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# Joint Study and Survey of Special Economic Zones (SEZs) and Cross Border Economic Zones (CBEZs) to Match Complementary SEZs and Identify Prioritized Areas

Mekong Institute  
Khon Kaen, Thailand



Joint Study and Survey of Special  
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Prioritized Areas

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***Project: Joint Development of Cross-Border SEZs in  
Lancang – Mekong region  
Study conducted on Special Economic Zones in the  
Lancang-Mekong countries through the three main economic  
corridors: North – South Economic Corridor (NSEC), East-West  
Economic Corridor (EWEC), and Southern Economic Corridor  
(SEC) in China, Cambodia, Laos, Myanmar, Thailand & Vietnam  
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## Executive Summary

Special economic zones have been established across the Lancang Mekong region including at border areas along economic corridors. In recent years “cross border economic zones” have been promoted by China and Thailand to encourage further investment in border areas, closer cross border economic cooperation, and facilitate trade. This study presents a review of the available literature on SEZs in the region and CBEZs globally and an update of their current status across six countries. It outlines potential advantages and challenges related to cross border economic cooperation, current status of infrastructure, investment, and logistics, and a rapid capacity needs assessment based on secondary data and primary data collected through field visits and interviews held between July and September 2018. Seven border crossings, five SEZs, nine key informant interviews, and six focus group discussions with a total of 167 respondents from the public and private sector informed the study. It finds a mixed record of success with SEZs and challenges faced realising the potentially dynamic effects and spill-overs into host economies across the region. In addition, lack of clarity regarding models of cross border cooperation, with the term “cross border economic cooperation zone” applied inconsistently. In Europe, for example, this may denote institutional cross-border cooperation in a range of areas, from policing, healthcare, to the development of industrial clusters in border regions. Whereas for China, it appears to be used to refer to the extension of a special economic zone across an international border, with special legislative and governance structures and decentralised authority to zone management. The only example of the latter currently existing in the region is the China-Laos Mohan-Boten Economic Cooperation Zone. Agreements to develop similar zones between China and Vietnam and China and Myanmar have been reached. There may also have been an agreement to develop a CBEZ on the Thailand – Cambodia border. However, slow progress has been made on all except the Mohan-Boten zone. Lack of clarity regarding preferred models, concerns about trade imbalances, and coordination challenges have slowed implementation. The study recommends that more inclusive domestic and cross-border consultations resulting in strategic visions and plans for specific border regions may facilitate joint and complementary development of border. Several other recommendations toward this end are made in the final chapter.

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# 1 BACKGROUND

Writing for the World Bank, Farole and Akinci define special economic zones (SEZ) as:

Demarcated geographic areas contained within a country's national boundaries where the rules of business are different from those that prevail in the national territory. These differential rules principally deal with investment conditions, international trade and customs, taxation, and the regulatory environment; whereby the zone is given a business environment that is intended to be more liberal from a policy perspective and more effective from an administrative perspective than that of the national territory.<sup>1</sup>

From nine SEZs globally at the end of the 1960s, to 500 in 1995, by 2015 there were approximately 4300 in over 130 countries by 2015; most are in Asia.<sup>2</sup> For some, the history of SEZs dates back to free-trade ports in ancient Phoenicia or northern Europe of the Hanseatic league, while others emphasise a qualitative difference between these ancient free trade zones and modern SEZs. Whereas free ports are designed to facilitate international trade through the suspension of customs duties and taxes, many SEZs developed since the 1970s have functioned as export processing zones, prioritising industrial production for international markets.

SEZs are usually located in coastal areas or urban centres with high population densities to facilitate shipping products to export markets or to access labour. However, they are increasingly also used to promote cross-border trade and investment and stimulate regional economic integration. Spurred by the success of SEZs developed in its coastal provinces since the late 1970s, China has promoted the development of SEZs along its borders with neighbouring countries since 1992, including Viet Nam, Laos, and Myanmar. The Asian Development Bank has promoted the development of SEZs across Southeast Asia since the mid-1990s, and along economic corridors since 1998. Thailand encouraged the development of border economic zones since 1993 and has considered the development of SEZs in border areas since 2001. Chiang Rai was established as Thailand's first border SEZ in 2003, while the Royal Thai Government declared its intention to establish Mae Sot as an SEZ in 2011. In 2014 the National Council for Peace and Order announced a Policy on Special Economic Development Zones to progress with the establishment of SEZs along borders with neighbouring countries. CLMV countries have been establishing SEZs since the early 2000s, including in border areas.

Building on the development of border economic cooperation zones since 1992, China has promoted the development of cross border economic zones (CBEZs). The first was established across the border with Kazakhstan between the cities of Horgos (Kazakhstan) and Khorgas (PRC) in 2006. The China-Laos Mohan-Boten Economic Cooperation Zone was China's second approved CBEZ in 2016. Discussions to develop four CBEZs on China's border with Viet Nam have occurred since 2005 but have not yet been formally established. The Lancang-Mekong Cooperation Mechanism was formally launched in 2016 to augment support provided by ADB and upgrade its Greater Mekong Subregion scheme,

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<sup>1</sup> Farole, Thomas, and Gokhan Akinci, eds. 2011. *Special Economic Zones: Progress, Emerging Challenges, and Future Directions*. Washington, DC: World Bank. p.3

<sup>2</sup> Singa Boyenge, Jean-Pierre. 2007. *ILO Database on Export Processing Zones (Revised)*. International Labour Office

especially through the development of infrastructure, economic cooperation, and industrial zones.

## **2 OBJECTIVES, METHODOLOGY, TIMELINE OF THE STUDY**

### **2.1 Objectives**

This study presents a rapid assessment of the status of cross-border economic zones across the LMC region and capacity needs of key stakeholders to inform activities that will be carried out under a three year project carried out by the Mekong Institute supported by the Lancang-Mekong Cooperation Special Fund. The project aims to promote SEZs and development of CBEZs in the Lancang-Mekong countries as well as coordination among them, boost trade and investment both from within and outside the Lancang-Mekong region, improve value chain linkages, upgrade production bases, facilitate and enhance trade, reduce poverty, and better the livelihood of the people. The project will be implemented from 2018 to 2020 and has the following expected outcomes:

- I. Clear and coherent vision and strategy of border SEZ and CBEZ development in the Lancang-Mekong region.
- II. Collaborative development of border SEZs and CBEZs leading to equal distribution of strong comparative advantages; and
- III. Potential spill over to the domestic economy and facilitate inclusive growth.

### **2.2 Methodology**

The study is informed by secondary and primary data collection conducted between July and September 2018 across six countries in the Lancang-Mekong region (Cambodia, China, Laos, Myanmar, Thailand, and Viet Nam).

#### **2.2.1 Literature and data review**

A document review was completed of studies and projects on SEZs and CBEZs globally and of similar studies undertaken in the region by the Asian Development Bank and similar agencies.

#### **2.2.2 Field visits**

Informed by the desk review the research team identified a list of border crossings as potential sites for field visits, selected based on the presence of SEZs or cross-border SEZs. Due to resource limitations, no CBEZs were visited on the Cambodia - Viet Nam, Laos - Vietnam, or PRC - Myanmar border. The following sites were visited by the team:

##### **2.2.2.1 Border crossings**

- I. Mukdahan (Thailand) - Kaysone Phomvihane (Laos PDR)
- II. Nakhon Phanom (Thailand) - Thakhek (Laos PDR)

- III. Boten (Lao PDR) - Mohan (PRC)
- IV. Mae Sot (Thailand) - Myawaddy (Myanmar)
- V. Chiang Khong (Thailand) - Houixay (Lao PDR)
- VI. Hekou (PRC) - Lao Cai (Viet Nam)
- VII. Aranyaprathet (Thailand) - Poipet (Cambodia)

#### **2.2.2.2 Special Economic Zones**

- I. Mae Sot SEZ
- II. Savan - Seno SEZ (Savan Park SEZ)
- III. Boten SEZ
- IV. Hekou SEZ
- V. Chiang Rai SEZ

#### **2.2.3 Key informant interviews**

Nine key informant interviews were held with **32 respondents** from the public and private sector. Interviews lasted 1 - 3 hours. In most cases only one or two people were present but in China two group interviews were conducted with up to 14 participants.

- I. Savan - Seno SEZ 2 (private sector)
- II. Naypyidaw 3 (public sector)
- III. Phnom Penh 2 (public sector)
- IV. Vientiane 2 (public sector)
- V. Hanoi 3 (public and private sector)
- VI. Kunming 6 (public sector)
- VII. Hekou 14 (public and private sector)

##### **2.2.3.1 Semi-structured interview guide**

The following questions guided KII discussions:

- A. Could you please introduce yourself and tell us your responsibilities as regards SEZs in this country?
- B. What are the main comparative advantages of SEZs in this country (e.g. infrastructure, location, low cost labour, concessions). Please explain.
- C. What are the main challenges faced related to SEZs in this country?
- D. Can you tell us about SEZ management practices? How might they be improved? For example .... ?
- E. What is your opinion of cross-border economic zones?
- F. Can you tell us about the governance and management structure of SEZs? How might they be improved?
- G. How might SEZ policy be improved?
- H. What kinds of policy dialogues should happen?
- I. Are you happy with infrastructure, hard and soft, related to SEZs? How might they be improved?
- J. What information would you like to receive about SEZs in your country and from other countries?

- K. How might different SEZ agencies (including cross-border regions) cooperate more effectively?
- L. How do SEZs contribute to the national economy and national development plans? (e.g. job creation, tax revenues, foreign exchange earnings, industrial diversification infrastructure development).
- M. As for capacity development for your staff, please advise us what areas related to development, operations, and management of SEZs | CBEZs need support?
- N. What is the volume of exports from your SEZ investments in this country in 2015, 2016, 2017? Did they increase or decrease? Why?
- O. Are you happy with the fiscal incentives related to the SEZs? How might they be improved?
- P. Do OSSCs exist? How effective are they?
- Q. As for capacity development for your business, please advise us what areas which related to development, operations, and management of SEZs | CBEZs are needed?
- R. Could you please provide the following data, or tell us where we may find it?
- S. Production and exports in US\$ mn
- T. Employment in 2017
- U. Investment in US\$ mn
- V. Is there anything else you would like to add?

#### **2.2.4 Focus group discussions**

Six focus group discussions were held with a total of 135 respondents.

- I. Savannakhet (with 10 participants from Savannakhet and 8 from Mukdahan)
- II. Nakhon Phanom (with 11 participants from Thailand and 9 from Khammouane)
- III. Mae Sot (with 10 participants from Thailand and 13 from Myanmar)
- IV. Chiang Rai (two separate meetings with 19 participants from Chiang Khong, and 37 from Chiang Rai and Bangkok)
- V. Aranyaprathet (with 9 participants from Aranyaprathet and 9 Poipet)

##### **2.2.4.1 *Focus group discussion guide***

Focus group discussions lasted 1-3 hours guided by the following questions:

A. Cross-border economic cooperation:

- I. Potential advantages of enhanced cross-border economic cooperation
- II. Challenges related to enhanced cross-border economic cooperation
- III. What needs to be done to enhance cross-border economic cooperation, either locally, or transnationally? By (i) governments the (ii) private sector

B. Status of infrastructure, investment, and logistics.

- I. Border infrastructure and logistics: current situation, prospects and challenges
- II. Border investment: current situation, prospects and challenges

- III. Information systems. What information do key stakeholders (officials, investors) require? How should this information be managed and disseminated?

#### C. Capacity needs assessment.

- I. Sharing of/learning from best practices: what practices work well? What could be improved? Discuss with relation to management, investment promotion, incentives, legal issues, finance, land management, estate management, labour, environment regulations, waste management
- II. What are the key capacity building needs for trade facilitation and investment promotion? Who would benefit from training? What kind?
- III. Policy issues: what are the priority policy issues at provincial, national and cross border/regional level to promote cross border economic cooperation?

### **2.2.5 Sampling**

Potential participants were invited to contribute to the study by Mekong Institute based on lists and contact information held for key public and private sector stakeholders across the region. At the national level, letters were sent to ministries with responsibility for overseeing SEZs in their country. For example, the Ministry of Commerce in Myanmar, the National Economic and Social Development Board in Thailand, and the Council for the Development of Cambodia in Cambodia. For border areas where one stop service centres or management committees have been established, letters were sent requesting they invite relevant stakeholders to participate in meetings. Where OSSs were not operational, ministries responsible for coordinating activities related to SEZs were requested to facilitate meetings, such as the Ministry of Commerce in Myanmar, or Department of Industry and Trade in Viet Nam.

### **2.2.6 Limitations**

There are several limitations. Participants often had to cross international borders, which sometimes required permission from national-level authorities. In the case of Lao Cai - Hekou permission could not be obtained in time, so officials from Viet Nam are underrepresented in the study. In Myawaddy - Mae Sot, Myanmar officials did not have authority to participate in the study and could only observe, resulting in suboptimal data about local level concerns about CBEZs. Local officials in Boten, Laos, were unable to invite either local stakeholders or stakeholders from Mohan in time for the meeting. Due to time limitations, Muse - Ruili could not be included in the study, nor could CBEZs on the Laos-Viet Nam or Cambodia - Viet Nam borders. Focus group discussions included public officials from different line agencies, such as customs, commerce, immigration, as well as private sector stakeholders, which affected the information participants were willing to share with the research team. Meetings were held in English, Mandarin, Thai, Laos, Vietnamese, and Burmese. The consultant's native language is English and translation assistance was provided by several MI staff members who speak Thai, Vietnamese, Burmese, and Mandarin to a native level. Due to the similarities with Thai, a Thai proficient in Lao translated for most respondents from Laos. Several meetings were conducted in English, but

many were bilingual, and in some cases trilingual. This took time, which was limited, and affected the data collected.

### **3 DESK REVIEW OF SPECIAL ECONOMIC ZONES AND CROSS BORDER ECONOMIC ZONES**

#### **3.1 Special Economic Zones**

This section provides an overview of SEZs and CBEZs globally and in the Lancang-Mekong region. Much has been written on SEZs worldwide, key documents referenced in this chapter can be found in the bibliography.

SEZs come in a variety of forms worldwide and are given a variety of names. Terminology is often applied inconsistently making it challenging to identify defining features of an SEZ. Nonetheless, there a number of common features distinguish SEZs from other zoning policies:

- A. Fenced-in industrial estates specialising in manufacturing for export offering resident firms free-trade conditions and a liberal regulatory environment
- B. Special incentives to attract investors, primarily foreign or multinational firms, such as financial and fiscal incentives
- C. Clearly delimited and enclosed areas of a national customs territory to promote import-export activities, usually in a favourable geographical location
- D. Above average business infrastructure and flexible business regulations
- E. An “offshore” location in terms of taxes, customs, etc.
- F. Dedicated legislation and administrative structures at the national and local level, such as high-level working committees at the national level, management committees, and one-stop service centres on site

Most SEZs since the 1970s have been developed as free trade zones or export processing zones, or a combination of the two. **Free trade zones** are small, fenced-in duty free areas with facilities for trade, transshipment, and re-export located in most entry ports around the world. **Free ports** are typically much larger and promote a range of activities, including retail, tourism, and allow people to live on site. **Export processing zones** are usually industrial estates with special incentives to promote manufacturing for export to international markets. Since the 1990s a variety of **hybrid models** have been developed to move beyond a traditional reliance on labour-intensive manufacturing to promote a range of higher-value added activities such as the service economy, eco-industry, high technology, and innovation.<sup>3</sup> The definition of an SEZ by Farole and Akinci reproduced in the background section is the most commonly accepted and widely cited.

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<sup>3</sup> See UNIDO. 2015. Economic Zones in the ASEAN. UNIDO Country Office in Viet Nam. [https://www.unido.org/fileadmin/user\\_media\\_upgrade/Resources/Publications/UCO\\_Viet\\_Nam\\_Study\\_FINAL.pdf](https://www.unido.org/fileadmin/user_media_upgrade/Resources/Publications/UCO_Viet_Nam_Study_FINAL.pdf).

## 3.2 Rationale for establishing SEZs

Governments create SEZs for several reasons. To experiment with policy reform, to encourage job creation, technology transfer, industrial upgrading and diversification, and generate foreign exchange reserves. Firms invest in SEZs due to fiscal incentives such as tax breaks, access to low cost labour, quality infrastructure, security of investment, and preferential access to import markets under international trade agreements. Some SEZs are state owned, some privately owned, others joint ventures.

As summarised by Warr, the theoretical literature on the economic effects of SEZs can largely be characterised by two approaches: orthodox and heterodox. Orthodox approaches draw on neoclassical economic theory, focussing on static economic welfare, and whether SEZs contribute to or distort allocative efficiency. Static effects include direct employment generation, FDI inflows, foreign exchange earnings, and economic value-added. Here SEZs are treated as a second-best option to full trade liberalisation and lose significance as a country adopts market reforms.<sup>4</sup> The heterodox approach draws on endogenous growth theory and new institutional economics, emphasising dynamic effects of SEZs and their role in promoting broader economic growth.<sup>5</sup>

**Table 1: Static versus Dynamic Effects of Special Economic Zones**

<b>Static Benefits</b>	<b>Dynamic Benefits</b>
<b>Foreign exchange earnings</b>	Skills upgrading
<b>Foreign direct investment</b>	Testing field for wider economic reform
<b>Employment generation</b>	Technology transfer
<b>Government revenue</b>	Demonstration effect
<b>Export growth</b>	Export diversification
	Enhancing trade efficiency of domestic firms
	Formation of industry clusters
	Integration into global value chains

Source: Warr 2015, p.4, adapted from Zeng 2011 and Aggarwal 2010

### 3.2.1 Effectiveness of SEZs

SEZs have a mixed record of success. Some are poorly run or never take off. As noted by a recent ADB study, over-ambition, lack of strategic focus, and poor governance has often led to failures and “white elephants”. In some cases foregone tax revenues and the cost of providing infrastructure, land, and subsidised utilities has made it hard for governments to recoup an adequate return on investment, and lack of oversight has led to rent-seeking and poor SEZ performance.<sup>6</sup> Changing global and regional economic conditions also affect the likelihood of success. Designed in an era when Asia’s economies

<sup>4</sup> Warr, Peter, and Jayant Menon. 2015. Cambodia’s Special Economic Zones. ADB Economics Working Paper Series No. 459. p3

<sup>5</sup> Warr, Peter, and Jayant Menon. 2015. Cambodia’s Special Economic Zones. ADB Economics Working Paper Series No. 459.p3-4

<sup>6</sup> Asian Development Bank. 2016. “Role of Special Economic Zones in Improving Effectiveness of GMS Economic Corridors,” November, 1–45. p.23

were relatively closed and governments sought to experiment with market friendly reforms without committing to rolling them out nationwide, many developing countries have adopted market friendly reforms nationwide. Barriers to trade are being lifted and manufacturing as a share of GDP is stabilising or shrinking. All of which make SEZs less “special” and successful SEZs are becoming rarer. As concludes a 2015 ADB study on SEZs in Asia:

Special economic zones have a chequered history - a few have matched or exceeded expectations and contributed substantially to economy-wide development ... [S]everal SEZs established in the 1970s and 1980s were well suited for their times and truly catalytic. Others have remained enclaves but nevertheless been sources of jobs, exports, and GDP growth. Numerous others have failed - and as we close in on the present - successes have become fewer; no SEZ established since the turn of the century has come close to matching the performance of Shenzhen or of the zones set up in Taipei, China, and Malaysia in the 1970s. But hope springs eternal in spite of lengthening odds against the likelihood of a zone returning an adequate return on investment - policy makers continue to pin their hopes on the potentially galvanising role of zones and, like venture capitalists the world over, believe that one outstanding success will compensate for a dozen failures.<sup>7</sup>

### **3.3 Border SEZs and Cross Border Economic Cooperation Zones**

#### **3.3.1 Border economies**

Borders imply economic discontinuities such as divergent labour costs, different regulatory regimes, and access to new markets. Economic growth in border areas is driven by capitalising on integrated and non-integrated differences that have developed as a result of the existence of borderlines. This requires a balance struck between the resistance value of the border and a degree of cross-border openness and integration. An obvious example of resistance value is that of wage differences between neighbouring countries, where labour from lower-income areas migrates to border areas in search of jobs or higher wages. However, at the same time, in order to take advantage of wage differences between neighbouring countries there must be a degree of porosity or openness across the border: people need to be able to cross the border in order to work in factories located on the higher-income side, or goods and materials need to cross the border with relative ease if factories are located on the lower-income side. Border economies thrive when a balance is struck conducive to growth in trade, industry, and services, in a way that contributes to development of complementary activities across the border. For example, by enabling factories relocate to areas with lower cost labour, perhaps through co-production, developing hard and soft infrastructure to enable cross-border logistics, or providing access to services such as retail, tourism, banking, and healthcare.

To this end, zoning technologies allow governments to experiment with policies to encourage the development of border regions. Border economic zones may be used to develop border regions by promoting economic activities that can capitalise on cross-border economic complementarities and local comparative advantages, such as by facilitating the movement of people, lifting restrictions on foreign capital, or enhancing cross-border infrastructure to expand production bases or develop supply chains, helping local areas access larger markets. However, they require careful planning and management to ensure sustainable development of border regions over the long term and to maintain their

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<sup>7</sup> Asian Development Bank. “Asian Economic Integration Report 2015: How Can Special Economic Zones Catalyze Economic Development?,” 104-105

comparative advantage. We will explore this claim with relation to the development of border trade and border industry.

### **3.3.2 The rise and fall of border trade and industry**

Masami Ishida of IDE-JETRO summarises border trade in the GMS as comprising the following activities:

- I. Trade using trucks
- II. Money exchange
- III. Warehousing business
- IV. Small-scale trade by residents who live in vicinity of borders
- V. Manufacturing processes
- VI. Developing industrial estates<sup>8</sup>

A border economic zone can catalyse cross-border trade in the early stages of economic integration before tariff and non-tariff barriers have been overcome. As Kudo and Ishida explain:

A border economic zone for border trade or as a border trade zone can play a role in reducing transport costs, facilitating cross-border logistics, and providing connecting nodes composed of cross-border infrastructure and providing connecting nodes composed of cross-border infrastructure and institutions. Thus, many border trade zones are designated in the GMS, and truck trans-shipment centres, warehouses including bonded warehouses, banks, branches of logistics firms and trading houses, and duty-free shops are located in the GMS, in addition to the facilities of customs, immigration, and quarantine (CIQ).<sup>9</sup>

However, bonded zones, warehouses, and trans-shipment centres located will become less necessary once tariffs are lifted and progress is made on the Transport and Trade Facilitation agenda, including the Cross Border Transport Agreement.

While border trade thrives on smoother economic transactions and integration between neighbouring countries, border economies thrive on the resistance value of the border. Border industry refers to a wide range of activities including processing of raw materials and production of goods in factories. Industries develop in border areas as a result of comparative advantages specific to that location and / or through the integration of non-integrated differences such as labour and capital inputs. Mae Sot, for example, developed as a hub for border industry since the 1990s due to the ability of labour from Myanmar to cross the border and work on the Thai side. Despite increasing wage costs in Thailand businesses have been reluctant to move to the Myanmar for several reasons, including restrictive policies toward businesses, lack of infrastructure, electricity costs, and the procurement of raw materials, which are overwhelmingly sourced in Thailand.<sup>10</sup> A border

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<sup>8</sup> Ishida, Masami. 2013. "Epilogue: Potentiality of Border Economic Zones and Future Prospects." In *Border Economies in the Greater Mekong Sub-Region*, edited by Masami Ishida. Basingstoke: Palgrave Macmillan. p.307

<sup>9</sup> Kudo, Toshihiro, and Masami Ishida. 2013. "Prologue: Progress in Cross-Border Movement and the Development of Border Economic Zones." In *Border Economies in the Greater Mekong Sub-Region*, edited by Masami Ishida. Basingstoke: Palgrave Macmillan. pp.20-21

<sup>10</sup> Kudo, Toshihiro. 2007. "Border Industry in Myanmar: Turning the Periphery Into the Center of Growth." *IDE Discussion Paper*, October, 1–28. p.15

economic zone could contribute to the development of border industry in the short to medium term by regularising foreign workers on the Thai side or facilitating the relocation of factories and enabling smoother cross-border import and export of raw materials and finished goods on the Myanmar side. However, as noted by Kudo, over the long term, complete liberalisation of Thailand and Myanmar's economies would ultimately eliminate border industry as it would undermine the competitiveness of border regions 'because any location in either country will then have an equal access to productive factors and there will probably be no reason for a remote border town to be chosen as a competitive production base (the third stage).'<sup>11</sup> This phenomenon is well explained by Kudo and Ishida and is worth quoting at length:

Figure 1: Rise and fall of border industry

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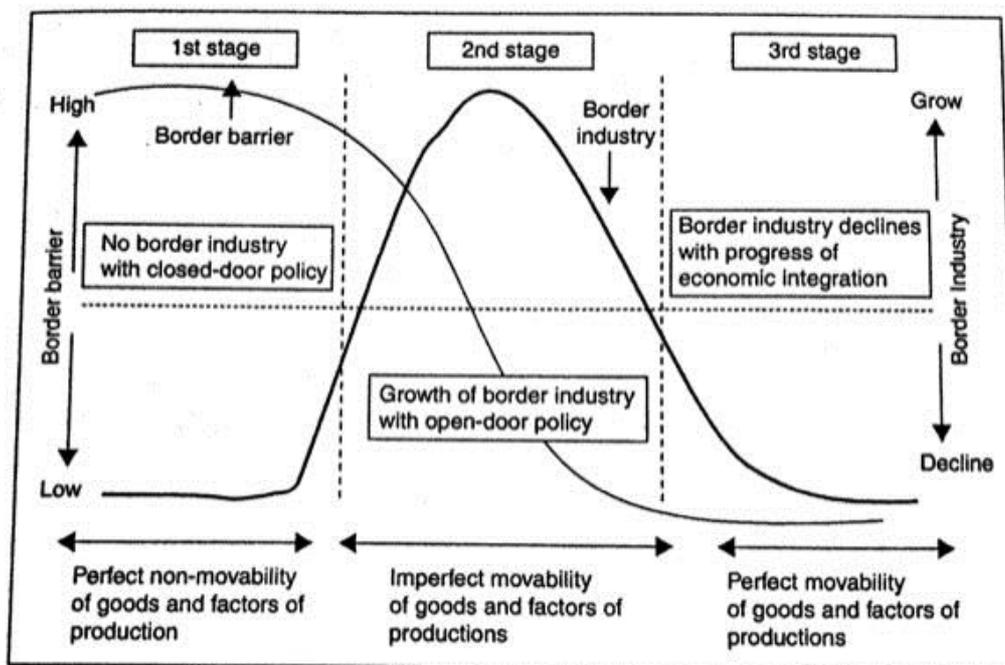


Figure 1.4 Movability of goods and factors of production and rise and fall of border industry

Source: Drawn by the authors.

Source: Kudo and Ishida 2013

The abscissa axis represents the degree of progress in economic integration while the ordinate axis represents the degree of border barriers or the value of border resistance, along with the development of border industry. The abscissa axis is divided into three stages. In the first stage, the two countries are supposed to be separated by a border completely; it is also assumed that people and goods never move by crossing the borderline. The border barrier curve indicates a very high value; on the other hand, the value of the

<sup>11</sup> Kudo, Toshihiro. 2007. "Border Industry in Myanmar: Turning the Periphery Into the Center of Growth." *IDE Discussion Paper*, October, 1–28.

border industry is very low. However, this assumption is not a virtual one; cross border economic activities had been impeded by conflicts among nations as a result of the Cold War and poor road infrastructure in the past. At this stage, border trade is conducted as a very limited small-scale illegal trade, particularly by minorities in mountain areas. At this stage there is no opportunity for a border economy to grow. ... In the second stage, the border barrier curve declines, while the border industry curve reaches the summit. This situation is similar to the GMS area since the second half of 1985; the GMS countries have opened their borders through the wave of adopting a market economy by socialist countries. With this wave, cross-border trade has been liberalised and trade procedures have been simplified. Consequently, cross-border trade has been increased at many borders in the GMS ... In the third stage, there is a decline in both the border barrier curve and the border industry curve. Economic integration progresses further, and the two countries are integrated to such an extent that they are the same country.<sup>12</sup>

The third stage is reached once completely free cross border movement of production factors such as people, goods, and capital are reached. Nonetheless, it is not easy to estimate when this third stage might be reached in the GMS and more realistic to expect the second stage will continue for the time being, justifying the promotion of the development of border areas as border economic zones.<sup>13</sup>

### 3.4 CBEZ policy options

Abyoni et al. identify three different forms border area development:

- I.Border economic zones
- II.Special economic zones
- III.Cross-border special economic zones.
- IV.To this we may add a fourth:
- V.Cross-border economic zones.

**Border economic zones** have a low level of formal institutionalisation and are developed when economic activities are promoted in border areas, such as under Thailand's 1993 policy to promote all border provinces as investment promotion zones.<sup>14</sup>

**Special economic zones** are distinguished from border economic zones by special legislation. As of August 2018, Thailand's Special Economic Zones Act was still in draft form, but it includes provisions committing the state to providing infrastructure and utilities in the zones and establishing one stop service centres.

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<sup>12</sup> Kudo, Toshihiro, and Masami Ishida. 2013. "Prologue: Progress in Cross-Border Movement and the Development of Border Economic Zones." In *Border Economies in the Greater Mekong Sub-Region*, edited by Masami Ishida. Basingstoke: Palgrave Macmillan. pp. 18-20

<sup>13</sup> Kudo, Toshihiro, and Masami Ishida. 2013. "Prologue: Progress in Cross-Border Movement and the Development of Border Economic Zones." In *Border Economies in the Greater Mekong Sub-Region*, edited by Masami Ishida. Basingstoke: Palgrave Macmillan. p.20

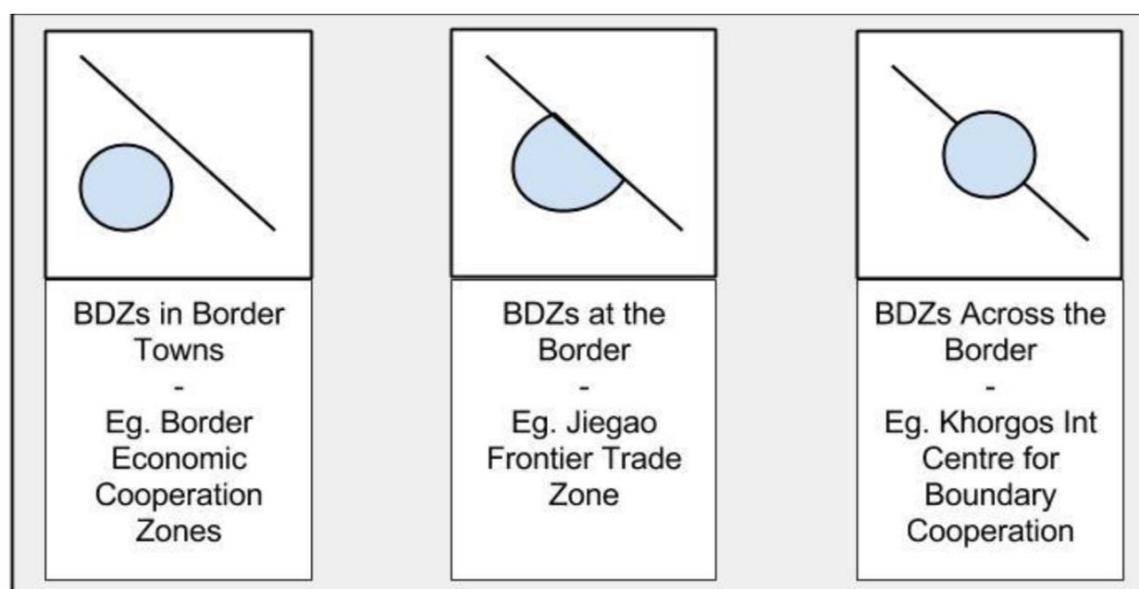
<sup>14</sup> Krainara, Choen. 2009. What Is Economic Zoning? History of Economic Zoning in Thailand and Relate It with Domestic and Foreign Direct Investment (FDI). Bangkok: School of Environment, Resources, and Development. Asian Institute of Technology. p.3

A **cross-border special economic zone** does require formal institutionalisation through close collaboration between authorities on either side of the border, perhaps including pooling of sovereignty and a dedicated joint administration and synchronised rules and regulations related to trade, investment, and customs.

**Cross border economic zones** are an extension of border economic zones that develop cross-border linkages to develop comparative advantages of border areas, perhaps by focussing on specific value chains and cross-border linkages such as customs procedures, logistics services, and cross-border movement of labour, although may not be formally established like an SEZ. It is worth noting that while China’s preferred model for cross border economic zones appears to be the cross-border special economic zone model, the terminology “cross-border economic zone” is commonly used.

Wood and Sizba identify three options for the location of what they call border development zones (BDZ), which may be used as a catch-all term for all the aforementioned models. BDZs may be located in border towns to utilise urban infrastructure or support structures such as government hubs and financial services. Another option is BDZs at the border line to facilitate the movement of goods and people in and out of the zone. A third option is the development of cross border economic zones or cross border special economic zones across the border, where resources of both governments are pooled. The latter is significantly more complicated to establish as they require close cooperation between governments along with the reconciliation of two separate regimes covering customs, immigration, labour, and SEZ policy, as well as complicated and contentious political issues related to sovereignty in the CBSEZ territory.<sup>15</sup>

**Figure 2: Location of Border Development Zones**



Source: Wood and Sizba

<sup>15</sup> Wood, Christopher, and Clarence Siziba. 2015. The Potential for Border Development Zones (BDZs) on South Africa’s Northern Border. Unpublished Draft. [http://www.tips.org.za/files/border\\_development\\_zones\\_on\\_south\\_africas\\_northern\\_border.pdf](http://www.tips.org.za/files/border_development_zones_on_south_africas_northern_border.pdf) pp. 25-26

## 3.5 CBEZs and border development zones around the world

### 3.5.1 US-Mexico

The first border economic zones were established on the US-Mexico border. Free Zones were established in border towns of Tijuana and Ensenado in 1933<sup>16</sup>, with *maquiladoras* developed along the border in the 1960s, Mexican-based factories mostly run by foreign firms targeting the American market. Today they employ over 1.2 million people, and account for approximately 45% of Mexico's exports to the United States.<sup>17</sup> Mexico's Border Industrialization Programme permitted duty-free import of raw materials and the subsequent export of processed goods to the US were levied with only limited duties paid on the value-added in Mexico. Certificates were granted permitting high-skilled workers from the US such as engineers and factory management to work in the factories and were accompanied by a program of infrastructure development. Labour-intensive manufacturing such as electronics and textiles relocated to the zones, but later declined due to competition from China and Bangladesh and the end of the Multifibre Agreement in 2005. Economic policies and cross-border cooperation supported the development of these zones but availability of low cost labour and impunity for exploitative working conditions also played a role. Reports documented workers handling toxic materials with no protections, and of birth defects resulting from long hours in badly ventilated factories. Abuse persists to this day, with Stanford Medical School reporting that some female employees were 'regularly punched in the stomach, such that they are unable to sustain pregnancies' so firms could 'avoid the costs of maternity leave'.<sup>18</sup> This led to a backlash against foreign companies and underscores the importance of capable domestic enforcement agencies and cross-border cooperation to protect workers whose companies are based outside their government's authority.<sup>19</sup>

### 3.5.2 Europe

Although the political and economic context is very different to the Lancang-Mekong region, there are several examples of successful cross-border economic cooperation zones in Europe: between France and Belgium, Denmark and Sweden, and Finland and Russia. The first cross-border agreements were the BENELUX Cross-Border Convention of 1989 and the German-Dutch Cross-Border treaty of 1991. These have been called Euroregions and involve cross-border institutions of varying levels of formality with participants from local authorities, development agencies, and chambers of commerce.

### 3.5.3 France – Belgium

Two practices on the France and Belgium border are worthy of note. The first involves security and customs. The common Customs and Police Cooperation Centre of France and

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<sup>16</sup> Hansen, L. 2003. "The Origins of the Maquila Industry in Mexico", Comercio Exterior, Vol 53, No11.

<sup>17</sup> <https://www.dallasfed.org/assets/documents/research/papers/2011/wp1107.pdf>

<sup>18</sup> Navarro, S. 2014 "Inside Mexico's Maquiladoras: Manufacturing Health Disparities". Stanford University School of Medicine [http://schoolhealtheval.stanford.edu/files/StephanieNavarro\\_HumBio122MFinal.pdf](http://schoolhealtheval.stanford.edu/files/StephanieNavarro_HumBio122MFinal.pdf)

<sup>19</sup> Wood, Christopher, and Clarence Siziba. 2015. The Potential for Border Development Zones (BDZs) on South Africa's Northern Border. Unpublished Draft. [http://www.tips.org.za/files/border\\_development\\_zones\\_on\\_south\\_africas\\_northern\\_border.pdf](http://www.tips.org.za/files/border_development_zones_on_south_africas_northern_border.pdf).

Belgium was established in 2002 with 24 French and 13 Belgians managed by a bi-national management team. The institution is mainly for information exchange and does not substantially change police and customs management either side of the border.<sup>20</sup> Secondly, seven areas of organised access to cross-border healthcare (ZOASTs) were created along the border between 2008 and 2015. Patients within these zones receive care on both sides of the border without any financial or administrative barriers. This was enabled by a framework agreement on cross-border healthcare cooperation signed in 2005 by French and Belgian health ministers. This delegated power to regional authorities to negotiate and validate agreements and has become a benchmark for cross-border healthcare cooperation across Europe.<sup>21</sup>

### **3.5.4 Denmark – Sweden**

A second example from Europe can be found in the cross-border region between Denmark and Sweden in the Oresund region. Since the opening of a bridge/tunnel, cross-border links have been developed between the metropolitan area around Copenhagen in Denmark and the cities of Malmö, Lund and Helsingborg to facilitate the cross-border movement of people which has encouraged the development of high-technology clusters. A regional growth strategy was needed after the economic crisis, and informal institutions were established to facilitate communication at a trans-border regional level. These institutions are the Oresund Science Region, Oresund Business Council, Oresund Chamber of Commerce and the Business Bridge. They have no formal authority and serve to organise issues and articulate them to authorities that can change laws and regulations at the regional and national levels.<sup>22</sup>

### **3.5.5 Finland – Russia**

Several informal cross-border economic cooperation practices were developed between Finland and Russia before a state treaty on cross-border economic cooperation was signed in 2012 by Finland's Ministry of Employment and Russia's Ministry of Economic Development. An intergovernmental committee acts as the strategic cooperation body.<sup>23</sup> The World Bank helped both countries modernise customs procedures to facilitate cross-border trade.<sup>24</sup> However, cross-border economic cooperation has been undermined due to political issues. Baltic countries became increasingly wary of Russia following actions in Ukraine in 2014, and the Saiima Free Economic Zone agreed to in 2015 between Finland and Russia was suspended in 2016 after the Russian government became disappointed with the performance of free economic zones in general and decided to re-evaluate their regulatory frameworks.<sup>25</sup>

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<sup>20</sup> Wallack, Robert L. 2011. *Final Report: TA 7356 Developing Cross-Border Economic Zones Between PRC and Viet Nam*. Asian Development Bank. Wert, Bertrand, "Security Governance in the Largest Border-Metropolis of the Schengen Area: the Lille Eurodistrict Case Study," *Journal of Borderland Studies*, Vol 23, No. 3, Fall 2008, pages 101-02.

<sup>21</sup> Karen Vandeweghe 2018. ZOASTs - seven zones of organised access to cross-border healthcare. January. <https://ec.europa.eu/futurium/en/blog/zoasts-seven-zones-organised-access-cross-border-healthcare>

<sup>22</sup> Wallack, Robert L. 2011. *Final Report: TA 7356 Developing Cross-Border Economic Zones Between PRC and Viet Nam*. Asian Development Bank.

<sup>23</sup> <https://tem.fi/en/state-treaty-on-cross-border-cooperation-between-finland-and-russia>

<sup>24</sup> <http://www.worldbank.org/en/results/2014/04/15/facilitating-russia-eu-cross-border-trade-through-customs-modernization>

<sup>25</sup> <http://www.ponarseurasia.org/memo/not-all-lost-russian-eu-cross-border-cooperation>

### 3.5.6 China

China is the most active country promoting Border Development Zones, with at least 15 Border Economic Cooperation Zones along its borders with neighbouring countries. These were enabled by a 1992 decision by China's State Council, which created the bulk of these BECZs and gave their host cities open status, allowing them greater legal scope to attract foreign investment.<sup>26</sup> The decision was an extension of the opening up process that began in 1978 which primarily benefited coastal provinces. BCEZs in the north of the country aim to promote cohesion of the Chinese state by encouraging development in areas with high concentrations of ethnic minorities. Those in the south aim to promote integration with neighbouring economies of Vietnam, Myanmar, North Korea, and Russia.<sup>27</sup> The success of China's BECZs is mixed and contested, stimulating some local development but lagging far behind China's other SEZs. According to Wood and Siziba, the combined output of the BECZs in 2008 was merely 15% of the SEZs along the western coast, and only 1.3% of the total output of the (much larger) National Economic and Technological Development Zones. They also caution that evaluating the success of the zones must also take into account China's incredibly rapid growth rates, remarkably strong state, and an established track record of using SEZs, but note that they are nonetheless a source of useful lessons.<sup>28</sup>

#### 3.5.6.1 *China-Vietnam*

Since the 1990s China's policy has evolved, including through the promotion of Cross-Border Economic Zones, with three existing BECZ and SEZs to be expanded across the border, creating transnational zones in Hekou-Lao Cai (Viet Nam), Ruili - Muse (Myanmar), and Mohan - Boten (Laos PDR). China positioned three BECZs along the border with Viet Nam in 1992, at Hekou, Pingxiang, and Dongxing. The Hekou zone is the most developed, concentrating on logistics and trade services such as export processing and warehousing. According to Wood and Siziba, Vietnam's zones may have been restricted by the similarity of the Chinese and Vietnamese economies, both relying on competitive advantages in low-cost manufacturing and underdeveloped consumer markets and lacking clear complementarities.<sup>29</sup>

#### 3.5.6.2 *China-Myanmar*

Ruili and Wanding are two BECZs along the Myanmar border. Both focus on textiles, light industrial manufacturing, and agroprocessing. Jiegao Frontier Trade Zone appears to be an extension of the BECZ model, with the addition of visa-free movement and no customs control on goods entering the zone, with customs only involved when goods are imported from the zone.<sup>30</sup>

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<sup>26</sup> Wood, Christopher, and Clarence Siziba. 2015. The Potential for Border Development Zones (BDZs) on South Africa's Northern Border. Unpublished Draft.

[http://www.tips.org.za/files/border\\_development\\_zones\\_on\\_south\\_africas\\_northern\\_border.pdf](http://www.tips.org.za/files/border_development_zones_on_south_africas_northern_border.pdf). p.7

<sup>27</sup> Wood, Christopher, and Clarence Siziba. 2015. The Potential for Border Development Zones (BDZs) on South Africa's Northern Border. Unpublished Draft.

[http://www.tips.org.za/files/border\\_development\\_zones\\_on\\_south\\_africas\\_northern\\_border.pdf](http://www.tips.org.za/files/border_development_zones_on_south_africas_northern_border.pdf).

<sup>28</sup> Ibid. p. 8

<sup>29</sup> Ibid.

<sup>30</sup> Xiewei, G. 2007 "Basic Facts on Various Development Zones in the Border Provinces and Regions of China" conference paper presented at CAREC Program Policy and Management Mechanisms for Economic Development Areas, 22-24 August 2007. Wood, Christopher, and Clarence Siziba. 2015. The Potential for Border Development Zones (BDZs) on South Africa's

### 3.5.6.3 China-Laos

The Golden Boten SEZ was established on the Laos side in 2002 but was not successful. Established to cater to Chinese tourists, Chinese could walk across the border without a visa. The zone worked on Beijing time, accepted only Chinese currency, and spoke only Mandarin. The core of the zone was a casino, and the zone collapsed in 2011 when China cut all ties with the zone amidst reports of rampant crime, including ransoming individuals who could not pay their gambling debts.<sup>31</sup> Both central governments agreed to restart development of the border development zone as a CBSEZ in 2016 focusing on the development of modern logistics, import and export processing, cross-border tourism, trade exhibition, financial services, and the creation of a modern international land port city.

### 3.5.6.4 China-Kazakhstan

Of four BECZs in Kazakhstan, the Khorgos International Centre for Boundary Cooperation is the most interesting. Located on the border, the zone connects two cities from China and Kazakhstan: the Chinese city of Khorgas and the Kazakh city of Horgos. The Chinese city is on the Jinghe - Korgas railway, a major route across Xinjiang, connecting onto a planned freight route that would extend to Germany. This is a truly cross-border initiative, with 1.85km<sup>2</sup> in Kazakhstan and 3.43km<sup>2</sup> in China. There are no visa requirements in the zone, and the Kazakh side plans to develop international business centres, casinos, hotels, and a culture centre. The railway is the backbone of this development, a major route across Xinjiang connecting to a planned freight route that would extend to Germany. This CBEZ is promoted as a test centre for this kind of cross-border SEZ but has faced serious challenges due to lack of cooperation locally and bilaterally, corruption, especially among customs officials, remote location, and imbalance in the relative capacities of the Chinese and Kazakh states. The zone is also viewed with suspicion from import economies such as Russia, as it is seen as a vehicle for Chinese firms to access markets by establishing production bases on the borders of developing countries.<sup>32</sup>

### 3.5.6.5 China-North Korea

China accounts for 87% of North Korea's total trade and has two BECZs along the DPRK's border. One in Hunchun, another in Dandong. Dandong is linked to DPRK by a bridge built by China but remained closed as of 2015 as North Korea had not yet built facilities on the other side.<sup>33</sup> North Korea planned to develop two SEZs on islands close to the border with China, but the main backer of the project, Kim-Jong Il's number two, Jang Song-taek, fell out of favour and was executed, leaving the project in limbo.<sup>34</sup>

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Northern Border. Unpublished Draft.

[http://www.tips.org.za/files/border\\_development\\_zones\\_on\\_south\\_africas\\_northern\\_border.pdf](http://www.tips.org.za/files/border_development_zones_on_south_africas_northern_border.pdf)

<sup>31</sup> Ron Gluckman. "Bungle in the Jungle" (2011) <http://www.forbes.com/global/2011/0808/companies-laos-china-economy-gambling-gangsters-bungle-jungle.html>

<sup>32</sup> Wood, Christopher, and Clarence Siziba. 2015. The Potential for Border Development Zones (BDZs) on South Africa's Northern Border. Unpublished Draft.

[http://www.tips.org.za/files/border\\_development\\_zones\\_on\\_south\\_africas\\_northern\\_border.pdf](http://www.tips.org.za/files/border_development_zones_on_south_africas_northern_border.pdf); Trilling, David. 2014. "On China Kazakhstan Border Lies a Lopsided Free Trade Zone." Eurasia.Net. 2014.

<sup>33</sup> Global Times. 2015. "Bridge Over Troubled Water" <http://www.globaltimes.cn/content/905636.shtml>

<sup>34</sup> Z38 North, "China's Embrace of North Korea: The Curious Case of the Hwanggumpyeong Island Economic Zone", 19 February 2012. <http://38north.org/2012/02/hgp021712/>

### 3.5.6.6 China-Russia

There are four BECZs along China's border with Russia. Suifenhe sits on the southern end of the border near the South China Sea, focussing on rail linkages and accompanying logistics operations. It also includes some light manufacturing targeting the Russian market such as textiles. Cooperation has extended beyond the BECZ with the establishment of the Suifenhe Sino-Russian Trade Zone which allows visa free travel and targets cross-border retail, but the zone will also include an import and export processing area, a bonded area, an imported chemicals industry area, two emerging industry areas, an imported timber reserve, a processing and trade area, and a border economic cooperation and investment service area.<sup>35</sup>

### 3.5.7 East Asia

#### 3.5.7.1 Vietnam

Vietnam started to liberalise its economy with the Doi Moi reforms in 1986, including the creation of SEZs and free trade zones. Some proponents view the SEZs as contributing to Vietnam's rapid development, while others say the SEZs are uncompetitive and growth owes more to the country's nascent economic potential.<sup>36</sup> The Lao Bao Special Economic and Commercial Zone was launched in the early 2000s on the border with Laos at Dansavanh, a major logistics corridor. It is divided into five zones, comprising an Industrial, Trading and Services Zone (trading, storage, convention centre), a North-West Industrial Zone (manufacturing: food and beverages, electronics, furniture), a cultural park (hospitality, entertainment), international border gate (customs port, storage, duty-free shopping) and an ecotourism zone. Lao Bao was considered a successful SEZ, in large part due to its strategic location on the border but may have been adversely affected by recent policy changes.<sup>37</sup> Interestingly, the zone emphasised skills development through on-the-job training and links to vocational training schools. However, the Vietnamese side is more developed than the Laos side, and it is not clear how benefits are shared between countries.<sup>38</sup> A similar arrangement exists with Cambodia, at the Moc Bai Border Gate Economic Zone (Vietnam) with a corresponding SEZ on the Cambodian side, Tai Seng Bavet Special Economic Zone where there are garment factories and bicycle manufacturers, while the Viet Nam side focuses on logistics.

#### 3.5.7.2 Indonesia - Singapore - Malaysia

The Indonesian islands of Riau are located on a major transport corridor, one of the busiest shipping lanes on earth. In 1989 Indonesia and Singapore reached an agreement to develop the islands, offering Singapore cheap land and cheap labour. The Malaysian state

<sup>35</sup> Zhou Huiying. 2013. "Suifehne Becoming Key Trade Link in NE Asia" [http://www.chinadaily.com.cn/china/2013-12/06/content\\_17160622.htm](http://www.chinadaily.com.cn/china/2013-12/06/content_17160622.htm)

<sup>36</sup> VietNamNet Bridge "Vietnam Still Dreams of Special Economic Zones" 2014. <http://english.vietnamnet.vn/fms/business/97982/vietnam-still-dreams-of-special-economic-zones.html>

<sup>37</sup> Personal communications with an ADB consultant.

<sup>38</sup> Wood, Christopher, and Clarence Siziba. 2015. The Potential for Border Development Zones (BDZs) on South Africa's Northern Border. Unpublished Draft. [http://www.tips.org.za/files/border\\_development\\_zones\\_on\\_south\\_africas\\_northern\\_border.pdf](http://www.tips.org.za/files/border_development_zones_on_south_africas_northern_border.pdf). p.19

of Johor joined later to form the Indonesia-Malaysia-Singapore Growth Triangle project. A range of initiatives are included in the project, including a beach resort and marine complex servicing the oil industry, and the Batamindo Industrial Park. This was developed on a 40:60 equity share between two government linked Singaporean firms, and Indonesia's largest conglomerate. Singaporeans were responsible for the development and management of the park, Indonesians for the recruitment of labour. Strong economic complementarities were responsible for the success of the zone, with Singapore's infrastructure and reputation for corruption free management coupled with Indonesia's low cost labour and natural resources.<sup>39</sup>

### **3.5.7.3 Thailand: Ayeyawady - Chao Phraya - Mekong Economic Cooperation Strategy**

The ACMECS is an economic cooperation strategy involving five developing countries: Cambodia, Laos, Myanmar, Thailand, and Vietnam. Established in 2003, a core initiative is the development of transport infrastructure linking the five countries and the promotion of industrial zones in border areas, focussing on green growth and sustainable development.<sup>40</sup> Four major developments under this strategy include Mae Sot Myawaddy (Thailand-Myanmar), Mukdahan-Savannakhet (Thailand-Laos), and Trat-Koh Kong (Thailand - Cambodia). Another zone was developed in Chiang Rai, on a three way border between Thailand-Myanmar-Laos. The Industrial Estate Authority of Thailand is developing all four areas. Limited transnational cooperation has constrained the development of these zones.

The rationale of the ACMECs is to address inter and intraregional disparities within Thailand, and international development disparities between Thailand and the CLM (Cambodia, Laos, Myanmar) GMS countries. Trade and investment in the region are promoted by 'enhancing cross-border trade toward development of regional production bases for goods and services in the region' through a deepening of economic relations with neighbouring countries under various bilateral and regional agreements, policies that 'have concertedly facilitated toward the establishment of special border economic zones in Thailand', strategically placed along GMS economic corridors.<sup>41</sup>

### **3.5.7.4 Smaller border cooperation zones**

A comprehensive overview of all border economic zones cannot be provided due to limitations of the paper and the inclusive nature of a concept that incorporates a range of cross-border economic cooperation strategies. Nonetheless, BEZs in China and the rest of Asia are commonly cited as the best examples. These tend to be government-led and support big-business. Another approach worth sharing focuses on the development of small and medium sized enterprises. This kind of zone operates on the border between Turkey-Greece-Bulgaria. The town of Uzunköprü (Turkey) has served as a transport corridor but generally remained underdeveloped. An initiative led by the town's Chamber of Commerce

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<sup>39</sup> Wood, Christopher, and Clarence Siziba. 2015. The Potential for Border Development Zones (BDZs) on South Africa's Northern Border. Unpublished Draft.

[http://www.tips.org.za/files/border\\_development\\_zones\\_on\\_south\\_africas\\_northern\\_border.pdf](http://www.tips.org.za/files/border_development_zones_on_south_africas_northern_border.pdf). p.20

<sup>40</sup> ASEAN . 2013. "Vientiane Declaration of The Fifth Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy Summit" <http://www.asean.org/news/asean-statement-communiqués/item/vientiane-declaration-of-the-fifth-ayeyawady-chao-phraya-mekong-economic-cooperation-strategysummit>

<sup>41</sup> Choen Krainara, "Cross-Border Trade and Commerce in Thailand: Policy Implications for Establishing Special Border Economic Zones," (Asian Institute of Technology, 2008). p.24, 23

and an Ankara-based research institution advanced a border initiative targeting SMEs, assisting firms undertaking basic processes based on established local production. This included processing olives into olive oil, hazelnuts into hazelnut paste, and tomatoes into tomato paste. As Wood and Sizba note, this demonstrates that governments do not have to take the lead, and that civil society and local organised business groupings can make a meaningful impact to promote border development.<sup>42</sup>

### 3.5.8 Border SEZs in the GMS

The ADB has promoted the development of SEZs along GMS economic corridors since 1998, including at border crossings. Borders have been described as the weak link along economic corridors as they abruptly interrupt political and economic activity and are often distant from the centres of economic activity.<sup>43</sup> Border economic zones were developed by several GMS countries, such as Thailand, PRC, and Viet Nam to address these issues. However, as noted by the ADB, an SEZ on one side of the border is unlikely to significantly unblock or strengthen these linkages on their own, hence the rationale of CBEZs focusing on trade facilitation to create more fluid and seamless border crossings to enhance the effectiveness of economic corridors.<sup>44</sup> A list of current border SEZs and other SEZs in the region is provided below:

**Table 2: Border SEZs in the GMS**

<b>Corridor</b>	<b>Border Special Economic Zones</b>	
<b>North-South</b>	Mohan (PRC)	Boten (Lao PDR)
	Thonpeung (Lao PDR)	Golden Triangle (Myanmar)
	Ruili (PRC)	Muse (Myanmar)
	Pingxian (PRC)	Dong Dang/Lang Son (Viet Nam)
	Hekou (PRC)	Lao Cai (Viet Nam)
	Mong Cai (Viet Nam)	Fangchengang (PRC)
<b>East – West</b>	Myawaddy (Myanmar)	Mae Sot (Thailand)
	Lao Bao (Viet Nam)	Dansavan (Lao PDR)
<b>Southern</b>	Savan – Seno (Lao PDR)	Mukdahan (Thailand)
	Bavet (Cambodia)	Moc Bai (Viet Nam)
	Poipet (Cambodia)	Aranyaprathet (Thailand)
	Koh Kong (Cambodia)	Trat / Souy Cheng (Thailand)

Source: ADB

**Table 3: SEZs in the GMS**

<b>Country</b>	<b>Special Economic Zone</b>	<b>Corridor</b>
<b>Cambodia</b>	Sihanoukville Port SEZ	Southern Coastal
	Sihanoukville SEZ 1	Southern Coastal
	Sihanoukville SEZ 2	Southern Coastal
	Kampot SEZ	Southern Coastal

<sup>42</sup> Wood, Christopher, and Clarence Siziba. 2015. The Potential for Border Development Zones (BDZs) on South Africa's Northern Border. Unpublished Draft.

[http://www.tips.org.za/files/border\\_development\\_zones\\_on\\_south\\_africas\\_northern\\_border.pdf](http://www.tips.org.za/files/border_development_zones_on_south_africas_northern_border.pdf). p.24

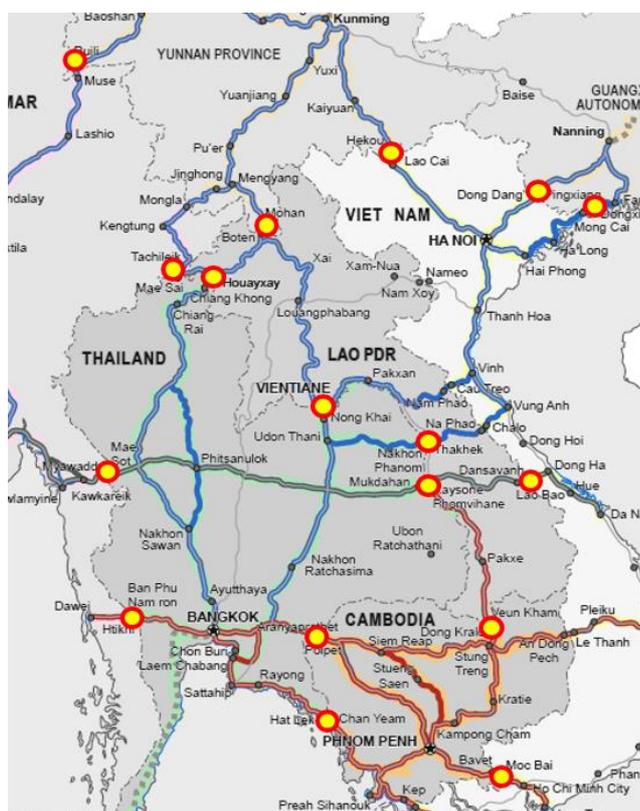
<sup>43</sup> Asian Development Bank. 2017. Progress Report I Volume 1: GMS Capacity Development for Economic Zones in Border Areas. p.10

<sup>44</sup> Asian Development Bank. 2017. GMS Urban Development Strategy: Technical Note Special Economic Zones in the GMS.

	Phnom Penh SEZ	Southern
	Gold Fame Pak Shun SEZ, Phnom Penh	Southern
<b>Laos PDR</b>	Vientiane Industrial and Trade Area	Central
	Saysetha Development Zone, Vientiane	Central
	Thatluang Lake Specific Economic Zone, Vientiane	Central
	Longthanh-Vientiane Specific Economic Zone	Central
	Dongposy Specific Economic Zone	Central
	Thakhek Specific Economic Zone	Central
	Phoukhyo Specific Economic Zone	Central
<b>Myanmar</b>	Dawei SEZ	East - West
	Kyauk Phyu SEZ	China –Myanmar
	Thilawa SEZ	None
<b>Thailand</b>	•	•
<b>PRC</b>	•	•
<b>Vietnam</b>	27 BEZs in 21 provinces	•

Source: ADB

**Figure 3: Map of Border SEZs in the LMC**



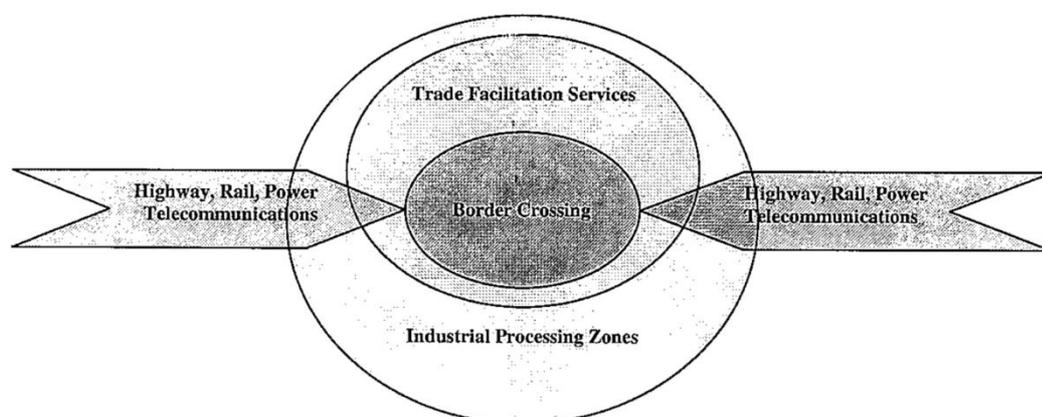
Source: ADB

Several studies and technical assistance projects sponsored by the ADB have been written on SEZs in GMS over the past three years. A summary of their findings follows.

A model for the development of cross-border economic cooperation zones can be found in a UNDP project promoting the development of CBEZs between the PRC and Viet Nam.<sup>45</sup>

Figure 4: Diagram of Cross-Border Economic Cooperation Zone

Figure 4: Diagram of Cross-Border Economic Cooperation Zone



Source: UNDP 2004

When successful, SEZs can develop as potential growth nodes and incubators of good practices and facilitate structural changes such as technology transfer and physical capital deepening, such as through the Thailand +1 model and skills transfer through “train the trainer” programs in the Vietnam +1 model. Some SEZs in Laos have been successful in attracting foreign investors who would otherwise not have come to the country.<sup>46</sup>

Key success factors include:

- A. Provision of modern infrastructure, advanced border crossings, and cheap and reliable utilities such as electricity, water, telecommunications, and waste disposal
- B. Free movement of goods and people, including visa free movement or visa on arrival, and discretionary quotas for work permits
- C. Establishment of dedicated customs facilities, testing and certification labs for agriculture and livestock, warehouse facilities
- D. Relaxing rules of origin for goods processed in BEZs
- E. Quality logistics, and specifically road and sea linkages along the EWEC
- F. Independent SEZ governing authorities such as one stop service centres
- G. Transparent standards and consistent policies with strong support from local and national government
- H. Identification of clusters, such as automotive in Thailand’s eastern seaboard, or electronics in Ayutthaya.<sup>47</sup>

<sup>45</sup> Government of the People’s Republic of China, UNDP. 2007. “Enhancing China-ASEAN Economic Integration: Cross-Border Economic Cooperation Zones at the China-Vietnam Border (CBEZ),” September, 1–38.

<sup>46</sup> Asian Development Bank. 2016. “Role of Special Economic Zones in Improving Effectiveness of GMS Economic Corridors,” November, 1–45.

<sup>47</sup> Ibid; Abonyi, George, Anthony Zola, and Eggaluck Suwannakarn. 2014. Support for Implementing the Action Plan for Transport and Trade Facilitation in the GMS: Scoping Study on Developing Border Economic Areas and Cross-border Linkages between Thailand and its Neighbors. Paper prepared for ADB Thailand Resident Mission.

Key challenges include:

- A. Lack of coordination between authorities on either side of a border undermines potential success and may trigger competitive rather than complimentary development of BEZs. Governments need to cooperate closely to develop successful CBEZs. Often they are limited to a simple model of border trade rather than the integration of industries through the development of supply chains or co-production bases. To this end, BEZ development plans, trade-related policies, laws, regulations, and procedures need to be harmonised.
- B. Successful BEZs may not always be due to SEZ policy but rather location (e.g. Mae Sot, Aranyaprathet), zone management, and infrastructure (e.g. Savan Seno SEZ). The core message of a business survey conducted in Tak Province, the location of the Mae Sot SEZ, is that the SEZ seems to have little to do with attracting investment.<sup>28</sup> Similarly Warr urges caution attributing the success of Savan-Seno SEZ in Laos to SEZ policy, since the development of the Thai - Laos Friendship bridge would have otherwise contributed to development of the border area and a large reason for the success of the area is the professionalism of a Malaysian SEZ developer in one of the five zones in Savan-Seno SEZ.<sup>48</sup>
- C. While China and Thailand are prioritising development of SEZs in border areas, other CLMV countries are not.
- D. Local business communities not involved in consultation and planning of zones, which may have contributed to low rates of investment hindering progress of zones, such as in PRC-Vietnam.<sup>49</sup>
- E. Management skills set and practices in GMS SEZs often fall short of firms' expectations.<sup>50</sup>
- F. In some cases growth in cross-border areas is driven by differences in regulatory regimes. This may come at the cost of worker livelihoods and the local environment, and risks backlash against authorities on both sides of the border.
- G. The ultimate aim of border SEZs, as with all SEZs, is to become more than processing zones and less special by contributing to nationwide development. Obstacles to achieving this include the absence of educational institutions to help skills upgrading once wages increase and location loses its comparative advantage, and absence of financial institutions to provide credit to firms in SEZ, especially SMEs.
- H. Hopes of backward linkages to local economies and substantial technology transfer are often frustrated, especially in lesser developed countries.<sup>30</sup> As a result, SEZs do not always contribute to local development and risk contributing to dependent growth. While SEZs may contribute to increased GDP, increased levels of trade, and increased GNI per capital, without the development of backward linkages SEZs do not actively promote or contribute to local development, such as individual's income, education opportunities, health services, and economic opportunities.<sup>51</sup>

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<sup>48</sup> Asian Development Bank. 2016. "Role of Special Economic Zones in Improving Effectiveness of GMS Economic Corridors," November, 1–45. p.18

<sup>49</sup> Policy Coordination and Planning of Border Economic Zones of the People's Republic of China and Viet Nam p.1.

<sup>50</sup> Warr, Peter, and Jayant Menon. 2015. Cambodia's Special Economic Zones. ADB Economics Working Paper Series No. 459. p.3

<sup>51</sup> Bafoil, Francois, Nicolas Diaz, Sophie Guerin, Allison Morris, and Sophia Sen. 2011. Developing Dependency: Special Economic Zones in the Greater Mekong Sub-Region: a Comparative Perspective. p.5

Moving forward, several issues are important to address to maximise development potential of BEZs:

- A. Improving infrastructure and upgrading trade facilitation measures, such as customs procedures and facilities
- B. Clear and coherent visions and strategies reflecting local and national conditions and interests are needed for effective border area development
- C. Strategies should be based on specific cross-border value chains. Constraints facing the garment industry are likely to be different to those faced by the electronics industry, for example.
- D. Strategy and implementation must be aligned with both countries development strategy and local conditions, otherwise balanced sustainable development will be elusive.
- E. Local businesses and communities must be included in collaborative development of border economic zones
- F. SEZs are not the only option for implementing a strategy of cross-border development, and BEZs or CBEZs may be more suited for certain locations, such as Ubon Ratchatani (Thailand) – Champasak (Lao PDR), respectively.
- G. Backward and forward linkages with the rest of the economy must be developed in order to encourage domestic participation, knowledge sharing, innovation, skills development, access to credit for SMES. This happened with SEZs in the PRC; the Republic of Korea; Malaysia; and Taipei, China.
- H. GMS countries need to work at moving up the industrial value chain. While manufacturing may remain the staple for low-income economies, all countries in the GMS must examine the potential of services such as logistics, finance, information technology, research and development centres, e-governance systems, and training and recreational centres

An in-depth study of towns on 17 border crossings and SEZ policy across the GMS has recently been completed by Verbiest for the ADB. This includes a review of current and best practices of national and cross-border institutions to enhance cooperation and joint development of cross-border zones. It also uses qualitative and quantitative indicators to prioritise the following areas for support under the ADBs corridor town development project:

- I.PRC-Vietnam: Hekou-Lao Cai
- II.PRC-Vietnam: Pingxiang-Dong Dang
- III.PRC-Vietnam: Dongxing-Mong Cai
- IV.PRC-Lao PDR: Mohan-Boten
- V.Myanmar-Thailand: Myawaddy-Mae Sot
- VI.Thailand-Lao PDR: Mukdahan-Kaysone Phomvihane
- VII.Thailand-Lao PDR: Nong Khai-Vientiane
- VIII.Cambodia-Vietnam: Bavet-Moc Bai<sup>52</sup>

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<sup>52</sup> Asian Development Bank. 2017. Progress Report I Volume 1: GMS Capacity Development for Economic Zones in Border Areas.

## **4 STATUS OF THE DEVELOPMENT AND SCOPE OF SEZs AND CBEZs IN THE LMC**

This section provides a brief update on SEZ policies and the development of the border economic zones in the LMC. It draws on a recent study for the ADB *Progress Report 1: Volume 1 Greater Mekong Subregion: Capacity Development for Economic Zones in Border Areas*, which may be consulted for more detailed information about specific policies, border towns, and trade potential.<sup>53</sup>

### **4.1 Thailand**

Thailand's border economic zones date to 1993 when all border provinces were classified as investment promotion zones and tax and non-tax incentives were offered to businesses to invest in less developed areas. After the ADB promoted the establishment of SEZs along economic corridors in 1998 plans to upgrade Thailand's BEZs to border SEZs emerged under Thaksin Shinawatra's first administration in 2003, with Chiang Rai SEZ established as the first pilot project. Prior to this export processing zones had been established across Thailand, subject to national environmental and social regulations. The innovation introduced with Chiang Rai SEZs was to include a special zone administrator delegated by the Prime Minister to minimise state regulation, bureaucratic system, and legal system to attract investments. Political discontinuity and complex legal issues surrounding the decentralisation of responsibilities from central government authorities to SEZ authorities slowed the development of Thailand's SEZs since 2003. Yingluck Shinawatra's government declared its intention to develop Mae Sot as a special economic zone in April 2011, but it was not until the National Council for Peace and Order assumed power in 2014 that developments moved ahead. The NCPO announced a New Policy on Special Economic Development Zones to create economically productive areas in border cities and contribute to balanced development of border areas utilising Thailand's good connectivity with neighbouring countries. A Special Economic Development Zone Policy Committee was established under NCPO Order 72/2014 with six sub-committees responsible for overseeing development of SEZs.

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<sup>53</sup> Asian Development Bank. 2017. Progress Report I Volume 1: GMS Capacity Development for Economic Zones in Border Areas.

**Figure 5: Location of Thailand's Special Economic Development Zones**



Source: Thailand Board of Investment

Ten areas for SEZ development were prioritised based on a feasibility study conducted in 2013. The first phase began in 2015 including 5 provinces of Tak (1,419 km<sup>2</sup>), Mukdahan (578.5 km<sup>2</sup>), Sakaeo (332 km<sup>2</sup>), Trat (50.2 km<sup>2</sup>) and Song Khla (552.3 km<sup>2</sup>), comprising 10 districts and 36 sub-districts. A second phase commenced in 2016 focusing on Nongkhai (473.7 km<sup>2</sup>), Narathiwat (235.2 km<sup>2</sup>), Chiang Rai (1,523.6 km<sup>2</sup>), Nakhon Phanom (794.8 km<sup>2</sup>) and Kanchanaburi (552.3 km<sup>2</sup>), comprising 12 districts and 55 sub-districts. The government set aside substantial budgets for 3 years between 2015-2017 to develop infrastructure for the SEZs including transportation, customs checkpoints, and public utilities linked to the SEZs. Land was allocated to government agencies to use, or for the Industrial Estate Authority of Thailand or the private sector to rent and develop. The BOI promoted the development of distribution centres and labour intensive industries in the zones, especially those utilising raw materials from neighbouring countries.

The following activities are prioritised in each SEZ:

- **Tak.** International Cross Docking Centre and Labour-Intensive Industrial Cluster
- **Mukdahan.** Trading Centre and Multimodal Transportation. An important channel to transport goods i.e. beverages, fruits, electronic parts to Vietnam and Southern China. Opportunity for co-production with Savan-Seno SEZ, e.g. Factory producing camera parts (Nikon), aircraft seats and equipment (Aeroworks)
- **Sa Kaeo.** Agroprocessing Industries and Multimodal Transportation”. International wholesale and retail trading due to proximity to Laem Chabang Seaport. Possible co-production with Poipet - O’Neung SEZ in Cambodia, labour intensive projects from Thailand like garment factories, jewellery boxes
- **Trat SEZ.** Trade and Distribution Centre, Multimodal Transport and Regional Tourist Hub. Tourism, and connects to Koh Kong SEZ, which has investments in auto assembly

(Hyundai), volleyball manufacturer (Mikasa) and electric cables used in automobiles (Yazaki).

- **Songkhla SEZ.** Export Processing Industries and Multimodal Transport. Processed rubber, seafood, and electronics
- **Chiang Rai SEZ.** Tourism, Food Manufacturing, Agroproducts, Multimodal Transport. Logistics to southern China. Furniture, wood products.
- **Nong Khai. SEZ.** Trading Centre, Tourism, Multimodal Transport. Focus on cross-border trade with Laos. Udon Thani airport, road links to Vientiane
- **Nakhon Phanom.** Cross-border trading and Logistic Service Areas. Channel for cross border trade with Vietnam and Guangxi (China). Possibly also to Vung Ang Seaport in Vietnam for Japan, Korea, Taiwan. Production hub for agricultural products (rice, sugar cane, tapioca) supporting development of processed agroindustry. Also tourism. Cross-border trade, logistical services, commercial zones.
- **Kanchanaburi SEZ.** Industrial estate, eco-tourism, agriculture, and cross-border trade. Link to Dawei SEZ. Processed agroindustry, food and beverages, chemical products, automotive industry. Two sea access points and labour in Myanmar.
- **Narathiwat SEZ.** Cross-border trade, food industry, transport. Raw materials for agroindustry (rubber, palm oil) and culture for Halal food.

Incentives for investors include fiscal measures and government facilitation. Firms may be entitled to corporate tax exemptions, import duties exemptions, and to employ foreign labour who commute daily across the border; although current arrangements with Cambodia and Myanmar provide for temporary stay for foreign workers for up to 30 days. Government facilitation includes the development of basic infrastructure (highways, railways, airports), allocation of land for rent, and establishing OSSCs to facilitate SEZ investment paperwork, trade and investment services, labour issues, public health, and security.

While border trade value between Thailand and neighbouring countries has been growing the establishment of industrial parks in designated border SEZ areas has been much slower than expected as there is often no clear vision as to what activities are clearly targeted. According to Verbiest, few or no investors responded to bit proposals.<sup>54</sup> From 2015 to August 2016, 46 investors applied for BOI investment promotion in 8 SEZs, with 41 applications approved for a total investment of 8,751 million Baht (\$261million). 24 of these applications were in Mae Sot and employed significant numbers of Myanmar migrant workers. Investments were predominantly in garments, but also in plastic products, concrete products, and animal feed.<sup>55</sup> Mae Sot has developed as a hub of trade and industry since the 1990s and it is not clear how many of these investors were not previously based in Tak. One challenge is a sharp increase in land prices, mostly doubling after areas were declared part of an SEZ.<sup>56</sup> Other notable challenges are that investment incentives in SEZs are not significantly different to other schemes promoted by the BOI, the double deduction of transport, electricity, and water expenses does not encourage economising the use of electricity and water or to be mindful of environmental issues, SEZ policy encourages labour intensive industries, in contrast to other national development plans that encourage capital-intensive and high-technology industries. Moreover, the government is placing emphasis on

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<sup>54</sup> Asian Development Bank. 2017. Progress Report I Volume 1: GMS Capacity Development for Economic Zones in Border Areas. p. 27

<sup>55</sup> Ibid. p. 28

<sup>56</sup> Ibid. p. 28-29

the EEC and there is uncertainty regarding the election currently scheduled for 2019.<sup>57</sup> In August 2018 the Thai government announced plans to emphasise transportation and logistics in its border SEZs over industrial parks.<sup>58</sup>

There are several key challenges for Thailand to confront in the development of border SEZs:

- A. A clear vision and long-term plans for each border SEZ needs to be developed inclusive of the concerns and aspirations of local communities, private sector, and public officials. Local businesses in Aranyaprathet and Mae Sot reported SEZ policy has made the business environment more challenging. Local opposition to the SEZ in Chiang Rai has stymied progress.
- B. Domestic and cross-border public-private sector consultative mechanisms are needed to co-develop border areas. Annual meetings occur at the governor level, but there is generally little coordination on development issues, including strategic SEZ development issues. There is potential to develop border areas based on comparative advantages and build co-production bases but regular communication and coordination mechanisms at the local and bi-lateral level are required. Without these the potential of border areas will not be realised and economic zones on either side of the border would develop in competition. Aranyaprathet - Poipet and Mae Sot - Myawaddy are of particular concern.
- C. Trade regulations and customs procedures need to be harmonised to facilitate cross-border trade. Irregular trade is a concern along all Thailand's borders
- D. High land prices are an obstacle to the development of industrial parks on the Thai side of the border
- E. Harmonisation and streamlining cross-border transportation regulations and procedures. The volume of trucks crossing into Thailand at Chiang Khong has declined in recent years due to the deterioration of the quality of the road link to Mohan-Boten, and there are challenges obtaining permits for non-Thai vehicles and drivers. This undermines Thailand's ability to capitalise on cross-border trade with China. Policies related transportation and logistics in Mae Sot also need to be updated.

## 4.2 China

China has a wide range of SEZs including but not limited to Special Economic Zones, National Economic and Technological Development Zones, High Tech Industrial Development Zones, Free Trade Zones, Export Processing Zones, Bonded Logistics Zones, Cross-Border Economic Zones and Overseas Economic and Trade Cooperation Zones. China's SEZs are more functionally diverse than other SEZs and cover large land areas. The term SEZ is usually applied only to seven specific zones developed in the late 1970s and early 1980s: Shenzhen, Zhuhai, Shantou, Xiamen, Hainan, Shanghai Pudong New Area, and Tianjin Binhai New Area. When this initial opening to trade and investment was successful Chinese authorities created a variant of SEZs called National Economic and

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<sup>57</sup> Durongkaveroj, Wannaphong. 2018. "OPINION: Thailand's Special Economic Zones Fail to Deliver." Policy Forum. <https://international.thenewslens.com/article/92246>.

<sup>58</sup> Phoonphongphiphat, Apornrath. 2018. "Thailand Scraps New Economic Zones and Plans Regional Linkups." *Nikkei Asian Review*. <https://asia.nikkei.com/Economy/Thailand-scraps-new-economic-zones-and-plans-regional-linkups>.

Technological Development Zones in 1984, informally known as industrial parks. 14 ETDZs were established in coastal cities between 1984 and 1988, and later in river deltas.<sup>59</sup>

Following a decision by China's State Council, 17 National Border Economy Cooperation Districts (NBECDs) (sometimes referred to as Border Economic Cooperation Zones (BECZs)) were established along inland borders with neighbouring countries from 1992. These included two in Guangxi Province: Pingxiang Border Economy Cooperation District and Dongxing Border Economy Cooperation District, and four in Yunnan province: Wanding Border Economy Cooperation District, Hekou Border Economy Cooperation District, Ruili Border Economy Cooperation District, and Lincang Border Economy Cooperation District. In 2012, three National Key Development and Opening-up Experimental Zones were approved to propel the development of certain CBEZs and serve as a demonstration for others, followed by another four during 2014-2016. Dongxing and Ruili were among the first three approved, Mohan was approved in 2015, and Pingxian in 2016.<sup>60</sup>

In 2015 China published *Vision and Actions on Jointly Building Silk Road Economic Belt and 21<sup>st</sup>- Century Maritime Silk Road (VAJBBR)*.<sup>61</sup> This provides an overall development strategy for the Belt and Road Initiative, promoting the development of transportation infrastructure and enhanced cooperation with GMS countries with an emphasis on the Guangxi Zhuang Autonomous region and Yunnan Province. It proposes the development of international transport corridors connecting southwestern and mid-south regions of China with the GMS and facilitation of multimodal international transportation links to facilitate logistics, the development of customs clearance facilities at border ports such as "single-windows". Cooperation to conserve eco-environments, protect bio-diversity, and tackling climate change, as well as tourism is emphasised. Two new kinds of SEZs were promoted: overseas economic and trade cooperation zones (OETCZs) and cross-border economic cooperation zones (CBEZs). OETCZs have been built worldwide since 2006, including the Thai-Chinese Rayong Industrial Zone in Thailand, the Sihanoukville Special Economic Zone in Cambodia, the Long Jiang Industrial Park in Vietnam, and the Vientiane Saysettha Development Zone in Laos.<sup>62</sup> CBEZs are an extension of the BECZs aiming to enhance cross-border coordination and co-develop border areas. Of the BECZs developed since 1992 the China-Kazakhstan Horgos International Frontier Cooperation Centre was the first to be upgraded to a CBEZ, approved in 2006 and opening in 2012. The second is the China-Laos Mohan-Boten Economic Cooperation Zone, approved in 2016 and currently under construction. China and Vietnam signed MOUs to develop four CBEZs at Pingxiang - Dong Dang, Dongxing - Mong Cai, Longbang - Tra Linh, and Hekou-Lao Cai between 2005 and 2007, but over 13 years progress of the development of these zones have been slow due to various bilateral financial and political issues.<sup>63</sup> As of August 2018 negotiations were ongoing between authorities in Yunnan and Myanmar about developing a China-Myanmar Ruili-Muse Cross Border Economic Cooperation Zone. An agreement to build a China-

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<sup>59</sup> Zeng, Douglas Zhihua. 2012. *China's Special Economic Zones and Industrial Clusters: Success and Challenges*. Lincoln Institute of Land Policy Working Paper.

<sup>60</sup> Asian Development Bank. 2017. Progress Report I Volume 1: GMS Capacity Development for Economic Zones in Border Areas. p. 27

<sup>61</sup> [http://en.ndrc.gov.cn/newsrelease/201503/t20150330\\_669367.html](http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html)

<sup>62</sup> <http://www.cccme.org.cn/cp/cooperation/zones.aspx>

<sup>63</sup> Asian Development Bank. 2017. Progress Report I Volume 1: GMS Capacity Development for Economic Zones in Border Areas. p. 24

Myanmar Economic Corridor was signed by Myanmar and China in September 2018.<sup>64</sup> China's CBEZs at Mohan-Boten (Laos), Ruili-Muse (Myanmar), and Dongxing - Mong Cai (Vietnam) will prioritise logistics and import-export processing to facilitate the development of three north-south economic corridors connecting China with mainland southeast Asia. The zones will also promote industry, tourism, cultural exchanges, and financial services.

China's planned CBEZs.

- I.Hekou (PRC) - Lao Cai (Viet Nam)
- II.Mohan (PRC) - Boten (Laos)
- III.Ruili (PRC) - Muse (Myanmar)
- IV.Dongxing (PRC) - Mong Cai (Viet Nam)
- V.Pingxiang (PRC) - Dong Dang (Vietnam)

The development of financial services in China's CBEZs is notable. In Hekou 7 financial institutes can deal with international financial transfers, 6 have signed agreements with 10 Vietnamese institutes to facilitate cash and electronic transfers and guarantees, payment of taxes and duties, and VAT refunds. The Agricultural Bank of China also provides loans to SMEs and helps repatriate CNY from Vietnam.<sup>65</sup> Mohan-Boten CBEZ is also developing financial services and plans to develop as a financial hub between China and mainland SEA. Further research could be conducted here so that best practices may be shared with other CBEZs such as Mae Sot - Myawaddy where lack of financial services and access to credit constrains development potential.<sup>66</sup>

Figure 6: Proposed North-South Corridors from Yunnan Province



Source: Charlie Thame, 2018

<sup>64</sup> <http://www.globaltimes.cn/content/1119411.shtml>

<sup>65</sup> Interviews with public and private sector stakeholders, Hekou August 2018

<sup>66</sup> Interviews with public and private sector stakeholders, Mae Sot July 2018

## 4.3 Laos

Savan - Seno was the first SEZ to be established in Laos in 2002 following a JICA feasibility study to develop the 2<sup>nd</sup> Lao-Thai Friendship bridge along the East-West Economic Corridor in Savannakhet. Several decrees were promulgated between 2002-2009 to legislate for the development, governance, and management of SEZs, such as Prime Minister Decrees 177 and 148, in addition to several SEZ specific decrees. More decrees were promulgated to update the policy framework between 2009-2011. A new decree, No.188 was signed in June 2018 to further update the legislative framework of SEZs in Laos, in conjunction with the Investment Promotion Law. SEZs are currently covered by the following regulatory framework:

- I.Law on Investment Promotion, No. 14/NA, dated 17/11/2016;
- II.Decree on SEZ in Lao PDR, No. 188/PM, dated 07/06/2018;
- III.Strategy Plan for Development and Management of SEZ in Laos 2011-2020;
- IV.Agreement on SEZ Development for each Zone.

SEZ management offices have been authorised to set up one-stop service centres with permission to authorise land use right lease licences, enterprise registration certificates, import-export certificates, environmental impact certificates, management of citizens and labour, and tax payments. These currently operate in some zones, such as Savan - Seno, but not all. Laos promotes three types of SEZs: industrial zones, tourism and new urban centres, and trade and logistics zones.

### Industrial Zones

- I.Savan-Seno SEZ
- II.VITA Park
- III.Saysettha Development Zone
- IV.Champasak SEZ
- V.Phoukyo SEZ

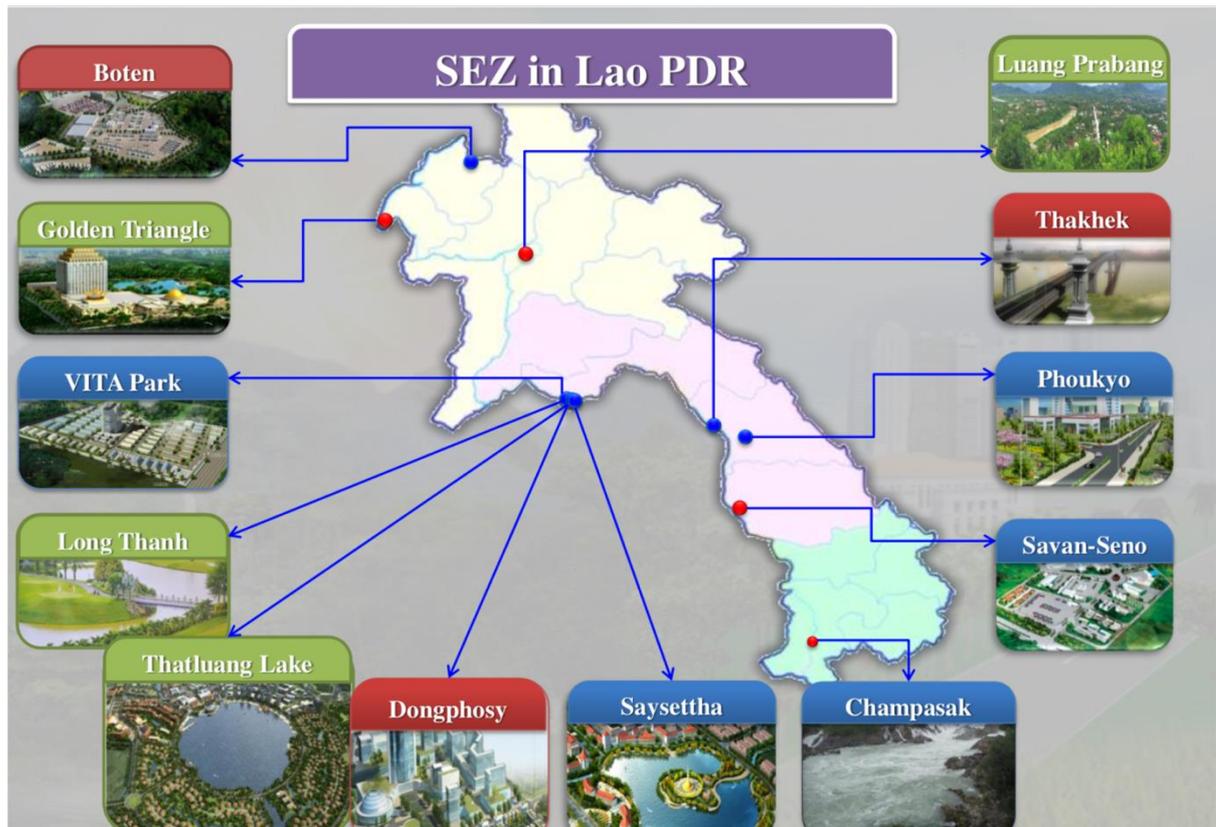
### Tourism and New Urban Centres

- I.Golden Triangle SEZ
- II.Long Thanh Vientiane
- III.That Luang Lake SEZ
- IV.Luang Prabang SEZ

### Trade and Logistics Zones

- I.Boten Beautiful Land SEZ
- II.Dongphosy SEZ
- III.Thakek SEZ

Figure 7: SEZs in Laos



Source: Lao SEZ Promotion and Management Office

Four SEZs are being developed by private investors (Boten SEZ, Thatluang SEZ, Long Thanh SEZ, Phoukyo SEZ), one by the government (Thakhek SEZ), and seven in joint ventures between the government and private developers (Savan- Seno SEZ, Golden Triangle SEZ, VITA Park, Saysettha SEZ, Dongphosy SEZ, Luang Prabang SEZ, Champasak SEZ). Laos has restructured zone administration over the last few years, moving the SEZ Promotion and Management Office from the Office of the Prime Minister to the Ministry of Planning and Investment and consolidating management committees to streamline SEZ administration.

During 2003-2018 12 SEZs have

been developed covering a total area of 29,453ha. 503 firms have invested in the zones, 41.55% in services, 22.66% in industry, and 35.79% in trade. US\$3.27 billion has been invested in SEZs (Gov. 50 million, Dev. 2,5 billion, Inv. 696,5 million), 20,099 jobs have been created, and \$28.4 million revenues have been generated for the government. Exports from

Table 4: Foreign Investment in Laos' SEZs

Investment by Country (2003 – 2018)			
No	Countries	Number of Companies	Registered Capital (USD)
<b>I</b>	<b>Foreign</b>	<b>394</b>	<b>2,906,805,983</b>
1	China	279	1,964,242,282
2	Thailand	41	542,174,701
3	Japan	32	41,345,000
4	Malaysia	13	27,585,000
5	France	6	11,100,000
6	Australia	3	450,000
7	Taiwan	1	1,000,000
8	Vietnam	2	302,500,000
9	South Korea	3	1,430,000
10	Holland	2	1,000,000
11	Denmark	1	8,125,000
12	Singapore	2	1,960,000
13	Hong Kong	1	2,000,000
14	Belgium	2	1,000,000
15	Sweden	1	1,000,000
16	Germany	1	100,000
17	Myanmar	1	300,000
18	USA	1	
<b>II</b>	<b>Domestic</b>	<b>81</b>	<b>2,763,051,007</b>
<b>III</b>	<b>Domestic &amp; Foreign</b>	<b>28</b>	<b>2,818,070,000</b>

SEZs totalled \$1.285 billion, while imports into SEZs totalled \$1.319 billion (this is an older figure, only up to 2017). SEZs contributed 0.3% to GDP in 2013, 1% in 2014, 0.72% in 2015, and 0.85% in 2016. Between 2003 to September 2016 China was overwhelmingly the biggest investor with US\$1.551 billion registered capital invested in SEZs and 134 enterprises. 67% of all foreign SEZ investment comes from China.<sup>67</sup>

Savan-Seno SEZ in Savannakhet and specifically Savan Park SEZ, and the China-Laos Mohan-Boten Economic Cooperation Zone are worthy of note. Savan - Seno SEZ has taken a long time to flourish but is now developing largely due to the professionalism and investments from the Malaysian SEZ developer, which may be a source of lessons for other SEZs across the region. Savan Park targets automotive, aerospace, machinery & parts, the electronics & electrical appliances industry, and agriculture & agricultural products and has had success attracting investments. Better connectivity along the EWEC has improved trade in southern Laos between Thailand and Vietnam, but urban development is needed in Savannakhet. Waste management, water supply, and limited municipal services need to be addressed. Lack of supporting infrastructure is also limiting the development of SEZs in Khammouane province, such as Thakhek and Phoukhyo SEZs, as well as their business models.<sup>68</sup>

The Mohan-Boten CBEZ is the most developed CBEZ in the region and could also be a source of lessons for SEZ stakeholders across the region. A concession been granted to a Chinese private developer and administration of the zone is a bilateral affair at three levels. A high level Joint Coordinating Committee is chaired by Vice Ministers from the Ministry of Planning and Finance (Laos) and the Ministry of Commerce (PRC). Vice Governors of Luang Namtha Province (Laos) and Yunnan Province (PRC) are vice chairs. The committee contains members from all relevant ministries. A working group is co-chaired by at the DG level from the Ministry of Planning and Investment (Laos) and the Ministry of Commerce (PRC), vice chairs are from relevant sectors and provinces, with members from relevant agencies. There are plans to develop a Joint Cooperation Zone Management Committee.<sup>69</sup>

A challenge faced in Laos is that inconsistent incentives are offered across the zones as a result of the patchwork approach to legislating SEZs, with older zones following earlier decrees. For example, incentives offered in Savan-Seno SEZ are more generous than those offered in the new SEZ in Champasak, which is the latest to be established and will follow the new law. Laos officials reported an SEZ law may be useful and could instil more investor confidence than decrees.<sup>70</sup> Laos also faces challenges relating to human resource development, weak education and productivity, an intransparent investment framework, and a poor but improving transportation infrastructure.<sup>71</sup>

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<sup>67</sup> Special Economic Zones Promotion and Management Office, September 2018

<sup>68</sup> Asian Development Bank. 2017. Progress Report I Volume 1: GMS Capacity Development for Economic Zones in Border Areas.

<sup>69</sup> Special Economic Zone Promotion and Management Office Ministry of Planning and Investment, September 2018

<sup>70</sup> Interview with Lao officials Vientiane September 2018

<sup>71</sup> Asian Development Bank. 2017. Progress Report I Volume 1: GMS Capacity Development for Economic Zones in Border Areas. p. 7

## 4.4 Cambodia

Cambodia passed an SEZ sub-decree in 2005 and established the Cambodian Special Economic Zones Board under the Council for the Development of Cambodia, which oversees all foreign investment in the country. A Law on the Special Economic Zones was developed in 2008 but has yet to be passed. According to JETRO there are currently up to 38 approved SEZs in Cambodia at varying stages of development governed by this sub-decree, with at least 8 currently operating, including Phnom Penh SEZ, Sihanoukville SEZ, Manhattan SEZ in Bavet, Koh Kong SEZ, and Poipet SEZ. A core characteristic of Cambodia's SEZs is that the government has left the establishment and management of the SEZs to the private sector including provision of infrastructure and utilities, limiting its own involvement to the licensing process. According to an official in Phnom Penh there have been high-level discussions since 2014 between the Council for the Development of Cambodia and Thailand's National Economic and Social Development Board about establishing a CBEZ on the Thai-Cambodia border, presumably at Aranyaprathet - Poipet. While a model has been agreed to there are challenges coordinating line ministries domestically to implement the CBEZ.<sup>72</sup>

Cambodia boasts a young workforce and strategic location between Thailand and Vietnam. Sihanoukville SEZ has grown substantially over the past through years mainly due to investment from China, and SEZs in Bavet on the Vietnamese border have expanded. However, Cambodia's SEZs face several challenges. Low salaries make it hard to attract and retain workers, and there is an acute shortage of skilled workers, undermining potential investment from Japanese investors along the Thai-Cambodian border under the Thailand plus one model.<sup>73</sup> A cheap and stable electricity supply is another impediment. Surveys of firms invested in Cambodia's zones have raised concerns about management practices and unofficial fees charged for services such as customs clearances.<sup>74</sup> Some studies have concluded that Cambodia's SEZs effectively function as merely export processing zones, enclaves with little to no backward linkages to the local economy and few opportunities for skills development for Cambodia workers, which may undermine their long term prospects.<sup>75</sup>

## 4.5 Vietnam

Vietnam has developed industrial parks, export processing zones and economic zones since the 1986 Doi Moi reforms began opening and liberalising the economy. Mong Cai Economic Zone was developed as a pilot project from 1996, followed by Moc Bai Border-Gate Economic Zone and Lao Bao Special Economic-Commercial Zone in 1998. In 2005 the government established tax-suspension zones inside border-gate economic zones and allocated budget to the development of infrastructure for the border gate economic zones.<sup>76</sup>

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<sup>72</sup> Interview with Cambodian officials, Phnom Penh August 2018

<sup>73</sup> Interview with Poipet SEZ stakeholders, Aranyaprathet August 2018

<sup>74</sup> Warr, Peter, and Jayant Menon. 2015. *Cambodia's Special Economic Zones*. ADB Economics Working Paper Series No. 459.

<sup>75</sup> Abonyi, George, and Anthony M Zola. 2014. Support for Implementing the Action Plan for Transport and Trade Facilitation in the GMS: Scoping Study on Developing Border Economic Areas and Cross-Border Linkages Between Thailand and Its Neighbours. Asian Development Bank, Thailand Resident Mission. doi:10.13140/2.1.2640.5442. pp4-5; Asian Development Bank. 2017. *Progress Report I Volume 1: GMS Capacity Development for Economic Zones in Border Areas*.

<sup>76</sup> Asian Development Bank. 2017. *Progress Report I Volume 1: GMS Capacity Development for Economic Zones in Border Areas*. p.28

In 2008 the Prime Minister issued a decision on the creation and management of border-gate economic zones. Decision No. 52/2008/QĐ-TTg *Approving the Scheme of Master Plan on Vietnam's Border-Gate Economic Zone Development up to 2020*. The objective is to 'sustainably develop border-gate economy and economic zones in association with building and developing friendly, stable and sustainable political relations between Vietnam and China, Laos and Cambodia and to increase international cooperation and attract domestic and overseas investment through border-gate economic zones'. This decision calls for the development of 30 border-gate economic zones, 7 of which will be newly established. Mong Cai, Lao Cai, Lang Son, Bo Y, Moc Bai, An Giang, Dong Thap and Cau Treo and Lao Bao are specifically referenced. The decision identifies several sources of funding for the infrastructure of the zones including the state budget, ODA, the land fund, preferential credit and investments in the form of build-operate-transfer (BOT), build-transfer (BT) and build-transfer-operate (BTO). The decision emphasizes human resources developments and environmental protection in border zones areas as well as defence on security requirements. Each border-gate economic zone requires a long term vision and development masterplan which the Ministry of Planning and Investment is responsible for formulating and monitoring implementation in coordination with local provincial authorities and zone management boards.

According to Verbiest, border-gate economic zones have had a positive impact on Vietnam's trade with neighbouring countries, the economies of Vietnam's border areas, and its economy in general. However, development has been uneven. Location of BGEZs and their proximity or remoteness from major economic centres has strongly influenced their development. BGEZs along the border with China have been more successful due to their proximity to Hanoi and Haiphong port, and trade with China is also much larger than with Laos or Cambodia. Low labour costs in Cambodia and competition from Thailand has influenced the development of BGEZs close to Cambodia. Management models, policies and legislation applied to BGEZs have been inconsistent, and changes have affected investor confidence, such as in Moc Bai BGEZ and the Lao Bao Special Economic and Commercial Zones.<sup>77</sup> Investment in infrastructure has depended on the central budget which has been mostly insufficient. Consultations with the private sector and businesses could be improved and local authorities need to coordinate closely to facilitate business-friendly procedures. Consultations could guide administrative reforms such as the modernisation of customs work, tax administrative reforms, and developing high-quality human resources. Border-gate management personnel would benefit from upgrading professional skills related to foreign languages, IT skills, and management capacities.<sup>78</sup>

On the Vietnam - PRC border, MOUs have been signed in 2007 to develop Cross-Border Economic Cooperation Zones between Guangxi Province (PRC) and several northern provinces in Vietnam. Pingxiang - Dong Dang, Dongxing - Mong Cai, and Longbang - Tra Linh have been identified along this border. Along the Yunnan border, a plan was signed in 2005 to prepare for the establishment of a CBEZ in Hekou (PRC) and Lao Cai (Vietnam), but progress has been slow. According to Verbiest, 'local governments from Chinese side

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<sup>77</sup> Asian Development Bank. 2017. Progress Report I Volume 1: GMS Capacity Development for Economic Zones in Border Areas. p.31

<sup>78</sup> Asian Development Bank. 2017. Progress Report I Volume 1: GMS Capacity Development for Economic Zones in Border Areas. p.31

express their concerns about the un-coordinated developments of cities on both sides of the border, because all sorts of cross-border economic activities are restricted by the mismatched logistic infrastructure and the customs clearance capacity on the other side of the border.<sup>79</sup> Respective ministries of commerce were due to meet in 2017 to discuss the *GZAR 2015 Master Plan for Construction of Cross Border Economic Zones* document.<sup>80</sup>

Hekou - Lao Cai was identified as cross-border towns with high potential in the Verbiest study, where a dynamic cross border zone could potentially emerge. Hekou is a key town on the GMS North-South Economic Corridor from Kunming and is important for Yunnan province. Trade activities in Lao Cai have increased rapidly over the past few years from \$1.550 million in 2011 to \$2.144million in 2016 (official data presents lower estimates). The main products traded included minerals and agriculture products of iron mineral, rubber, coffee, cashews, rice, sugar, hardboards, shoes, tables and chairs for exports and machinery/equipment, fertilizer and chemical, fruits and vegetable, coal for imports. Tourism has also expanded rapidly. Vietnam submitted comments on a Joint Masterplan for the development of Hekou-Lao Cai as a CBEZ in July 2017. A second draft was submitted with comments by Vietnam in July 2018.<sup>81</sup> As noted by Verbiest, huge investments would be needed to realise the full potential of Lao Cai as a regional production and logistics hub.<sup>82</sup>

An industrial park has been developed in Hekou SEZ. An electronics firm is the first investor to open operations in the zone, having received special incentives from the government. It currently employs over 200 Vietnamese workers on the China side, having relocated some production from Shenzhen SEZ due to rising labour costs there.<sup>83</sup> Labour costs in China appear to be a major factor influencing firms decision to invest in the BEZs, but lack of coordination with Lao Cai may have influenced the decision to establish the factories in China rather than on the Vietnam side of the border. On the Viet Nam side there appears to be a concrete factory and golf course being developed. Quang Ninh (Vietnam) province has managed to attract Chinese investment, such as in Hai Yen industrial park, where a Chinese owned garment factory employs around 6,000 workers and exports all its outputs to PRC. By 2017 Mong Cai BGEZ had only attracted 20 FDI projects with a total registered capital of 1.106 billion.<sup>84</sup>

According to officials in Nanning and Yunnan, both sides are active and eager to cooperate to develop CBEZs but lack of policies and funding from Vietnam's central government is slowing progress.<sup>85</sup> An official in Hanoi reported lack of capital for the development infrastructure as a key challenge for the development of CBEZs, and that close cooperation and balanced development was easier with Laos and Cambodia than with China due to economic, trade, and cultural affinities.<sup>86</sup> A private sector respondent reported

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<sup>79</sup> Asian Development Bank. 2017. Progress Report I Volume 1: GMS Capacity Development for Economic Zones in Border Areas. p.24

<sup>80</sup> Asian Development Bank. 2017. Progress Report I Volume 1: GMS Capacity Development for Economic Zones in Border Areas. p.45

<sup>81</sup> Interview with SEZ stakeholders Hekou August 2018

<sup>82</sup> Asian Development Bank. 2017. Progress Report I Volume 1: GMS Capacity Development for Economic Zones in Border Areas.

<sup>83</sup> Field visit to Hekou SEZ August 2018

<sup>84</sup> Asian Development Bank. 2017. Progress Report I Volume 1: GMS Capacity Development for Economic Zones in Border Areas. p. 49,51

<sup>85</sup> Ibid; Interview with SEZ stakeholders Hekou August 2018

<sup>86</sup> Interview with SEZ stakeholders Hanoi August 2018

the concern that heavy investment in infrastructure at the border may give political leverage over Vietnam, which may affect national level support for CBEZs. A recommendation was made to progress on soft infrastructure to address the problem of irregular trade across the PRC-Vietnam border before investing in hard infrastructure.<sup>87</sup>

## 4.6 Myanmar

There are currently three SEZs in Myanmar at varying stages of development, Thilawa, just south of Yangon, Dawei in southern Myanmar, and Kyaukphyu on the east coast in Rakhine state. SEZ developments in Myanmar have concentrated on coastal areas due to ongoing conflicts and policies that restrict business activities in border areas. SEZs at Thilawa and Dawei were discussed as early as the mid-1990s, with Dawei the first to be formally approved in 2008. Development has been very slow due for several reasons, including challenges faced by the original developer (Ital-Thai Development Company) attracting financing, disputes over funding for a road to connect the SEZ with the Thai border, strong local opposition motivated by concerns about environmental and social impacts, and a review of all SEZs conducted by the NLD government when they came to power in 2016.<sup>88</sup> Thilawa is the most developed of the three and has been successful attracting investments. Terms for developing Kyauk Phyu SEZ were renegotiated with China in 2018 by the new government.

The 2014 SEZ Law governs the approval and administration of SEZs in Myanmar. This provides for a Central Body and Central Working Committee at the Union level and the establishment of Management Committees for each SEZ responsible for managing and administering each zone, including the establishment of One-Stop-Service Centres on site. Myanmar's SEZs are typically divided into two zones: i) a free zone focusing on export markets where customs do not apply for export-import activities, and ii) a promotion zone focussing on the domestic market where some income tax incentives and customs exemptions apply. The SEZ legal and administrative regime has been criticised and land issues and disputes between developers and local communities has posed challenges for authorities.<sup>89</sup>

Negotiations are ongoing between Myanmar and Yunnan to set up a large CBEZ on the border with China at Muse (Myanmar) - Ruili (PRC) as part of the China-Myanmar Economic Corridor linking Kunming to Kyauk Phyu.<sup>90</sup> Border trade between Yunnan and Myanmar has increased over the past few years with around 50% of China's exports to Myanmar conducted through border trade, with 50% of this through Muse. 40% of Yunnan's exports go to Myanmar, much more than to Vietnam. Myanmar's exports to China reached \$4.3billion in FY2016-2017, primarily rice, agricultural products, fruits, fresh water fisheries products, seafood, gems, jade, and raw materials. Total bilateral border trade at the Muse gate in FY2016-2017 was US\$5.3 Bn on a total bilateral border trade of US\$6.1 Bn. \$1.6bn imports from China at Muse in FY2016-2017 primarily consisted of machinery, construction

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<sup>87</sup> Interview with SEZ stakeholders Hanoi August 2018

<sup>88</sup> Thame, Charlie. 2017. *SEZs and Value Extraction From the Mekong*. Bangkok: Focus on the Global South.

<sup>89</sup> Thame, Charlie. 2017. *SEZs and Value Extraction From the Mekong*. Bangkok: Focus on the Global South; International Commission of Jurists. 2017. *Special Economic Zones in Myanmar and the State Duty to Protect Human Rights*

<sup>90</sup> Interview with officials Kunming August 2018

material and equipment, electronic products, chemical products, textiles and processed food. According to Verbiest, although Muse will continue to play a major role as a trading hub and transit point, its location is too remote to attract significant investments in cluster developments. Transshipment is costly and an unstable security situation in the area is an obstacle to the development of a CBEZ.<sup>91</sup>

Total border trade with Thailand is growing but remains dominated by imports of LNG to Thailand. Excluding LNG imports, Myawaddy-Mae Sot is Myanmar's second largest border trade area, although total border trade was only \$0.93 billion in FY2016-2017. The Myanmar Investment Commission has approved the development of an industrial zone in Myawaddy, with investment incentives under the 2016 Myanmar Investment Law but this is a separate framework to those which govern SEZs in the country.<sup>92</sup> Respondents in Myanmar and Mae Sot reported challenges exporting goods from Myanmar to Thailand due to Thai import and transportation regulations.<sup>93</sup>

## **5 SUMMARY AND ANALYSIS**

This section presents a summary of the findings from the key informant interviews, focus group discussions, and desk review. It is followed by a section summarising conclusions and recommendations.

### **5.1 Cross-border economic cooperation**

#### **5.1.1 Potential advantages of enhanced cross-border economic cooperation**

There is potential to offshore labour intensive activities to neighbouring countries such as under “Thailand plus one” and “China plus one schemes”, retaining logistics and service sectors. Based on field visits this has been happening in Savan Park SEZ in Laos and Phnom Penh SEZ in Cambodia as Japanese investors have offshored some parts of the production process in the automobile and electronics industries to zones with supporting infrastructure. In Hekou SEZ on the Chinese side of the border with Vietnam an electronics company opened a factory in November 2017 which is currently employing over 200 Vietnamese workers. Border development zones could capitalise on economic discontinuities such as labour cost, access to markets, and allowing better access to services on more developed side of the border. Disaggregation of production bases with co-production in countries such as Laos, Myanmar, and Cambodia would allow firms to access import markets such as the United States and European Union with preferential treatment under international trade regimes. This would allow products produced in the region to be more internationally competitive, create jobs in neighbouring countries, and reduce labour costs for firms currently based in Thailand and China.

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<sup>91</sup> Asian Development Bank. 2017. Progress Report I Volume 1: GMS Capacity Development for Economic Zones in Border Areas. p. 37

<sup>92</sup> Asian Development Bank. 2017. Progress Report I Volume 1: GMS Capacity Development for Economic Zones in Border Areas.

<sup>93</sup> Interviews with private sector stakeholders Yangon July 2018; Interviews with SEZ stakeholders Mae Sot August 2018

Regional value chains could develop with Thailand's EEC as a base, and better land connectivity may help LMC countries integrate into global value chains. National officials in Thailand would like to promote Thailand's Eastern Economic Corridor as a base for regional value chains<sup>94</sup>, while upgraded road links and bridges along the EWEC coupled with improvements in trade facilitation measures at Savan Park SEZ's dry dock is integrating Laos into Shenzhen's supply chain in higher value and time sensitive goods such as electrical products.<sup>95</sup> Other examples include agroindustry in Ubon – Laos<sup>96</sup> and trade in fruits to Piangxing China from Nakhon Phanom or Mukdahan, Thailand.<sup>97</sup> Development of cross-border infrastructure and enhanced connectivity opens up new markets and facilities supply chain linkages, allowing border areas to potentially develop as logistics hubs. Access to seaports such as Thailand's Laem Chabang or road access to China's Shenzhen SEZ are key considerations for firms.<sup>98</sup> Development of road links facilitates trade in higher value goods where delivery is time-sensitive, such as electronics or consumables, and access to resources such as agricultural products from Myanmar, Laos, or Cambodia.

BEZs have potential to develop growth nodes and incubators of best practice, skills transfer, and could contribute to industrial diversification and economic upgrading of economies across the region. This has been happening in Cambodia's Phnom Penh SEZ where Japanese firms have supported training programs for workers<sup>99</sup> and in Lao PDR's Savan - Seno SEZ where the Malaysian developers of Savan Park SEZ are working with national SEZ officials and local customs officials to improve trade facilitation and SEZ management and trade facilitation procedures.<sup>100</sup> An ANZ survey of clients operating in SEZs reported that skills transfer was happening across the region with Vietnam as the source, as well as contributing to structural changes in terms of technology transfer and physical capital deepening with Thailand as a source.<sup>101</sup>

### **5.1.2 Challenges related to enhanced cross-border economic cooperation**

**There is currently no strategy for jointly developing border areas across the region.** In the absence of such a strategy the danger is that border areas will compete with one another to attract investment, undercutting the development potential of these regions. Lack of long-term vision and planning will hamper success of border area development over the short and long term. A common criticism of SEZs is that competition for investors encourages "race to bottom" policies such as undermining social and environmental regulations and offering increasingly generous fiscal incentives. Given the proximity of economic zones across the LMC exacerbates this risk, close coordination between national authorities is crucial for sustainable development.

**Border economic zones should be integrated with national development plans.** Disaggregation of production bases and development of regional value chains will have a

<sup>94</sup> Focus group discussions and KIIs Chiang Rai August 2018

<sup>95</sup> Savan Park SEZ promotional materials

<sup>96</sup> Interview with ADB consultant August 2018.

<sup>97</sup> Asian Development Bank. 2017. *Progress Report I Volume 1: GMS Capacity Development for Economic Zones in Border Areas*; FGD with private sector stakeholders Hekou China August 2018.

<sup>98</sup> Discussions with stakeholders across the region; Savan Park SEZ promotional materials

<sup>99</sup> Interviews with workers at Phnom Penh SEZ July 2016

<sup>100</sup> Interviews Savannakhet July 2018 and Vientiane September 2018

<sup>101</sup> Asian Development Bank. 2016. "Role of Special Economic Zones in Improving Effectiveness of GMS Economic Corridors," November, 1–45. p.26

disruptive effect on industries in all LMC countries. All LMC countries want to develop their logistics services, but it is likely that Thai and Chinese logistics firms will capture a growing market share with increasing freedom of movement and smaller logistics firms in CLMV countries will lose out. Similarly, encouraging labour intensive industries to relocate to neighbouring countries will lead to job losses or downward pressure on wages in Thailand and China. Smaller domestic firms across the region may be poorly placed to benefit from integration unless policies are implemented to support them due to high barriers to entry. Policy makers should incorporate such considerations into national level policies to maximise the development potential of border economic zones.

**Simple, clear, and easy to follow laws and regulations related to cross-border trade need to be developed.** Customs procedures, import-export documents, and tax policies could be harmonised and streamlined. Complicated regulations encourage the use of brokers, irregular trade, and informal payments to officials at border crossings, raising the cost of trade and undermining the rule of law. Trucks need not undergo multiple checks by different authorities at the border with different forms required for authorities on either side. In some cases it is not policy that is the problem but implementation at the border. Stakeholders along all borders visited were sceptical of the potential for greater cross-border trade due to challenges posed by irregular cross-border trade. On the Vietnam-China border for example, it was reported agricultural goods such as pigs are exported to China without legal permission because they are not officially permitted. As a result, Vietnamese traders cannot get equal terms of trade.<sup>102</sup> Relatedly, the export of alcoholic beverages from Thailand to Myanmar informally as duty-free products means that domestic Myanmar firms cannot compete with Thai products, undermining the domestic industry.<sup>103</sup> Informal fees charged to trucks in Laos travelling between China and Thailand, or at the border, was also reported as a concern.<sup>104</sup> In Chiang Rai, difficulties in obtaining permission for international drivers in the local area may be contributing to a decline in truck volume at the border crossing, with routes diverted to areas where rules and regulations were easier to follow or were perhaps not being enforced.<sup>105</sup>

**Lack of a workforce and incentives for migrant workers to return to countries of origin.** There is a shortage both of low skilled workers and skilled workers suitable for management positions. Border SEZs in Cambodia and Laos reported challenges recruiting suitable workers. In Savannakhet locals are not accustomed to industrial labour and general education levels are low. Attracting skilled labour was even more challenging. In particular workers with capacity to be trained for management or engineering positions.<sup>106</sup> In Poipet, wages were lower than for equivalent positions in Thailand, making it difficult to attract returning migrant workers. Workers with basic Thai or English language earn more working in casinos than in factories. A broader challenge was low educational levels and lack of effective vocational training programs. While training centres may exist, there is no long term commitment to them, with funding disbursed annually and abrupt policy changes hampering service provision.<sup>107</sup>

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<sup>102</sup> Interview Hanoi August 2018

<sup>103</sup> Interview Yangon July 2018

<sup>104</sup> Focus group discussion Chiang Rai August 2018

<sup>105</sup> Interview Chiang Rai August 2018

<sup>106</sup> Interview Laos July 2018

<sup>107</sup> Interview Aranyaprathet August 2018

**SMEs face barriers undermining their opportunities to benefit from cross-border cooperation.** Thai exporters reported challenges obtaining CO documents that would allow them to export items tax free.<sup>108</sup> In Myanmar, access to credit is costly, with interest rates of 13% and requirements to use land as collateral discouraging investment in SMEs. High entry costs for SEZs prevented many local investors from benefitting from their development. Stated one respondent: “[The SEZ?] It’s for multimillionaire businesses. The SEZ is untouchable for local people”.<sup>109</sup> Officials in Laos requested support to help SMEs benefit from SEZs.<sup>110</sup>

**Political issues related to SEZ concessions and dependent trade relations.** In both Myanmar and Vietnam concerns were raised about losing sovereignty and that SEZs were more about politics and security issues than economic development. In Vietnam, for example, a concern was that if Vietnam invests heavily in border infrastructure and cross-border trade this would provide political leverage by closing the border to exports over political issues.<sup>111</sup>

### **5.1.3 What needs to be done to enhance cross-border economic cooperation, either locally, or transnationally? By (i) governments the (ii) private sector**

**More domestic and cross-border consultation is necessary for border economic zones to succeed.** This needs to be inclusive of and responsive to the concerns of local traders, enterprises, and civil society. Inclusive strategies at the local and regional levels need to be developed to avoid harmful competition and encourage mutually beneficial development and integration. Each side of the border should identify areas to specialise in, perhaps through prioritisation of logistics, industrial production, services, and clusters.

**Development of border areas requires integrated and synchronised management inclusive of public and private sector and civil society.** Joint consultative mechanisms could be developed at the local level and include action plans, monitoring, and evaluation. Although a challenging issue politically and legally, decentralisation of certain powers to authorities close to border areas would enable local officials to be more responsive to local realities.

**Special economic zones may not be the only or the most effective model for supporting economic development in border regions and facilitating cross-border cooperation.** Other models such as Border Economic Zones or Cross-Border Economic Zones may be more suitable and may be considered. Some key benefits of SEZs include the provision of hard infrastructure (land, border crossings, utilities) and integrated and responsive government services (such as one stop service centres), but success of SEZs in border areas may owe more to location (such as Mae Sot), provision of infrastructure (e.g. Second Thai-Laos Friendship Bridge) and professional zone management (e.g. Savan Park SEZ) than SEZ policy and incentives.

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<sup>108</sup> Focus Group Discussion Savannakhet July 2018

<sup>109</sup> Interview Yangon July 2018

<sup>110</sup> Interview Vientiane September 2018

<sup>111</sup> Interview Hanoi August 2018

## **5.2 Status of infrastructure, investment, and logistics.**

### **5.2.1 Border infrastructure and logistics: current situation, prospects and challenges**

Both Thailand and China have made significant investments developing hard infrastructure in border areas but this is not matched in neighbouring countries. For example, China has reportedly committed \$500million annually to develop each CBSEZ on the China-Vietnam border, and Thailand has committed significant funds to developing Mae Sot SEZ.<sup>112</sup> This may intimidate partners in Vietnam and Myanmar since it is hard to match.<sup>113</sup> Vietnam may feel more comfortable developing cross border trade with Laos and Cambodia due to affinities in economics, trade, and culture. CLMV countries are not prioritising development of SEZs on their borders. Roads in Laos and Myanmar do not always meet international standards, for instance the R12 in Laos connecting Thailand to Vietnam and the R3 connecting Thailand to China. Cambodia has committed to upgrading the main road from Thailand to Vietnam, and addressing private sector concerns about the high cost of electricity. There may also be challenges related to waste management, particularly disposal of toxic waste, in Lao PDR's SEZs on Thailand's border.<sup>114</sup>

**Implementation of some bilateral agreements has been slow due to coordination and implementation challenges.** For example, the development of a CBSEZ on the Thailand-Cambodia border. Discussion with Thailand's NESDB began in 2013/4, but nothing has been implemented. Reasons for this delay are not clear, but implementation on respective sides of the border may not have progressed due to coordination challenges domestically with key ministries.<sup>115</sup> Development of CBEZs on the PRC – Viet Nam border has also been slow.

**Without strong backward linkages to domestic economies, SEZs may not contribute to local development and risk contributing to dependent growth.** Different models are used to develop SEZs across the region. Sometimes publicly owned, sometimes privately owned, often joint ventures. SEZs and connecting infrastructure require significant investment with finance from various sources, including government budgets. Revenues generated by SEZs through tax revenues or land leases may not always deliver an adequate return on investment. Strong linkages with the host economy could be encouraged to minimise risk of SEZs becoming expensive enclaves and to ensure they contribute to long term sustainable development.

**While hard infrastructure has been developed at some key border crossings, soft infrastructure has lagged behind.** Respondents in Thailand indicated frustration that there had been 10 years of discussions but no implementation, noting the slow implementation of the CBTA as a particular concern, along with the need to harmonise rules and regulations under the ACMECS and to develop of common control areas at border crossings. National officials in Thailand indicated that better policy instructions need to be given to local officials,

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<sup>112</sup> This is according to a public official in Vietnam but could not be confirmed by Chinese respondents. Interviews Hanoi August 2018; Interviews Kunming and Hekou August 2018.

<sup>113</sup> Interview Hanoi August 2018, Focus Group Discussion Mae Sot August 2018

<sup>114</sup> Personal communication ADB Consultant August 2018

<sup>115</sup> Interview public official Phnom Penh August 2018

while local officials in Mae Sot and elsewhere wanted greater decentralisation.<sup>116</sup> In Mae Sot Thai officials noted that although the SEZ has been established, Thailand still has no SEZ law in place.<sup>117</sup> In Chiang Kong, a Thai official reported slow progress addressing challenges related to issuance of permission for non-Thai trucks to enter Thailand, which can take over 15 days as it has to be processed by the Department of Land Transport in Bangkok, or for the issuance of international driving licenses which must be processed the adjacent province. One Myanmar respondent indicated that the whole operating system at Myanmar's borders needs to be reformed, citing the logistics system and customs procedures as priorities.<sup>118</sup> In Vietnam, a private sector respondent recommended that soft infrastructure for trade facilitation such as import-export procedures, lifting restrictions on certain agricultural products such as fruits and swine, as well as simplifying customs rules and regulations should be prioritised before heavy investments are made in hard infrastructure to avoid encouraging illicit trade.

### 5.2.2 Border investment: current situation, prospects and challenges

#### **SEZ success across the region is mixed and SEZs may take time to succeed.**

Thailand's border SEZs have struggled to attract investors due in large part to high land prices as a result of speculation following the announcement of the SEZ policy. Some SEZs on the border in neighbouring countries have been successful and are attracting investment, such as Savan Park SEZ in Savannakhet. However, this has taken time and significant investments. Savan – Seno was established in 2003. Managed by a Malaysian firm, Savan Park has attracted investments in electronic assembly, automotive parts, aerospace, and other industries relocating parts of their production process from Thailand's eastern seaboard. Parts are produced for Boeing and Toyota, back supplying factories in Thailand. A factor of success may be a focus on clusters so that economies of scale can be deployed, especially with regards to imports of raw materials required for the electronics industry.<sup>119</sup>

**Some SEZs lack basic infrastructure, such as Phoukhyo SEZ in Lao PDR.** Investors have been sought to develop this infrastructure, but without tenants to serve in the SEZ investors view this as too risky.

#### **Trade imbalances with Thailand and China are a big concern in Myanmar and Vietnam. This is likely to undermine cross-border cooperation unless steps are taken to address them.**

Trade restrictions from import countries are regarded as unfair, especially in relation to agricultural products. Myanmar respondents indicated a desire to focus on agriproducts but that they faced many barriers to export.<sup>120</sup> In Laos there is also a need to support the development of domestic industries as even basic items that could be produced in Laos are imported from Thailand.<sup>121</sup> Support for domestic industries producing goods for export across CLMV countries could help address this, as well as processing and packaging on the less developed side of the border to increase value added in the export market.

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<sup>116</sup> Focus group discussion Chiang Rai August 2018.

<sup>117</sup> Focus group discussion Mae Sot July 2018

<sup>118</sup> Interview Naypyidaw July 2018

<sup>119</sup> Interview Savannakhet July 2018

<sup>120</sup> Interviews Naypyidaw and Yangon July 2018; Focus group discussions in Mae Sot August 2018

<sup>121</sup> Interview Savannakhet July 2018

### **5.2.3 Information systems. What information do key stakeholders (officials, investors) require? How should this information be managed and disseminated?**

**There is a demand for reliable trade and investment data related to cross-border trade and border economic zones.** Data is hard to obtain and information about trade and investment may be inaccurate and out of date. In some locations simple information such as the volume of trucks does not tally up on different sides of the border.

**There is currently no database of information related to BEZs. This could improve the business environment.** Information may include locations of BEZs, priority industries or clusters, investment policies, and privileges and incentives. Status of OSSCs, information about customs and immigration procedures, including fees and required documentation. A Chamber of Commerce registry, promotion of import-export technologies, prices of goods available to trade. Contact information for officials responsible for managing investment, customs, and immigration. This kind of information would be helpful for the private sector and may help reduce smuggling and corruption. Public opposition to SEZs may also be mitigated by transparent data regarding their positive effects on the domestic economy, such as job creation, tax revenues, and training programs provided for workers. Open Development maintains a website with a similar mandate, though targeted toward development professionals rather than to investors or public officials.<sup>122</sup> Managed by the East-West Management Institute it began in 2011 with Open Development Cambodia, recently expanding to cover the rest of Mekong. It includes information on Special Economic Zones and opportunities to collaborate may be worth exploring. Beyond basic information about BEZs, respondents requested a range of information including a big data management system covering the entire region to allow tracking of cargo and facilitation of trade. Laos lacks professional experts with expertise in economic research, with which they would like assistance. Officials and developers would like more opportunity to help attend workshops, events, trade fairs and roadshows to meet potential investors, and would like their governments to provide better promotion and dissemination of information related to investment policy.

## **5.3 Capacity needs assessment.**

### **5.3.1 Sharing of/learning from best practices: what practices work well? What could be improved? Discuss with relation to management, investment promotion, incentives, legal issues, finance, land management, estate management, labour, environment regulations, waste management**

Several potential examples of best practice were identified:

- A. Savan Park SEZ in Savannakhet. Savan - Seno has five SEZs, with Savan Park the most successful. This is run by a Malaysian developer who appears to be running a professional operation which may serve as a guide for best practice for other SEZs in the region. The technology used for customs procedures was notable, including

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<sup>122</sup> <https://opendevloppmentmekong.net/>

electronic locks on shipping containers and e-tax payment mechanisms. E-locks are placed on containers when loaded in the dry port after a customs check and can only be opened by customs officials in the final destination. These minimised opportunities to tamper with the cargo or unexpected charges to be levied by officials en route. Containers are tracked using GPS and customs officials in Savan Park only accept e-tax, a smart tax payment system. Fes are paid directly to the Ministry of Finance and no cash changes hands. This may be a practice other border crossings could adopt if soft infrastructure were to enable and require this system region wide. This SEZ has been successful attracting new investors and boasted a well-functioning OSSC, where paperwork was processed in hours, as opposed to months it can take outside the SEZ.

- B. One respondent reported that Toyota ran an initiative in Poipet SEZ to encourage SME investment. Toyota reportedly rented land and helped SMEs invest in the SEZ for a small fee. This is worth exploring further as a possible initiative to encourage SME investment in BEZs across the region.
- C. Progress appears to have been made dealing with customs procedures for firms importing machinery from Thailand to Phnom Penh SEZ in Cambodia. It was reported that customs officials at the Poipet - Aranyaprathet border need not check containers designated for Phnom Penh SEZ, where customs officials conduct a final check. This may be the result of high level bilateral agreement between the Council for the Development of Cambodia and the Thai customs authorities and is worth further exploration as a potential best practice.<sup>123</sup>
- D. A senior official in Hanoi reported that mutual certificates of origin were issued at SEZs on the Vietnam - Laos border. This may be a best practice to facilitate co-production on Thailand and China's borders to encourage Thailand plus one and China plus one strategies.
- E. One respondent from Vietnam requested examples of best practice establishing wholesale markets at borders to encourage local cross border trade. Examples given included markets on the China border at Piangxian, and other borders between the Czech Republic and Germany, and between Spain and France. This may help encourage less capital intensive cross-border trade which would help CLMV countries maximise their benefits from BEZs.

In terms of bad practices, several across the region could be discouraged.

- A. Often SEZs are developed without adequate transparency or inclusive planning. Civil society in Myanmar has consistently requested that strategic environmental assessments are conducted in areas considered for SEZs before agreements are signed to assess the potential impacts, positive and negative, and to maximise benefits for host regions. This is in addition to environmental impact assessments, which may fall short of international standards and are sometimes not publicly

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<sup>123</sup> Interview Phnom Penh August 2018

disclosed. Conducting such assessments and considering the viability of the SEZ model before committing to a development model would be beneficial.<sup>124</sup>

- B. Legal and administrative structures related to SEZs are often criticised for prioritising the interests of investors against those of the public. In particular, lack of transparency and accountability mechanisms for local communities to raise grievances and seek redress for negative impacts, or mechanisms to effectively and fairly resolve labour disputes between investors and locals. While this may serve the short term interests of footloose investors, it undermines sustainable development and may lead to a backlash against unscrupulous investors and officials.<sup>125</sup>
- C. Land acquisition practices are often criticised for direct and indirect land grabbing. This is most severe in Myanmar's SEZs, but also affects Cambodia and Thailand's SEZs, and possibly others. A key challenge is that most people do not have formal land titles for land over which they claim customary tenure.<sup>126</sup>

### 5.3.2 What are the key capacity building needs for trade facilitation and investment promotion? Who would benefit from training? What kind?

Respondents indicated several needs and requests for capacity building.

- A. **Perhaps the most important capacity needs relate to customs procedures.** In some cases this is an issue of policy and harmonisation of cross-border rules and regulations, but in others it was a matter of the implementation of policy by officials at the border. Many customs officials themselves also requested support, requesting training related to single stop inspections / single window, e-customs procedures such as the submission of electronic forms which will allow a container to pass customs without inspections at intermediate stops on their journey. Officials wanted to learn about one stop service centres for customs, best practices related to customs procedures and import-export documentation, agricultural inspections. Joint training of officials on both sides of key border crossing points on new rules and regulations would help harmonise implementation of policy.
- B. **Officials across the region requested training on a range of issues related to SEZs.** This included: incentives and privileges offered in the border regions, financial and investment law, trade facilitation, especially import-export procedures, investment promotion, TAX and VAT procedure training. How to maximise benefits of BEZs in terms of promoting clusters, how to establish management committees, joint ventures, critically examine financing proposals, resolve disputes, develop framework agreements, manage concessions, learn how to negotiate, attract investments and in particular quality long term investments. Basic economic zone management, especially at the initial stage, language training to enable them to more effectively

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<sup>124</sup> Vicky Bowman and Sean Bain 2017 *Filling the gaps at Kyaukphyu Frontier* <https://frontiermyanmar.net/en/filling-the-gaps-at-kyaukphyu> May 30

<sup>125</sup> Thame, Charlie. 2017. SEZs and Value Extraction From the Mekong. Bangkok: Focus on the Global South.; International Commission of Jurists. 2016. Special Economic Zones in Myanmar and the State Duty to Protect Human Rights

<sup>126</sup> Ibid

coordinate with investors, warehouse service management, general management practices, environmental protection and waste management.

- C. **Training for the private sector in border areas may target ministries of commerce and industry, as well as young entrepreneur associations such as those in Poipet.** In Laos respondents indicated that local private sector stakeholders may have capital to invest but are not confident in their ability to invest in businesses and may benefit from support and training. Training topics could include support for SMEs to work in light manufacturing, food and beverages, packaging, construction materials. Producers and traders of agricultural products in Laos, Myanmar, and Vietnam may benefit from training related to quality assurance and basic processing. In Laos, requests were made for training on green agricultural production and eco-tourism while in Myanmar requests were made for joint public-private sector training on management of agricultural products, including sanitary and phytosanitary procedures for animals and people. Training for the private sector in the use of technology and marketing to increase value added to goods produced for exports from lesser developed countries.
- D. **Senior officials in Naypyidaw Myanmar requested training to help improving the land acquisition process in their country, including international standards related to resettlement, labour issues, SEAs, and EIAs.** This may be beneficial for senior officials across the region to encourage sustainable development as standards are applied inconsistently if at all.
- E. **Myanmar's Ministry of Commerce officials requested advanced training on issues related to trade negotiations with bilateral partners focussing on specific border points. Each border has different trade facilitation and negotiation needs.** A general concern related to negotiations regarding tariffs to promote the export of goods from Myanmar but import laws and SEZ laws in China and Thailand are different and MOC officials would like specific training.<sup>127</sup> They requested that invitations be sent to Union Ministers or Permanent Secretaries who would nominate officials from ministries such as customs or commerce to send to training. This may be also helpful for senior officials in Cambodia, Laos, Vietnam.
- F. **Structural Learning Visits.** Local BEZ stakeholders requested training and networking events with stakeholders from BEZs and SEZs in other countries. Officials in Laos requested SLVs for public and private sector participants to Japanese firms processing products for exports, and to Singapore to learn about management of logistics services. BEZ stakeholders would benefit from SLVs to successful CBEZs to better understand the concept and potential benefits. Potential sites include Savan Park SEZ in Savannakhet, for reasons outlined above, the Indonesia-Malaysia-Singapore growth triangle as an established BEZ with strong economic complementarities, and perhaps the Khorgos International Centre for Boundary Cooperation. The latter is a flagship CBSEZ on the PRC-Kazakhstan border but has faced challenges due to lack of local bilateral cooperation, imbalance in relative capacities of the Chinese and Kazakh states, and corruption. Participants

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<sup>127</sup> Interviews Naypyitaw August 2018

may learn from mistakes. Myanmar officials in particular may benefit from an SLV to Savan Park SEZ given slow progress in Myawaddy.

### 5.3.3 Policy issues: what are the priority policy issues at provincial, national and cross border/regional level to promote cross border economic cooperation?

- A. **Simple, clear, and easy to follow laws and regulations related to cross-border trade are needed, along with the harmonisation of customs laws and procedures.** Policy discussions related to the harmonisation and streamlining of customs procedures need to happen at all levels across the region with a focus on key border crossings. This should include discussions about developing hard and soft infrastructure to support cross-border trade and investment, such as through the establishment of common clearance areas, single window / single stop inspections, upgrading to electronic systems such as e-paper, e-tax, development of a standardised form for all countries accessible in several languages. Tax and VAT policy should also be harmonised, such as the double payment of 7% VAT in Thailand plus 3% for import into Laos. In cases where policy has been developed policy instructions to local areas may need improving. Respondents across the region noted that laws, procedures, quotas, tariff and non-tariff items were not in place, leading to reliance on brokers and irregular trade.
- B. **Upgrading cross-border transportation policies.** Truck volume at the Chiang Khong border crossing in Chiang Rai has declined over the past three years. Respondents indicated this may be due to fees charged in Laos to trucks travelling between China and Thailand and deterioration of the road. Trilateral discussions should be held between the three countries to regularise fees charged in Laos. In Mae Sot, the finalisation of the new Thai-Myanmar Friendship bridge requires a revision of the law. The MOU between Myawaddy and Mae Sot does not mention infrastructure and could to be amended. Agreements on transportation at border areas designated areas for logistics such as parking and transshipment may be beneficial. Thai officials also noted concerns that trucks from elsewhere will deliver cargo direct to Myawaddy, cutting Mae Sot out of the logistics trade. Myanmar officials reported Myanmar trucks are not allowed to stay in Mae Sot, and that free cargo from Myanmar is restricted on the Thai side. Policy discussions could happen to allow trucks from Myanmar to load cargo on the Thai side. Logistics facilities are also a challenge at the crossing in Aranyaprathet - Poipet. There is nowhere to park trucks on the Cambodian side and the border crossing is congested.
- C. **Development of strong cooperation mechanisms and institutions for cross-border consultations and joint development.** The CBSEZ model is one way of achieving this but there are others which may also be considered, such as those outlined in the ADB report: *Progress Report I Volume 2: Greater Mekong Subregion: Capacity Development for Economic Zones in Border Areas*. This may require discussion on decentralisation to empower local officials and engaging mid-level officials in the development of local strategies to identify economic complementarities at specific border crossings, perhaps under the guidance of national authorities such as the NESDB in Thailand. The development of cross-border committees was

requested by Lao public sector respondents. On the Thai-Myanmar border there is a Joint Border Trade Committee, but most discussions occur at the national level bilaterally, which constrains local officials who have to seek permission from the national level. Similar concerns were expressed by officials in Chiang Khong as permission needs to be sought from the DLT in Bangkok to grant permission for cross-border transportation, which can take 15-21 days. More broadly, local officials should be incentivised to take initiative and responsibility at the local level.

- D. **Policies related to movement of skilled and unskilled workers should be streamlined and harmonised.** Discussions could occur to facilitate freer and less costly cross-border movement of people. Thai private sector stakeholders on the Laos border raised concerns about fees for cross-border travel, both for low skilled workers coming to Thailand and high skilled workers going to Laos. Day passes were requested. Similar concerns were expressed by private sector respondents on the Laos side of the border who found it costly to attract skilled workers such as engineers due to fees related to cross-border travel. Requests were also made to introducing a visa exemption at the Myawaddy border crossing to enable visa free travel for both sides. Currently visas are required and people have to return across the same border crossing they entered, whereas in Cambodia Thai citizens can cross by land and exit by air. In Chiang Rai, private sector respondents requested visa exemptions for Chiang Rai airport to boost tourism. Similar discussions may be held at Mae Sot to allow Myanmar citizens to use Mae Sot airport.
- E. **BEZ policies across the region could be updated.** Officials in Mae Sot requested clear laws and regulations for SEZs in Thailand. In the absence of a national SEZ law parts of the BOI law are applied in the area instead. In Myanmar regulations prohibit business activities within 10 miles of the border, and many areas remain conflict areas lacking in transportation and electricity and utility services. Policies can be very centralised but should be more dynamic and responsive to different stages of BEZ development: with some areas prioritised as zones are established, then updated to encourage further development and higher value added activities. One concern in Mae Sot-Myawaddy related to the development of banking services and foreign exchange, as cross-border transactions do not function efficiently. More broadly, SEZs in Myanmar have been criticised by the International Commission of Jurists for lacking clarity, creating uncertainties about the functions and duties of government bodies and investors, undermining accountability and the rule of law. A key concern raised is the devolution of statutory powers from the national level to One Stop Service Centres on site, who may have neither the capacity or authority to legally issue documents such as Environmental Impact Assessments. This undermines the rule of law and leads to reputational risk for SEZ developers and investors. Given similar legal frameworks adopted by countries across the region, similar challenges may be faced in relation to the legal and administrative structure governing SEZs across the region. It may be the case that alternative models to promote economic cooperation are more suitable than the SEZ or CBSEZ model, and these should be explored.

## 6 CONCLUSIONS AND RECOMMENDATIONS

The term ‘cross-border economic zone’ is applied inconsistently and is used to describe a range of models facilitating cross-border cooperation. In China it has been applied to the extension of a special economic zone across the border into the territory of a neighbouring country. This approach requires strong state support and formal institutionalisation including joint zone administration and harmonisation of laws and procedures. Cross-border economic zones may also refer to loose and informal cross-border cooperation at local, provincial, and/or national levels to promote the joint development of border regions, such as on the France-Belgium and Denmark-Sweden borders. In the LMC CBEZs have commonly been taken to focus on the development of hard and soft infrastructure to facilitate cross-border trade along economic corridors, sometimes with the addition of industrial processing zones on one or both sides of the border. Some respondents expressed a preference for a third kind of cross border special economic zone, where authorities would withdraw from administration of the border area to leave a territory essentially governed solely by SEZ authorities between sovereign states.<sup>128</sup> In short, there is no single model or best practice for the development of CBEZs. Each CBEZ is specific to the respective border, the economic activities it aims to facilitate, and the objectives and capacities of relevant authorities. One size does not fit all.

Just as approaches to the development of CBEZs vary across the LMC region so does their current status. Mohan-Boten is currently the only cross border special economic zone in the region, under construction since 2016. SEZs have been established near borders along most economic corridors. Of the eight border points selected by the ADB for priority treatment under the corridor town development project, Myanmar is the only one of sixteen border towns not currently an SEZ. A summary of the models promoted at the for of the eight border points visited for this study follows.

### A. PRC-Vietnam: Hekou - Lao Cai

Both Hekou and Lao Cai have been established as SEZs and informal cross-border meetings are held twice a year. No cross-border economic zone or cross-border special economic zone currently exists but detailed plans to co-develop a “cross-border economic cooperation zone” have been developed. Vietnam returned comments on a Joint Master Plan for China-Vietnam CBECZs in July 2017.<sup>129</sup> Comments on a second draft were submitted by Vietnam in July 2018 and were being reviewed by Yunnan’s Ministry of Commerce in August 2018 when interviews were held with Chinese officials.<sup>130</sup> Detailed plans were not disclosed and it is not clear what model has been proposed.

### B. PRC-Vietnam: Pingxiang - Dong Dang

Not included in fieldwork.

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<sup>128</sup> Interview Kunming August 2018

<sup>129</sup> Asian Development Bank. 2017. Progress Report I Volume 1: GMS Capacity Development for Economic Zones in Border Areas. p.24

<sup>130</sup> Interviews Kunming and Hekou August 2018.

#### C. PRC-Vietnam: Dongxing - Mong Cai

Not included in fieldwork.

#### D. PRC-Lao PDR: Mohan – Boten

Mohan – Boten is the most developed of all China's CBECZs with LMC countries. An agreement was signed in August 2015. A private Chinese company has been granted a concession to develop approximately 30km<sup>2</sup> of land on the Lao side of the border. Detailed plans were not disclosed and Lao officials prefer not to call the zone a cross border SEZ due to political sensitivities but it appears to be one due to the concession and the cross-border joint management structure.<sup>131</sup>

#### E. Myanmar-Thailand: Myawaddy - Mae Sot

14 sub-districts in 3 districts of Tak including Mae Sot have been designated as an SEZ. Myawaddy has a Township Trade Zone and is developing an economic zone. This has been authorised by the Myanmar Investment Commission and does not fall under Myanmar's SEZ Law (2014). Myanmar officials in Naypyidaw reported they do not intend to develop SEZs in border areas making a cross-border special economic zone unlikely. A cross border economic zone may be developed by building on existing cross-border consultation mechanisms, as recommended by Abyoni and Verbiest.<sup>132</sup>

#### F. Thailand-Lao PDR: Mukdahan - Kaysone Phomvihane

Mukdahan has been established as an SEZ and the Savan-Seno SEZ has been established in Kaysone Phomvihane. Cross-border consultations happen annually at a provincial level but government officials such as border agencies meet more regularly. An MOU for "twin city" cooperation between Mukdahan and Savannakhet was signed in March 2004. As noted by Verbiest, the challenge is that there is no vision and long term plan on the Mukdahan side.<sup>133</sup> He recommends strategic investment in the area with potential assistance from the ADB. MI may consider working with key stakeholders to work toward the development of a strategic vision for joint development of the cross-border region.

#### G. Thailand-Lao PDR: Nong Khai – Vientiane

#### H. Cambodia-Vietnam: Bavet - Moc Bai

The study team visited three other border points not identified by Verbiest for priority treatment.

#### I. Cambodia – Thailand: Poipet – Aranyaprathet.

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<sup>131</sup> Interviews Kunming August 2018, Interviews Vientiane September 2018.

<sup>132</sup> Interviews Naypyitaw August 2018; Abyoni 2014 cited by Asian Development Bank. 2017. *Progress Report I Volume 1: GMS Capacity Development for Economic Zones in Border Areas*. p.104-105

<sup>133</sup> Asian Development Bank. 2017. *Progress Report I Volume 1: GMS Capacity Development for Economic Zones in Border Areas*.p. 56

SEZs have been established on both sides of the border at Poipet and Aranyaprathet. According to a Cambodian official, discussions have been held between Cambodia's CDC and Thailand's NESDB since 2013 to establish a cross-border special economic zone, but have not progressed due to challenges implementing the agreement domestically on both sides of the border.

#### J. Thailand – Laos: Khammouane – Nakhon Phanom

Nakhon Phanom has been established as an SEZ and while Khammouane has three SEZs. Nakhon Phanom may develop as a logistics hub for border trade to Vietnam and Southern China (Kwangsi) but the area has not been prioritised as for enhanced cross border economic cooperation.<sup>134</sup>

#### K. Thailand – Laos: Chiang Kong – Houxiay

Chiang Kong is the largest district of Chiang Rai targeted to be developed as a border SEZ. On the Laos side the Golden Triangle Special Economic Zone in Bokeo around 70km north of Houxiay. There are no plans to develop a cross border special economic zone but trilateral cooperation between China, Laos, and Thailand are needed to realise the potential of Thai-Chinese transit trade, especially with the development of Mohan-Boten CBECZ, and tourism.

China and Thailand are both prioritising the development of border SEZs and CBEZs primarily to promote trade and to take advantage of lower labour costs in neighbouring countries. Cambodia, Laos, and Vietnam have developed SEZs at their borders but are not prioritising them, while Myanmar prioritises SEZs in coastal areas since border regions are conflict areas. Logistics services are coveted by most authorities. A gradual trend is for labour intensive industries to relocate to CLMV countries, or at least to adjacent borders. There has been some expansion of supply chains to date, such as electronics and automotive industries relocating from Thailand to Laos and Cambodia back supplying factories in Thailand. Many challenges remain, however, and the following activities could be considered by MI over the next three years.

## 6.1 Recommendations

I. MI may prioritise providing assistance to upgrade trade facilitation measures at border crossings across the region. Soft infrastructure could be harmonised and streamlined to promote cross-border trade. This includes trade regulations, import-export documentation, customs procedures, tax policies, agricultural inspections, transport regulations. Paperless procedures may be encouraged. Development of hard infrastructure such as single windows, common clearance areas, single windows, may be beneficial.

II. Clear and coherent visions and strategies for the joint development of border areas are needed reflecting local and national conditions and interests, inclusive of public and private sector, civil society and local communities. These should be developed for each border

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<sup>134</sup> Asian Development Bank. 2017. Progress Report I Volume 1: GMS Capacity Development for Economic Zones in Border Areas. p.176-177

point. Joint consultative mechanisms could then be developed at the local level domestically and bi-laterally and at the national level bilaterally. These should include action plans and provide for monitoring and evaluation of implementation. MI could facilitate workshops at the local and cross-border level and explore the possibility of facilitating institutional cooperation at the cross-border level locally and nationally. These activities may incorporate recommendations made under the ADB project ADB. TA 8989 REG Greater Mekong Sub-region Capacity Development for Economic Zones in Border Areas such as focusing on a multisector approach to developing hubs and clusters, and the examples and guidelines for developing cross-border institutions provided in recent report.<sup>135</sup>

III. Trade imbalances, barriers to entry for SMEs, and massive investments in hard infrastructure required to develop border SEZs and CBSEZs may help explain why CLMV countries are less enthusiastic about the development of CBSEZs than Thailand and China, especially Myanmar and Vietnam. MI could consider activities to address these concerns and contribute to balanced development and mutual benefit. This may include a review of various CBEZ models including but not limited to the China model of a cross-border SEZ. GMS countries could also explore opportunities to utilise CBEZs to move up the industrial value chain by examining the potential of services including logistics, finance, information technology, research and development centres, e-governance systems, and training and recreational centres. MI may help encourage the development of backward and forward linkages to encourage domestic participation in BEZs and for SMEs to benefit from hard and soft infrastructure developed at border areas. One potential best practice to explore is an initiative reportedly undertaken by Toyota in Poipet where the company helps SMEs establish small operations in an SEZ there for a small fee. Another is to explore the possibility of encouraging citizen traders to capitalise on border trade opportunities such as wholesale markets reportedly operating on the Guanxi – Viet Nam border.<sup>136</sup>

A summary of activities for MI to consider as part of the three year project are outlined below:

### 6.1.1 Capacity building activities

<b>Targets</b>	<b>Topics</b>
<b>Customs officials</b>	Harmonisation of policy and joint implementation Single windows Paperless procedures and e-tax Agricultural inspections Joint training on implementation of customs procedures at the border
<b>SEZ authorities (central authorities, management committees, SEZ developers, and OSS representatives)</b>	Investment incentives and privileges Basic SEZ management practices Financial and investment law How to establish management committees and joint ventures Critical analysis of financing proposals

<sup>135</sup> Asian Development Bank. 2017. "Progress Report I Volume 2: Greater Mekong Subregion: Capacity Development for Economic Zones in Border Areas," September, 1–38.

<sup>136</sup> Both were reported to the author by respondents and could not be validated

	<p>Development of framework agreements</p> <p>Managing concessions</p> <p>Negotiation</p> <p>Collection analysis and dissemination of data related to trade and investments in BEZs, job creation, revenues</p> <p>Trade facilitation</p> <p>Identification, development, and promotion of clusters</p> <p>Warehouse service management,</p> <p>Environmental protection</p> <p>Waste management</p> <p>Promotion and marketing</p> <p>Strategic environmental assessments</p> <p>Environmental impact assessments</p> <p>Land acquisition procedures, resettlement and compensation</p> <p>international standards related to labour relations</p> <p>Grievance mechanisms, dispute resolution, and community relations</p>
<b>Chambers of commerce and entrepreneur / SME associations</b>	<p>Training opportunities to help SMEs get the most out of SEZs</p> <p>Light manufacturing</p> <p>Food and beverages</p> <p>Construction materials</p> <p>Agriculture quality assurance including sanitary and phytosanitary procedures for animals and people</p> <p>Green agriculture</p> <p>Eco-tourism</p> <p>Technology and marketing to enhance value added of key export products of CLMV countries</p>
<b>Senior officials from CLMV countries</b>	<p>Trade negotiations focusing on specific border points, such as for Myanmar exporting to Thailand or China</p>

### **6.1.2 Ongoing discussions to facilitate**

<b>Targets</b>	<b>Topics</b>
<b>Local stakeholders</b>	<p>Identification of economic complementarities at specific border points</p> <p>Development of clear and coherent strategic vision and plans for each border point to co-develop border areas based on complementarities and mutual benefits</p> <p>Cross-border consultations</p>
<b>National level officials</b>	<p>Liaise between local stakeholders and authorities</p>

	<p>responsible for developing SEZs, such as Thailand's NESDB</p> <p>Addressing labour shortages, such as vocational training and recruitment agencies;</p> <p>How to address trade imbalances and upgrade industrial capacity for domestic consumption and export</p> <p>Issuance of certificates of origin for border areas and to SMEs</p>
<b>High level meetings between senior officials responsible for development of SEZs</b>	Development of shared strategy for joint development of border areas

### **6.1.3 Structural Learning Visits**

<b>Location</b>	<b>Practices</b>
<b>Savan Park</b>	SEZ management Trade facilitation Logistics, e-tax and customs.
<b>Singapore</b>	Logistics
<b>Khorgos and Mohan-Boten</b>	Cross-border special economic zone development
<b>Hekou or other Chinese border SEZs</b>	Financial services and international banking
<b>Indonesia-Malaysia-Singapore growth triangle</b>	Capitalising on cross-border complementarities
<b>Poipet</b>	Toyota assistance to SMEs
<b>PRC – Vietnam border</b>	Wholesale border markets

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