Logistic Facilitation for Investment Opportunity in Viet Nam and Lao PDR: A Pre-Feasibility Case Study

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Executive Summary

This case study illustrates an initiative made by a Thai company called Acutech Co., Ltd, a logistics services company. In 2007 the management of Acutech conducted a pre-feasibility study to consider options for relocating their customers' manufacturing factories from Thailand to Viet Nam and other neighboring economies, like Lao PDR and Cambodia.

A number of Thai companies were losing their competitiveness since the economic crisis in 1997. Many Thai companies found themselves under competitive pressures with the appreciation of the Thai baht. The Acutech group investigated the status of infrastructure within the facilities of the Danang Port in Viet Nam. It also conducted a survey of road transport facilities extending from Danang to the Lao Bao border town on the boundary of Viet Nam and Lao PDR. A similar survey of road transport infrastructure was conducted for the route to Suvannakhet, the Lao PDR border town adjacent to Mukdaharn, Thailand. Although Lao PDR had set in place an attractive investment promotion decree (Ref. No. 177/PM, dated 13th November 2003) to promote the Savant-Seno Special Economic Zone, most Thai investors did not regard Lao PDR as a prime location for investment for several reasons. Foremost among these was the difficulty of attracting high-quality labor force into the area that potential foreign investors had to contend with. For instance, a Korean company in Lao PDR, the Ko-Lao company, assembled motorcycles and passenger cars by hiring local labor.

The case study summarizes the key findings and recommendations of further assessing the investment opportunities which may exist in Viet Nam and its neighboring economies. A number of specific lessons learned have emerged from this analysis: First, firms have to diversify their business in order to cope with the rising cost of raw material supply and face fierce competition in a new business environment. Second, investment in economies where the level of development of physical infrastructures is inadequate can create opportunities for firms, if there is proper logistic arrangement. Third, relocation of Thai industries to neighboring economies is feasible if the logistics network could be managed and be cost effective.

Background and Profile of Acutech

This case study illustrates an initiative made by a Thai company called Acutech Co., Ltd, a logistics services company. In 2007, the management of Acutech conducted a pre-feasibility study to consider options for relocating their customers' manufacturing factories from Thailand to Viet Nam and other neighboring economies, like Lao PDR and Cambodia. A group of experts, including academics, were asked to join the team to study the prevailing conditions and experiences of other Thai companies in the region and to assess the investment opportunities and potential risks of locating in Lao PDR and Viet Nam. First, the group came up with a brief summary of the experiences of Thai firms investing in Viet Nam, and of another foreign company investing in Lao PDR. The group found that firms in these host economies were facing significant logistics problems in their supply chains. Acutech tried to design an integrated system for an investor in Lao PDR that would reduce the logistic costs of raw material inputs acquired from the Lam Chabang port and Bangkok spare parts suppliers. The company was also exploring a joint business venture with a Vietnamese logistics company in Danang to serve Vietnamese firms and take care of transporting their goods by land and sea transport.

In Ho Chi Minh City, officials of a Thai-affiliated company, the CP Viet Nam Livestock Co., Ltd who were interviewed regarding their experiences in Viet Nam, revealed that the CP group initially concentrated its efforts on the livestock business but would be interested to diversify into industrial estates management, urban food distribution and banking. Other senior officials from another feed stuff company, Betagro, who were also interviewed provided additional insights into their investment experiences in Viet Nam.

Business Rationale of Investment in Neighboring Economies

Thai companies had somewhat different business rationale for relocating to Lao PDR and to Viet Nam. Basically, a number of Thai companies lost their competitiveness since the economic crisis in 1997 which put many Thai companies under competitive pressures with the appreciation of the Thai baht. Many Thai companies were also affected both by rising wage costs and fuel costs. This was more evident in labor-intensive industries like garments and shoe manufacturing where Thai producers faced competition from emerging economies like China and Viet Nam. As a result, some factories shut down their operations.

The Thai government was very much aware of this situation. Partly in response to the competitiveness pressures, Thailand had been actively negotiating trade and investment promotion agreements with neighboring economies to secure sources of raw materials and create trade by exploiting the advantages of increased market size. In 2004, Thailand signed the BAGAN Declaration with Cambodia, Laos PDR, Myanmar and Viet Nam, to promote the growth strategy called Ayeyawady-Chao Praya-Mekhong Economic Cooperation Strategy (AMECS). The AMECS was intended to enhance economic competitiveness in the strategic areas, as well as facilitate the “relocation” of industries to border towns and neighboring economies so as to utilize cheaper supply of raw material inputs and labor for the labor intensive industries. The agreement was likewise expected to reduce the development gap among the participating economies, and curtail illegal labor movement across borders among strategic partners in the medium to long term. The AMECS Plan of Action proposed the creation of two so-called “economic corridors” within the Greater Mekong Sub-region (GMS): the East-West Economic Corridor and the Southern Economic Corridor. The East-West Economic Corridor linked Mawlamyine of Myanmar-Mae Sod to Mukkdahan of Thailand, Suvannakhet of Laos PDR and Dong Ha-Danang of Viet Nam. The Southern Economic Corridor linked Bangkok, Thailand with Phnom Penh, Cambodia and Ho Chi Minh and Vung Tau of Viet Nam. There were 384 common projects and bilateral projects under AMECS.

Thailand and Viet Nam were both APEC members who played vital roles in expediting economic activities along the major corridors. As of 2008, one of the projects in the pipeline under AMECS would promote the usage of Global Positioning System (GPS) and Radio Frequency Identification Tags System (RFID) technologies to facilitate truck and container transport among member economies, beginning with Laos PDR, Thailand and Viet Nam. The management of cargo and materials logistics using GPS information would help reduce bottlenecks within the transport system. It would also strengthen traffic planning and reduce both the time and the cost of cargo tracking by wireless mobile phone system. In addition, the RFID could provide real time verification of cargo. By using RFID tags, it would be possible to simplify the customs procedures of transshipments.

Based on the premise that investment in the neighboring economies might be hindered by insufficient trade facilitation, physically poor infrastructure, redundant documentary and bureaucratic procedures, and lack of human capital, the Acutech group investigated the existing infrastructure within the facilities at Danang Port, Viet Nam. It also conducted a survey of road transport facilities extending from Danang to the Lao Bao border town on the boundary between Viet Nam and Lao PDR. A similar survey of road transport infrastructure was conducted for the route from Danang to Suvannakhet, the Lao PDR border town adjacent to Mukdaharn, Thailand.

Although the Thai government tried to promote investment of Thai companies in neighboring economies, the host economies gave preferential treatment to large investment projects from further afield such as Japan and Korea. Most Thai firms in general did not consider relocating and tapping cheaper material inputs and labor costs in Cambodia, Lao PDR, China and Viet Nam which could have been consistent with the spirit of AMECS. Rather than relocating their production base, labor intensive industries in Thailand addressed labor scarcity by employing guest workers from Myanmar and Lao PDR. But this was just a short term solution.

Lao PDR was not perceived by most Thai investors as a prime location for investment for several reasons. Although Laos had in place an attractive investment promotion decree (Ref. No. 177/PM, dated 13 November 2003) to promote the Savant-Seno Special Economic Zone, it was still difficult for potential investors to attract high-quality labor force into the area. Most people living in this predominantly rural region were in the traditional agricultural sector. Labor migration from rural areas to urban industrial estates came at a cost, as did skills formation. It was still unclear how the government, the investors and the workers themselves would share these costs.

During the course of its field survey, Acutech learned that in Suvannakhet a huge plot of land had been prepared for the construction of an industrial estate close to the Thai border town of Mukkadaharn. The Thaksin government (2005-2006) had planned to add Suvannakhet to Thailand's domestic air transport network, which would have facilitated one-day round trip business travel to and from Bangkok thus lessening the time and cost of travelling. Such a development would encourage industrial relocation by Thai enterprises.

In contrast, following the completion of Viet Nam's accession to the WTO, there had been a surge in industrial development both in the north around Hanoi and the Hai Fong area, and in the south in Ho Chi Minh and its suburbs. During its site survey, Acutech noted the construction of industrial estates and factories, as well as housing estates and new towns in the suburb of Ho Chi Minh City. A number of factories set up by global companies had also sprouted along the road to the Hanoi International Airport.

Overview of the Investment Experiences

Labor Market Situation in Viet Nam

Viet Nam had an abundant labor force of 40 million (composed mostly of young people aged less than 25 years old) and a literacy rate of 90%. Nonetheless, there was a serious mismatch between labor demand and supply, with Viet Nam having a surplus of unskilled labor and a shortage of skilled labor. Although the Vietnamese economy was growing rapidly, the labor market was characterized by a number of rigidities. The traditions of the planned economy in the past had resulted in a high degree of job security and a low turnover rate of only 4% as compared with the average norm in Thailand.

There was an official Viet Nam “minimum wage” which stood at US$ 50 per month in 2007, but actual compensation levels, including fringe benefits and overtime payments, typically exceeded this statutory rate. Undergraduate degree holders attracted starting monthly salaries double the rate of those without qualifications. The urban labor market was paid an 18-25% wage premium compared to its rural counterpart. State-owned enterprise employees enjoyed monthly incomes of US$ 90 while local private-company employees received US$ 50 and employees of foreign-owned enterprises earned US$ 131 as minimum pay. It was estimated that as of 2008, the cost of labor in Viet Nam, on average, was half that of Thailand.

CP Investment in Viet Nam. CP Viet Nam Livestock was established in Viet Nam in 1988 when the economy introduced “Doi moi” (renovation) as its path to new development. CP expanded into the CP Group of Companies consisting of separate livestock, seeds and packaging businesses as well as joint ventures in other fields such as banking. CP acquired and distributed local supplies of animal feeds like maize, tapioca chips, and rice barn that were sourced from the northern and central Viet Nam areas and from Lao PDR and Cambodia, using some 5,000 sub-contracting suppliers. Maize, tapioca root and rice barn were basic animal feeds, particularly for swine and chickens. The company’s main competitors were some American and Thai affiliated companies. The CP Viet Nam group tried to diversify its animal feed business into farming and food supply, seeds supply and fish feed supply businesses.

CP Viet Nam had 5,000 direct and indirect local employees who were working with 120 Thai nationals. Its policy was to employ as many locals as possible. It had 11 assistant vice-presidents, 50 general managers and 400 managers. While the CP pay structure was in the middle range, it reported some difficulties in attracting new work force to join the company recently because of the tightening of the labor market as a result of Viet Nam’s WTO accession. International as well as national companies were pushing the rates up for skilled labor, in particular those with modern management skills, especially accountants and finance specialists, computer specialist, and mechanical and civil engineers. The wage differentials between foreign and local firms were widening, especially for engineers, while the finance and banking industry were offering larger premiums for skilled labor.

To attract and retain talent, CP set up a program for education and information dissemination that promoted the company to local government officials. However, as the labor supply tightened, head hunting became more common as did job hopping in response to rising wages. CP found it necessary to redefine its recruitment policy to bid for new labor force as well.

CP had the reputation of paying on time and this reliability had been the source of security for its employees. The company provided allowances for food, transportation, and lodging equivalent to about 30% of the base pay. In compliance with government regulations to provide for social security to its employees, CP shouldered 15% and the employee paid 5% of the social security contributions.

CP also invested heavily in training. Throughout its long history, CP served as a learning institute for Vietnamese employees, who later left the company to set up their own businesses. This made possible the effective transfer of technology within the livestock industry.

CP executives reported that local Vietnamese authorities had been helpful and cooperative. Most of the regulations and rules governing procedures and actual implementation announced by the central government could be further discussed for clarification with local government officials and with local area representatives of the communist party. For its part, the company also endeavored to support local authorities in their educational and cultural programs as part of its corporate social responsibility.

Despite its knowledge of the local scene and the presence of a highly cooperative environment, CP still encountered some fundamental drawbacks in procuring raw materials for animal feeds. Viet Nam had a complicated and inefficient procurement system between farmers and factories which added to the transaction cost of raw materials procured from local brokerage.

Betagro Investment Experience. Interviews with a manager of another feedstuff company—a subsidiary of the Betagro group of companies which had been a long time investor in South Viet Nam—revealed a different perspective. Although Viet Nam had acceded to WTO under the free trade regime, the economy still lacked foreign investor-friendly laws and regulations. New laws and regulations could be promulgated by local government at their will. Most laws and regulations seemed to give priority to Vietnamese firms in the hope that these firms would be able to catch up with international firms.

The animal feed business was unstable because of the increase in prices of raw material crops resulting from oil price increases. Farmers were increasingly turning to the production of “energy” crops for bio-diesel and ethanol production.

The company tried to import raw materials from Thailand via sea transport, which was cheaper than road transport via Savannakhet (Laos PDR) and Lao Bao (border town of Viet Nam-Laos PDR) to Danang for forwarding to Ho Chi Minh. Acutech was asked to help design a system to ship raw material inputs from Thailand via sea port to Betagro in Viet Nam. If this were to materialize, the logistics cost of raw material collection and delivery in Viet Nam might rise and might in turn lessen local firms’ competitiveness in the feedstuff business.

The experience of Betagro also confirmed that Viet Nam was in need of accountants, office personnel with English proficiency, and skillful technicians. It cost international firms US$ 250 a month to hire an accountant. Viet Nam was preparing to comply with its commitment to WTO that by 2009 foreign ownership of trading businesses would be allowed to reach 49% and that of agro-businesses could be 100%.

The tight demand for skilled labor had increased the cost for international firms; job hopping and changing work place had been more frequent than before the accession to WTO. In 2009, the situation may be more critical as the number of foreign firms in Viet Nam may dramatically increase.

In the case of raw materials, especially feed stuff, the investigation team found that it could be more cost competitive to ship finished animal feedstock from Lam Chabang Port, Thailand to Ho Chi Minh Port, instead of using locally procured raw material inputs. This was because the costs of, among others, local collection, logistics and cargo handling, warehousing and packaging in Viet Nam could be higher than the cost of imports and the interface with a logistics service provider.

The investment cases of CP Viet Nam Livestock and Betagro were special cases where there was close interaction between stakeholders wherein the investor like CP Livestock had a long-term relationship with the government of the host economy, owing to their decision to be the first group of companies to invest in Viet Nam long before the WTO accession. It was evident that the company’s success in the local marketplace relied on its favorable relationship with the local community, suppliers, customers and employees.

Overall the promotion of cross-border investment system had reached a more mature phase in Viet Nam than in either Cambodia or Lao PDR. A system to welcome foreign investors was in place, though this was still at the preliminary stage of implementation.

The Lao Bao Special Economic–Commercial Area, Quang Tri Province, Viet Nam and Savan Park Savannakhet, Lao PDR

On 12 January 2005, the Prime Minister of Viet Nam issued Decision 11/2005/QD-TTg in promulgation of the Regulation of the Lao Bao Special Economic-Commercial Area in Quang Tri province. Lao Bao SECA enjoyed greater economic incentives than other economic zones in Viet Nam because it was located in a remote border town. It occupied a total area of 15,804 hectares and contained a working population of 35,000. Like any other special economic zones, it provided major preferential policies as follows:

1. No value added taxes nor special consumption tax shall apply on both domestic and imported goods and services consumed in SECA.
2. No export and import tax shall apply for goods produced in Viet Nam and used in SECA for export.
3. Import taxes on imported materials shall be paid based on the imported materials constituting such products and goods.
4. Goods of Lao origin in SECA and imported into the domestic markets of Viet Nam shall be subject to a reduced import tax.
5. Projects investing in Lao Bao SECA shall be exempted from corporate income tax for four years and enjoy 50% reduction of payable corporate income tax for nine subsequent years; thereafter the tax rate of 10% shall apply, with losses being carried forward for tax purposes to subsequent years.
6. Investment projects shall be exempted from land rent for the first 11 years and enjoy a rate of 30% land rent applicable to Qung Tri's mountainous regions on the 12^{th} year onwards.
7. People working in SECA shall enjoy a 50% deduction on taxable income.
8. Right-hand steering-wheeled land-road mechanized means of transport shall be allowed to go in and out of Lao Bao SECA to transport goods and passengers between SECA with Laos PDR and other neighboring economies.

A Korean company in Lao PDR. The Ko-Lao company, a 100% Korean-owned company in Savannakhet was established in 1997 with 580 employees in Vientiane and 648 employees in Savannakhet. The company assembled motorcycles and passenger cars by hiring local labor. Acutech helped manage custom procedure of the company's spare parts import from Korea through the Lam Chabang Port in Thailand. Specifically, Acutech provided cargo handling and road transport to ship spare parts to the Thailand-Lao PDR border at Mukkdahan and across the Friendship Bridge to Ko-Lao facility in Suvannakhet for unloading. The delivery time from the Thai port of entry to the factory was shortened to the fullest extent possible. It was an example of the investor and the host economy's central and local governments working together smoothly. Since there were few foreign companies in Savannakhet, there was no conflict between the local community and the foreign investor; in fact, Ko-Lao employed mainly local labor. Ko-Lao was also facing insufficient supply of skilled worker such as technicians and some other professionals with computer skills. Thus, there were many job opportunities for skilled labor in Savannakhet.

Ko-Lao's customers for both its passenger cars and motorcycles were local residents. The company tried to set up sales agents throughout Lao PDR for its products. The Laotian government recently granted banking licenses to privately owned investors. It was expected that as the economy prospered, the extension of credit facilities to consumers would serve as the key financial instrument for the hire and purchase business.

Investment Opportunity of Logistics Service: A Case of Joint Venture Business between Acutech Co., Ltd and a Vietnamese Private Logistics Service Provider

The experiences of Thai firms investing in Viet Nam and a Korean firm investing in Lao PDR helped Acutech undertake an initial evaluation of the feasibility of entering into a business partnership with a Vietnamese private operator to provide logistics services. The potential partner was a private company with strong affiliations with the Danang Port of Viet Nam. Both sides agreed to collaborate by exchanging logistics services. The Port of Danang established a subsidiary company, SERVECO, to handle business matters. The president of this company was nominated from the Danang Port Authority.

Acutech had a memorandum of understanding with SERVECO and Danang Port. The two companies hoped to link cargo trucks by road transport from Danang to Bangkok via Laos PDR. This was in line with the spirit of the AMECS declaration on the East-West corridor. As of 2008, the business partnership has just been established. The partner companies were looking forward to implementing their plans as soon as the cost of shipment via the road system had normalized.

The volume of cargo via Danang Port at the Tien Sa terminal in 2007 increased by 25% from 37,400 TEUs in 2006. Danang Port Authority added an additional gantry crane at berth No. 5 at Tien Sa terminal. In addition, the Song Han (River) terminal would be transferred to a new site outside the Danang City area. It was expected that additional investment in facilities to improve the equipment handling system would materialize in 2010. The investment would cost US$ 70 million.

Container feeders that called at Danang Port at the Tien Sa terminal included MCC, Wanhai, Germartrans Samudera, Maga Star and ACL. Freight rates from Bangkok to Danang Port ranged from US$ 800-900 to US$ 1,450-1,600 for 20'x 40' size container. On the other hand, freight rate to Ho Chi Minh was US$ 260 to US$ 300-500, while it was US$ 600-700 to US$ 1,100-1,200 to Hai Phong.

The main commodities transported from Bangkok to Viet Nam consisted of motorcycle tires, materials for making shoes, tires, paper cone plus sugar cone woven fabric, air conditioners and polyurethane leather, and others. Around 90% was destined for the main ports like Ho Chi Minh and Hai Phong rather than for Danang Port. In order to increase the volume of shipment, Danang Port had signed friendship and cooperation agreements with Kawasaki Port (Japan) and Oakland Port (USA) as their sister port. It also negotiated with Chinese liners to increase the volume of shipment to and from East Asia. It might lower cost of shipping as well.

The average time for shipments from Danang to the border town of Lao Bao in Viet Nam was seven hours. It would take another seven hours for the shipments from Lao Bao to Savannakhet to reach the Friendship Gate between Thailand and Lao PDR. Thus, if a Thai company were to relocate to Savannakhet and take advantage of the General System of Preferential (GSP) provided for Laos products, it might not be cost competitive to export its products through Danang port.

The cargo handling fee was affected by the steep increase in gasoline prices. In addition, there was a lower frequency of call-of vessels per week at Danang port compared with the alternative of re-exporting via the Lam Chabang port in Thailand. Some 90% of shipment from Thailand to Viet Nam was through Ho Chi Minh and the rest was through Hanoi. Moreover the possibility of a two-way shipment for cargo trucks between Viet Nam and Laos appeared quite limited, as fruits coming from China went through the northern border of Viet Nam and southwest China. The cost of fuel could be reduced if the trucks could shift from gasoline to NGV which might make the transport of cargo from northeast Thailand to Danang via Savannkhet more cost effective.

The situation at the Danang Port, Lao Bao SECA and Savannakhet might only be a constraint for the short-term, however. Another larger port in Danang was being constructed. When completed, Danang would become a more significant port of central Viet Nam. If Thai or other global companies were to invest in Savannakhet and Lao Bao or even in the Danang area itself, they might find the competitive situation changing rapidly.

In the case of Acutech, the final decision to enter into a joint venture business with the private logistics service provider in Danang was made by the chief executive officer and advisors who envisioned linking AMECS through the East-West corridor. The partnership with the Vietnamese private operator would help promote market access to Vietnamese logistics service. In return, the Vietnamese operator would be able to provide services for cargo shipment in Thailand through Acutech's logistics network. The two companies had a de facto business deal but had not yet formalized the agreement.

There were, however, risks and uncertainties that would challenge both Acutech and its Vietnamese counterpart once the relationship had been firmed up. Fuel cost had been rising which had made the proposed business model less feasible as far as road transport was concerned. From the beginning, Acutech was aware that an insufficient volume of two-way road transport cargo shipments could jeopardize the business model. Acutech tried to adjust its business strategy by asking the Vietnamese partner to handle its clients' cargo by road transport within Viet Nam.

Acutech focused on building a long-term relationship with its Vietnamese partner rather than simply concentrating on the potential of short-term profits. The adverse short term impacts of higher fuel costs could be overcome by fine-tuning the strategy without losing sight of the fundamentals. In fact, Acutech believed that the fine-tuning would strengthen the company's business strategy in the long run, since it would ultimately support the relocation of Thai industries to Viet Nam at Lao Bao/Danang and to Lao PDR at Suvannakhet. Once an integrated logistics solution involving cargo handling via both road and sea transport was in place, cost would be minimized, and increased investment through the relocation of both Thai and non-Thai companies could be expected.

Conclusions and Lessons Learned

Acutech assisted a non-Thai company to invest in one of Thailand's neighboring economies, demonstrating the feasibility of such cross-border investment for the company's production assembly. In the process, Acutech also learned that logistics is a significant constraint to further investment in the Mekong economies. Uncertainty regarding delivery time posed a significant risk to business operations.

Acutech thought that both risk and uncertainty could be reduced through the provision of well-designed logistics services to companies investing in these economies. In order to position itself as a provider of logistics services, Acutech tried to enter into a joint venture partnership with a private-sector Vietnamese operator in logistics services, the SERVECO, a private subsidiary of the Port Authority of Viet Nam in Danang located in the center of Viet

Nam. The volume of shipment through this port was not comparable with that of Ho Chi Minh port, but the Danang port planned to invest significantly in new facilities and link with China, Chinese Taipei and Japan. Thus, the port could be another gateway to East Asia for Thai products in the future.

Acutech planned to have joint land operation with SERVECO and cover Viet Nam, Lao PDR and Thailand as well as Cambodia. The partnership was not yet fully implemented since the required level of physical infrastructure was not yet in place in Lao PDR, Cambodia and Lao Bao and Danang in Viet Nam. Nonetheless, the initial study confirmed that the proposed joint venture was an appropriate strategy for the long term.

A number of specific lessons learned have emerged from this study:

1. Investment in economies where the level of physical infrastructures development is inadequate creates challenges and risks. Firms may be constrained in their production choices and may face a sub-optimal situation in managing their supply chains. In the case of Betagro, the company could not source raw material inputs at reasonable cost and acceptable delivery time. The company asked Acutech to solve this problem by shipping raw material inputs for its animal feed business directly to Viet Nam. Betagro later decided not to proceed with a planned investment in this business. CP Viet Nam faced a similar scenario with the rising costs of its raw material inputs, unstable market prices, and unacceptably high logistic cost for product delivery. CP Viet Nam, however, tried to minimize business risk by diversifying into the food business.

2. Investment in dynamic economies undergoing rapid transformation such as Viet Nam creates its own unique challenges. Firms contemplating such an investment must be prepared to re-evaluate their strategies continually in order to remain competitive. In Viet Nam, the completion of the WTO accession has led to fundamental changes in both the markets for raw materials and for final products. Without innovation in production technology or in marketing strategy, firms may not be able to adjust to the new competitive environment.

3. The case of international firms investing in Lao PDR has shown clearly that a well-conceived logistics service design can help firms solve problems of delivery time, reduce costs of maintaining inventories of parts, and effect cost reduction through the promotion of two-way traffic.

4. In order to achieve the economic potential of the relocation of industries from Thailand to neighbouring economies, it will be necessary to put in place a comprehensive *Agreement on Cross Border Logistics Service*s. This has not yet been achieved despite several rounds of negotiation.

Although the case situations examined related to particular circumstances in specific economies, the lessons learned have broader applicability to the GMS sub-region and to the APEC region as a whole. For example, trade facilitation including logistics is not fully developed between Thailand and Laos PDR and Viet Nam. The rising cost of fuel has become a serious constraint to road transport. Moreover, better facilities are vital to attracting investment in these economies. Even though Laos PDR is not an APEC member, this landlocked economy is important to potential investments within the GMS sub-region.

Similarly, the smooth transformation into a market economy that took place in Viet Nam also appeared feasible in Cambodia and Lao PDR. Indeed Cambodia had high potentials as an investment site. Already Cambodia was the site of several garment factories producing for the global market. It had also several prospects for plantation of cash crops and energy crops.