

OIE SUGGESTS INVESTMENTS IN LABOR-INTENSIVE INDUSTRIES AND EXPANSION OF FASHION MANUFACTURING TO NEIGHBORING COUNTRIES

The Office of Industrial Economics (OIE) proposed solutions to the fashion industry, which requires a large amount of labor, such as locating overseas, establishing a one-stop service center, improving systems of transportation and logistics, and providing loans. The OIE indicated that relocation to or expansion in Cambodia and Lao PDR (Lao People's Democratic Republic) is more suitable for small- and medium-sized enterprises (SMEs) than for large-sized companies, owing to a limited workforce. The OIE also recommended setting up manufacturing plants in special economic zones (SEZs).

Mr. Udom Wongviwatchai, Director General of the Office of Industrial Economics (OIE), Ministry of Industry, revealed that entrepreneurs in the fashion industry, comprising of textiles and garments, shoes and leather goods, and gems and jewelry, have faced production issues involving higher wages and labor shortages. Furthermore, GSP benefits were removed for Thailand but not for neighboring countries. Large manufacturers were asked to relocate to or expand plants in countries with lower wages, namely Myanmar, Cambodia, Vietnam, and Lao PDR in order to maintain cost competitiveness.

Thai manufacturers have adjusted to improve their competitiveness by either relocating to or expanding their production base in neighboring countries. This is one way to link domestic production networks with a wider regional transport network and, at the same time, to add more value to the production process. According to the report entitled "Relocating Labor-intensive Industries to Neighboring Countries – Phase 2", SME entrepreneurs should be provided with information concerning potential industries and locations that will assist in proper decision making.

The OIE cited that large entrepreneurs had more chances in relocation or expansion than SMEs, owing to higher investment capital and risk acceptance. Production facilities likely to relocate to other countries entail minimal added value, large amount of labor, simple manufacturing processes, and basic technology or machinery, i.e. cutting, sewing, and assembling clothing, mainly t-shirts, polo shirts, and uniforms.

Although Cambodia and Lao PDR were interesting countries, much like Vietnam and Myanmar, to relocate labor-intensive industries, work force limitations were a risk factor in Cambodia and Lao PDR. Therefore, these two countries were more suitable for SMEs rather than for large sized enterprises.

Together with determining the appropriate plant relocation site, labor size, and wages, there are spatial factors that should be considered. Moreover, EU GSP benefits, capital, infrastructure efficiency, logistics, supply chain connectivity, investment regulations and privileges, including political and business environment, are factors that influence competitiveness. According to spatial data analysis on plant relocation in Cambodia and Lao



PRD, SEZs were places where one-stop service centers can be established to facilitate entrepreneurs on investment applications, company registration, customs services, including work force personnel.

Therefore, suitable provinces in Cambodia with special economic zones (SEZs), sufficient labor, and a convenient transportation network to Thailand were Phnom Penh, Banteay Meanchey (bordering Sa Kaeo province), and Koh Kong (bordering Trat province). There are four SEZs that consist of Phnom Penh SEZ (in Kandal province next to Phnom Penh), Poipet O'Neang SEZ (in Banteay Meanchey), Sisophon Industrial Park (in Banteay Meanchey), and Neang Kok Koh Kong SEZ (in Koh Kong). Meanwhile, there is the Vientiane Industrial and Trade Area (VITA Park), located in Vientiane, Lao PDR. However, Vientiane has tight labor conditions and high employee turnover rates; nevertheless, there are many aspects that make VITA Park an attractive option.

The Director General of the OIE emphasized that as an agency on industrial development it has provided strategies that support plant relocation overseas. In fact, it has suggested conducting the following tasks:

- 1) Establish a one-stop service center in order to provide both general and in-depth information on investments in foreign countries, as well as to facilitate, support, and promote Thailand's SMEs overseas.
- 2) Support implementation and development of both national and regional connectivity regarding transport and logistics.
- 3) Promote Thais to understand the languages and cultures of neighboring countries, thereby fostering a friendly attitude and mutual respect.
- 4) Provide loans to companies involved in labor-intensive industries and that confront issues of competitiveness, particularly SMEs.

Entrepreneurs who cannot relocate or expand their manufacturing base should enhance their production process within the supply chain to increase product value, shift from operating as assembly subcontractors to operating as production or design subcontractors, and finally become brand owners. Additionally, the following activities should be promoted: business linkages between SMEs, SMEs and large enterprises, training on technical skills, product management and development, product design, marketing research, marketing and network support, new technology transfer to SMEs, and product standard certification.

6 May 2015

