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PLUGGING INTO PRODUCTION NETWORKS

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PLUGGING INTO PRODUCTION NETWORKS

Industrialization Strategy in Less
Developed Southeast Asian Countries

EDITED BY

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Preface

From the perspective of geographical proximity as well as economic, social, and cultural affinity, the experience of industrial development in leading Southeast Asian economies should be most relevant and helpful for their neighbouring countries. After facing difficulties in import-substitution policies, Southeast Asian countries liberalized trade and investment and promoted integration with the global economy. Moreover, rapid technological progress reduced transportation and logistics costs and made fragmentation of production economically feasible.

The change in the policy environment attracted massive foreign direct investment from Japan, Asian NIEs, and others, and allowed Southeast Asian countries to participate in production networks. Less developed countries in Southeast Asia, namely Cambodia, Laos, Myanmar, and Vietnam (CLMV), face the same challenge today as leading ASEAN countries did a few decades ago. In particular, they must build up links with neighbouring East Asian countries and participate in their regional production networks.

The authors in this book examine development strategies for less developed Southeast Asian countries. They discuss what policy measures are effective in attracting foreign direct investment, reducing trade and transport costs, and forming competitive industrial clusters. In Chapter 1, location advantages of less developed countries are examined from the viewpoint of five features of location, namely factor costs, market access, public policies, agglomeration economies, and cross-border production networks. The first part of this book (Chapters 2–4) gives an overview of less developed Southeast Asian countries from the perspective of production networks. The authors discuss crucial policy elements for participating in production networks and forming competitive clusters. They also discuss the role of the ASEAN Economic Community (AEC) in extending production networks. In the second part (Chapters 5–9), the focus is on specific countries or regions. Here,

in addition to CLMV, it also examines the link between Singapore and the Batam-Bintan-Karimun (BBK) Special Economic Zone, Indonesia and clearly demonstrates that it is vital for less developed Southeast Asian countries to strengthen their links with neighbouring East Asian countries if they are to fully utilize their location advantage in low labour costs, and at the same time overcome their handicaps, such as small local markets, less developed infrastructure and institution, and land-locked geographic locations (in the case of Laos).

Acknowledgements

This is the second phase of a research project funded by the Institute of Developing Economies (IDE-JETRO) in Japan on production networks in Southeast Asia. In the first phase, the project aimed to investigate how production networks and industrial clusters were formed in the advanced ASEAN region, particularly in Singapore, Malaysia, Thailand, and Indonesia. The result of the first phase was published by the Institute of Southeast Asian Studies (ISEAS) in 2008 under the title *Production Networks and Industrial Clusters: Integrating Economies in Southeast Asia*, edited by Ikuo Kuroiwa and Toh Mun Heng.

In the second phase, the project expanded the scope of analysis and aims to investigate how production networks can be extended from the advanced ASEAN region into new ASEAN member countries, namely Cambodia, Laos, Myanmar, and Vietnam (CLMV). From the same viewpoint the link between Singapore and the Batam-Bintan-Karimun (BBK) Special Economic Zone in Indonesia is also discussed. The study highlights policy implications and provides policy measures for extending production networks into the less developed countries.

After having a closed-door workshop at the National University of Singapore (NUS) Business School, we held a joint workshop with ISEAS and Japan International Cooperation Agency (JICA) in March 2008. The papers collected in this book have been revised to reflect comments and opinions expressed at these workshops.

As in the first phase, I owe my sincere gratitude to the researchers and administrative staff of ISEAS for their support on this research work. I would like to acknowledge Dr Dennis Hew and Ms Sanchita Basu Das in particular for their support in organizing the joint workshop, and Mrs Triena Ong for her valuable advice on research activities and the publication of this book.

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