

Attracting Investment to Industrial Parks

Experience from Neighboring Countries and Lessons for Cambodia

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Along with commercial issues, the competition for foreign investment among Asian countries is also a hot problem. Cambodia is a small country and badly in need of capital. So it should look for foreign sources of finance. To achieve this aim, Cambodia must develop industrial parks and export processing zones, and first of all, it must study foreign experience in order to work out a strategy to compete successfully in this field.

1. Thai experience

As a neighboring country, Thailand has the same comparative advantages as Cambodia but it also has 40-year experience of developing industrial parks. In Thailand, there are seven IPs under the direct management of IEAT, one IP as a joint venture with private companies in developing the infrastruc-

ture, and 32 IPs run by big groups and private companies. All IPs operate according to the IP Law and IEAT controls directly 29 IPs. These IPs are situated in three zones with separate schemes of financial incentives. Zone I includes six provinces around Bangkok; Zone II includes 10 provinces around the first zone, and Zone III consists of the rest 60 provinces. Operations of Thai IPs are as follows:

a. Rational and effective management machinery:

In the past, foreign investors bought land and build their factories by themselves without the State control with the result that the environment was damaged. In 1972, IEAT was established and it met with a lot of difficulties in clarifying its rights and duties; and persuading other departments into delegating certain func-

tions and tasks to IEAT. The Thai Government at last has officially assigned the task of controlling all IPs and their development to IEAT. It also has rights to do business for profits and could be considered as a state-owned company. Fulfilling its functions, IEAT conducts the following operations:

- Researching, making plans to develop IPs, and conducting the building works.

- Granting investment licenses.

- Determining industries and sizes of companies whose licenses are to be granted by provincial industrial services.

- Controlling operations of investors in IPs, managing the use of land and issues relating to the environment, hygiene and health care.

- Fixing prices and rental of real estate and other assets.

- Issuing bonds and bills needed for promotion of investment.

All procedures are done quickly and effectively because IEAT has a neat, centralized and direct machinery.

b. One-stop service:

Investors who want to do business in IPs need only go to IEAT and they can get all necessary information: geographical position of IPs, industries enjoying incentives or preferential treatment, and procedures to fulfill. After getting information and fulfilling procedures, they could receive licenses within a week and start construction of factory building. Away from Thailand, they could also get information about each lot of land in any IP through the Internet. After making decision, they could send application to IEAT by fax and then go to Bangkok to sign necessary documents



and contracts after IEAT gives approval. There were seven years between the establishment of IEAT and introduction of the IP Law. This means that investors had to wait for a very long time for licenses. Applying successfully the one-stop service, IEAT affirmed its role and position in attracting foreign investment and fulfilled the task of ensuring balance for industrial development.

c. Financial incentives: The government didn't supply credit to projects to build the infrastructure for profit but it could act as guarantor for foreign companies that want to get fiduciary loans. To fill all IPs and ensure even development of IPs, the Thai government divided IPs into three zones with different treatment with a view to encouraging investment in depressed and remote areas.

d. Protection of the environment in IPs:

One of five objectives of the development of IPs in Thailand is to ensure the good environment for IPs, and this effort is supported by the IPs Law and other regulations. Thailand introduced the principle, "Who pollutes the environment should pay." All IPs must have a system for disposing effluent approved by authorized bodies. All waste materials must be treated and disposed properly and investors must pay for this service. IEAT representatives at IPs will inspect and control this issue, and make decision in time to deal with violation of environmental regulations. That is why most Thai IPs are praised for their cleanliness.

In short, reasonable policies adopted by the Thai government on the development of IPs and financial incentives have helped create attractive features for IPs, which persuade a lot of investors making Thai IPs success stories.

2. Experience from Taiwan

Taiwan is one of the first countries in Asia to develop export processing zones (EPZ) during the 1960s when its economy was still underdeveloped. In this decade, however, developed economies, such as the U.S., Japan and Western Europe started to open their markets to foreign consumer goods, which offered a chance for developing countries to engage in the international trade. The Taiwanese government took this opportunity after consulting many local and foreign experts. In January 1965, Taiwan promulgated "Regulations about the building and development of export processing zones" and its first EPZ, Gaioxiong, came into being in southern Taiwan in December 1966. It was followed by two others in 1969. All of them were situated near important ports because they were oriented towards export.

All IPs in Taiwan are inspected and controlled by the IP Management Agency under the Ministry of Economy. It consists of many leading experts whose duties is to deal with problems arising from IPs: major building works, estimate of investment projects, granting construction licenses, granting or leasing land, inspecting factory buildings, etc. This Agency also works together with telecommunications, customs, tax, and banking services. With such an organization, IPs could be seen as "independent kingdoms."

Valuable lessons from Taiwanese IPs are as follows:

a. Making IPs comfortable, safe and convenient for investors:

Each IP has offices of the Management Agency and other public services (customs, tax, warehouse, post and telecommunications, banking, health care, fuel supply, etc.) and they occupy some 22% of

the IP area. There is only one gate to the IP, which facilitates control and management. High walls around the IP can help prevent smuggling and theft. There are also 10 watchtowers around the IP and facilities for firefighting and security with a view to ensuring absolute safety.

b. Developing IPs all over the country without limit:

Up to now, Taiwan has some 95 IPs. Most of them were developed by the State and some others by private companies. At present, the Ministry of Economy has control over all IPs and delegation of rights are as follows: the central government controls 12 major IPs, the rest by local governments or private companies. This network shows that every district has its own IP as the dynamic of local economies.

c. Encouraging export-oriented industrial development:

Since the late 1950s, Taiwanese policy makers have realized their position in the world and regional economies. They understood that Taiwan was only an island with a small area, big population, and poor natural resources with the result that it had to depend on foreign markets and raw materials. To survive and develop, Taiwan decided to develop an export-oriented economy based on both international and domestic conditions. And this strategy has become a matter of life and death for Taiwan since.

The Taiwanese government advocated developing quickly light industries that produced exports and employed labor intensively. A wide range of small and medium enterprises was concentrated in certain sections in each IP and EPZ. Companies, when having their factories built in IP or EPZ, enjoy many things, such as

good infrastructure and financial incentives (tax reduction or exemption for some years, low tax rates and soft loans in some cases, etc.)

The concentration of companies in IPs and EPZs has many macro-economical advantages. First of all, the infrastructure of international standard could be built in the piece of land zoned for IP before opening it to investors. Such infrastructure could make both foreign and local investors ready to produce exports in IPs. When many factories are concentrated in the same place, the production will be more convenient because these companies could form close relations and cooperation easily. This feature helps reduce the production cost and makes IPs more attractive. Moreover, IPs help stop building individual factories scattered in cities or reducing the area of fertile farming land - a serious problem to such a small country as Taiwan.

Taiwanese lessons show that one of the best ways to industrialize the economy is to develop IPs based on good zoning and planning. These IPs must be included in interdependent relations and in a plan that ensures harmonious development of industrial production and urbanization around IPs.

3. Industrial estate in Malaysia

Malaysia is also a country with large population and a small area. Most of its area is farming land with low productivity but its labor is abundant and cheap. Based on these characteristics, the Malaysian government decided to develop the industrial sector systematically by building IPs and free trade zones.

Malaysia follows a federal system that includes 13 states. Each state has its own IP management board to develop its IPs. Local boards are bodies

that give direct guide and instructions, and petition the central board to deal with problems and complaints beyond their reach because certain rights aren't delegated to them. This mechanism, therefore, isn't as flexible and effective as the one-stop system. To overcome this shortcoming, the central government has established an IP promotion office within the local management board responsible for working with investors, receiving their application and dealing with their complaints in order to save them from working with too many public services. The promotion office is responsible for exchanging notes with other offices and departments and asking them to submit problems to superior bodies. Malaysian IP infrastructure companies have abundant financial sources, experience of carrying out large building works and managing infrastructure projects, so they can build many IPs at the same time without difficulties although the State finances only 10% or 20% of the necessary fund.

We could draw the following lessons from the success of Malaysian IPs:

a. Selecting right locations for IPs:

The most important condition for attracting foreign investment to the

IP is a good and convenient location that is far from residential areas to avoid environmental problems; good communications, land of low prices or rental; and well-developed infrastructure. In such a condition, investors could build their factories right after the license. To increase the number of investors on a monthly or quarterly basis, the central IP board frequently sends officials to foreign countries to visit industrial estates, market Malaysian IPs or hold workshops with participation of local IP boards. As for local factories, they could enjoy special treatment and incentives when they want to move to IPs. The central board also spends a lot of time to persuade them to do it.

The infrastructure developers not only offer contract to lease land to companies, but also help them fulfill necessary procedures (getting construction licenses, business licenses, or certificate of special treatment, etc.) All regulations and administrative procedures are publicized broadly and all investors are treated equally.

What these IP board aim at are consistency, simplicity and efficiency. In addition, the Malaysian government also pays full attention to the task of training the labor force,

providing them with accommodations and other benefits; such as health care and education; and ensuring good working conditions for both local and foreign experts working in IPs and their families.

b. Liberation of foreign investment:

The Malaysian government has built 50 free trade zones and invited foreign companies to do business there in order to create more jobs for local residents, enhance labor and managerial skills for local workers. Before 1968 when the Foreign Investment Law was introduced, Malaysia had no such a law but it had carried out industrialization and modernization for years. In this law, there are many kinds of preferential treatment for foreign companies, such as:

- The government guaranteed not to nationalize assets of foreign companies.

- Foreign investors are allowed to transfer their profit to their home countries, etc.

Moreover, every state receives support from the federal government in all aspects. Each state is considered as an independent kingdom that enjoys autonomy in law making and administration if they are not contrary to the federal constitutions.

4. Lessons for Cambodia in attracting foreign investment

Valuable lessons from Asian experience of developing IPs for Cambodia are as follows:

Firstly, the government should accelerate the process of making an IP and EPZ Law, and delegate rights and duties to local governments and IP boards, establish the one-stop mechanism in order to control the development effectively and easily without causing obstacles to investors. The government should also adopt policies to give financial support to local governments in building IPs the way the Thai government did.

Secondly, the government, learning from the Taiwan experience, need not limit the number of IPs and EPZs. In fact, to industrialize and modernize the economy quickly and effectively, the government should accelerate the building of IPs in all provinces and cities in order to tap local potentials. Of course, this must be done based on well-devised plans with a view to avoiding waste of land and money, and at the same time, ensuring the balance between the development of IPs and urbanization of districts around IPs.

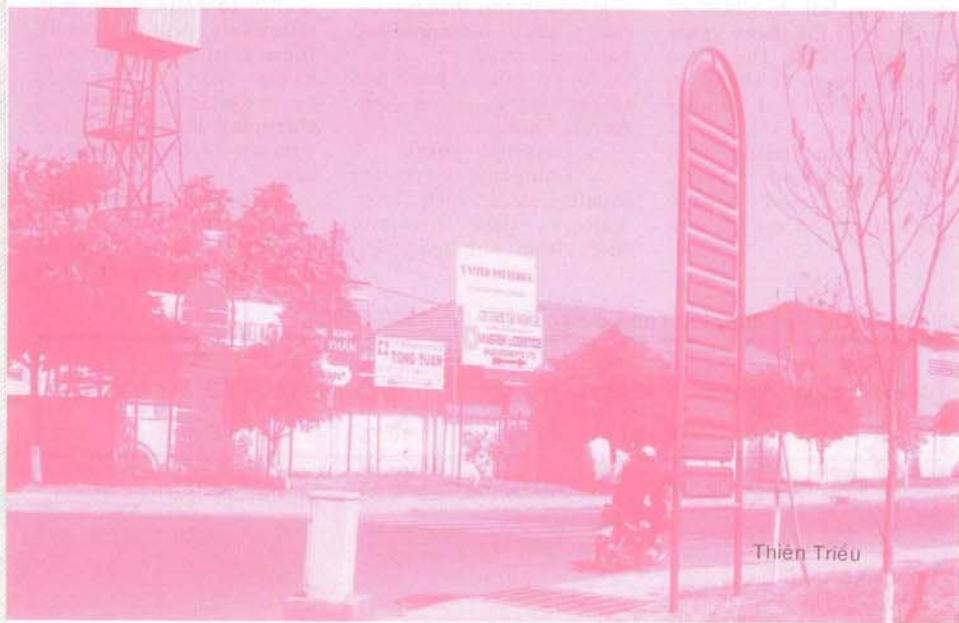
To attract more technology-intensive companies that can help improve the local structure of industry, Cambodia has to ensure the following conditions:

- Well-developed and convenient infrastructure (roads, water and power supply, ports, airports, telecommunications, etc.)

- Supporting services needed for production and business: banking, transport, hotels, shopping centers, international schools, insurance, health care, etc.

- A legal infrastructure that is clear, perfect, safe and attractive.

- Reasonable rental and maturity for land leasing contracts. ■



Thiên Triều