefing, 'Ho Chi Minh City', accessed 15 April 2012, <http://www.Viet-Nam-briefing.com/magazine/article/ho-chi-minh-city-21.html>; VN Express Tin Nhahn Viet Nam, 'TP HCM đặt mục tiêu thu nhập bình quân 4.000 USD mỗi người', accessed 12 April 2012, <http://vnexpress.net/gl/kinh-doanh/2012/12/tp-hcm-dat-muc-tieu-thu-nhap-binh-quan-4-000-usd-moi-nguoi/>; 'Viet Nam, Population fun', accessed 29 May 2016, <http://www.populationfun.com/Viet-Nam-population/>; Council for Development of Cambodia, CDC, Cambodian Investment Board, CIB & Cambodian Special Economic Zone Board, CSEZB, accessed 29 May 2016, <http://www.cambodiainvestment.gov.kh/investment-enviroment/economic-trend.html>

Metropolitan cities generate stimulus for small corridor towns. The cities and urban towns along the Bangkok–Phnom Penh–Ho Chi Minh City Corridor have the following economic drivers that help them attract investments:

- Special economic zones
- Favourable investment climate
- Stable political climate and good governance
- Positive macroeconomic conditions
- Predictable legal systems
- Inclusive social development policies
- Relatively good infrastructure that links production, operations and market, multimodal transport facilities, and logistical support to the existing road networks
- Fiscal and non-fiscal incentive policies
- Location advantages.

The firms located along the GMS corridor, especially in the BEZs and SEZs, attach great importance to strategic geographical location (e.g. GMS Transport Corridor, Trans-ASEAN Highway, airports and sea ports, lower cost of living, and resource availability). The GMS Economic Corridor, under the GMS and ASEAN Frameworks and its complementarities, enhances the competitiveness of the cities and urban areas from Bangkok to Ho Chi Minh City:

- Thailand is now the regional centre of the East Asian automotive industry. In addition, its major exports include motorcycles and parts, cement, engines, livestock feeds, petroleum, woven fabrics, textiles, and chemical fertilizers.
- Cambodia currently exports labour, garments, scrap metals, second-hand clothes, handicrafts, fresh and processed fish rubber, and other agricultural products.
- Viet Nam's key exports include shoes, cereals, steel and iron, soap, organic active agents, plastics, mineral fuels, oils and derivatives, and vegetables. Viet Nam is a rising manufacturing centre, with significant agro-processing potential.

Linked to the Southern Economic Corridor are other economies:

- Lao PDR's exports lie in agriculture and agribusiness, such as eucalyptus, rubber, sugarcane, soybeans, cassava, jatropha, maize, okra, cabbages, bananas and coffee; hydropower; and mining (tin, lead, zinc, iron, ore, copper, gypsum, lignite and sapphires). Tourism, services, manufacturing and construction are also expanding fast.
- Myanmar's comparative advantages lie in aquatic products, fresh vegetables, dried fruits, natural rubber, minerals, wood and beans.
- Most of the PRC's exports to East and Southeast Asia consist of manufactured goods, such as textiles, electronic equipment, and agricultural and chemical products.

The following shared regional public goods have also made the corridor more attractive to FDI:

- Access to resources and skills, e.g. Cambodians employed in Thailand
- Location relative to markets, e.g. Poipet, Cambodia's access to the Thai market
- Public-private partnership (PPP) modalities in the SEZs
- More efficient public services, e.g. customs clearance
- Improved quality of life in corridor towns
- Lower cost of doing business due to investment in urban infrastructure such as transport and water corridors, reliable electricity, and water supply.

4.4 CORRIDOR DEVELOPMENT GOVERNANCE

High-level policy for the GMS is set at GMS Summits, while oversight of GMS programme content and implementation progress is addressed at GMS Ministerial Conferences held annually.²⁰⁴ Senior officials from GMS member economies meet two or three times a year to review sectoral programme implementation and identify issues to be brought up at the Ministerial Conferences.

To operationalize the various initiatives approved at ministerial level, the GMS has a secretariat at the ADB and a number of working groups and sector forums. The secretariat provides technical and logistics support; and the working groups and sector forums guide and monitor the implementation of GMS projects.

There has been increasing ownership within the region of forums and working groups engaged in diverse areas:

- *Environment*: The Environment Operations Centre based in Bangkok provides secretariat support for the Working Group on Environment.
- *Tourism*: The Mekong Tourism Coordination Office based in Bangkok provides secretariat support for the Tourism Working Group and drives the promotion of the GMS as a single tourist destination.
- *Energy*: The Regional Power Trade Coordinating Committee is developing a framework for regional trade in power.
- *Transport*: The Subregional Transport Forum oversees a number of projects. The National Transport Facilitation Committee and the Cross-Border Transport Agreement (CBTA) Joint Committee provide the institutional support for the CBTA negotiations, finalization and implementation, among others.
- *Trade*: The Subregional Trade Facilitation Working Group is addressing barriers caused by customs procedures.

The structure of governance of the GMS is thus relatively comprehensive. It has catalyzed significant investment but is not yet fully responsive to the needs of sustainable development across the region, as witnessed by the continuing environmental problems and poverty in the subregion.

4.5 CONCLUSIONS

Two central economic development priorities have emerged from the GMS economies: tourism and the manufacturing industry. Tourism activities capitalize on the combination of natural resources and services in the region, offering an economic activity that is environmentally sustainable and potentially socially inclusive. In the case of industry, cities and towns along the GMS corridor have drivers that attract investment such as: (i) SEZs; (ii) favourable investment climate, including the presence of one-stop-shop business process centres; (iii) a stable political climate, including good governance; (iv) favourable macroeconomic conditions; (v) a predictable legal system; (vi) good social relations; (vii) good infrastructure linking supply and production chains; (viii) pro-investment policies such as fiscal incentives (i.e. tax holidays and exemptions), support for expansion of business (asset depreciation) and other non-fiscal incentives (financial policy support and investment facilitation); (ix) start-up grants or free land lease; (x) locational advantages (i.e. proximity to other established SEZs and air/seaports, lower cost of living than established centres and lower wage rates); and (xi) availability of resources, market, and other product and trade linkages.

Several common characteristics of GMS SEZs are relevant to their ability to attract investment, drive local development and enhance regional integration:

- Most firms in the GMS corridors, especially in the SEZs, are involved in foreign trade (export). However, they have weak local supply chains, particularly in Cambodia, where local firms source 60 percent of their raw materials from Viet Nam.
- There is need for a holistic approach that is inclusive and sustainable to make sure that the emerging corridor cities can cope with current threats to their long-term future, such as climate change.
- There is a need for continuous innovation in institutions and a change in attitudes on the part of governments to promote participation and partnerships with both civil society and private companies.
- SEZs are highly dependent on foreign expertise, capital, demand and technology.
- For regional integration, the SEZs reflect important outcomes of ADB-funded infrastructure projects linking the GMS economies. While connectivity is established in a basic sense – through roads and cross-border trade agreements – it should be strengthened and deepened to provide genuine incentives for investment, trade and development along the corridors, and for greater competition and cooperation to be achieved.
- Lack of available public infrastructure prompts SEZs to build their own infrastructure.

To ensure that these issues are resolved in a positive way to achieve more sustainable development, there is a need to better coordinate ongoing GMS initiatives. This applies particularly to programmes aimed at enhancing the environmental performance of the towns in the Southern Economic Corridor, to enable them to become more competitive, cleaner and greener locations for the newly evolving industries and tourism within the GMS.

The Southern Economic Corridor, by its nature, represents city-to-city economic cooperation. Bangkok–Phnom Penh–Ho Chi Minh City represents the high point of achievement among the GMS economic corridors. It is the most travelled and busiest corridor and has the biggest flow of goods. The flow of goods is biggest between Bangkok and Phnom Penh, and between Ho Chi Minh City and Phnom Penh, with a lesser flow of products in the reverse direction. Interestingly, Thailand uses the Southern Economic Corridor as an alternative access route to the sea for many of its products, since the Bangkok port is often clogged, and harbour processing can be done more efficiently and at lower cost in Viet Nam.

The key learnings about the sustainability and viability of such developments are that institutions need to be strengthened at each level of corridor operation. At the regional level, it is vital to focus on trade facilitation and cross-border processes. At the domestic level, there is a need to coordinate infrastructure provision appropriate to the local industry clusters. At the local level, in order to foster a conducive business environment with appropriate skills, local infrastructure and business regulation must be addressed.

Partnerships with development agencies can play a key role – as with the ADB in the Southern Economic Corridor. But more has to be done to proactively involve the private

sector to elicit better targeting for public investment and to tap its innovative potential. Cooperation and collaboration with the wider region could also be advantageous. The three economies are members of ASEAN; this has helped them to develop a very active framework for networking and sharing. Joint ASEAN policies in trade and commerce and promotion of visa-free ASEAN tourism have benefited the member economies.

These processes are by no means fully institutionalized, even in the Southern Economic Corridor, the most successful of the corridors. There is a need for APEC to foster greater integration of policies relating to economic corridors into each member economy's development plans, and specifically to recognize the need for better city-to-city linkages for trade and investment and for the adoption of best practices for sustainable urban development focusing on governance and institutional strengthening.