

## Policy Mechanism for Developing Special Border Economic Zones in Thailand

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### Abstract

Emergence of special border economic zones is a growing phenomenon in Thailand due to advantage of the evolving and facilitating policy instruments, and trade agreements with the neighboring countries, and strong commitment for ASEAN Community for mutual benefits and overall regional development of ASEAN countries. The study tries to analyze the policies in place, which are influencing and conducive for development of special border economic zones. It also seeks to recognize the policy gaps and recommend for bridging and catalyzing the process further.

### 1. Introduction

Increasing regional economic integration has driven the process of regionalization through the formation of trade blocs notably, the Association of South East Asian Nations (ASEAN) in order to foster economic complementarities and enhance regional competitiveness. As the progress of development among ASEAN member countries is quite diverse, the programs consisting of the Greater Mekong Sub-region Development Cooperation and an Initiative for ASEAN Integration (IAI) have been created in order to speed up the regional integration towards the goal of ASEAN Community (AC) by the year 2015 (ASEAN Secretariat, 2009). The potential benefits from the GMS cooperation are quite large. Nevertheless, different levels of development may slow down the growth and full benefits of this sub-regional cooperation (Krongkaew, 2004). It is apparent that economic interdependence between Thailand and the least developed neighboring countries have increasingly become much closer since the last decades due to advancement of regional cooperation. Yet, considerable development gaps seem to be widening due to stark differences on stages of development causing persistently “asymmetric relations”. For example, labor cost in Thailand is 3 to 5 times higher than less developed bordering countries of Myanmar, Lao PDR and Cambodia. Thus,

Thailand has attracted an estimate of 6 million unskilled immigrant labor force and family members from these bordering countries, which has accounted for 9.39 percent of total national population, to work and live in the country (Manager Weekly, 2010). Meanwhile, a research conducted by Prince of Song Khla University found that approximately 0.20 million southern Thai nationals are out-migrating to Malaysia for jobs (Manager Online, 2008). In 2015, there were 0.30 million Thai labor working in Malaysia, of which half of them were illegal labor (Thai Public Broadcasting Service, 2015).

The illegal influx phenomenon of immigrants obviously prompts concerns over national security in particular and subsequent multi-faceted impacts on Thai economy and society in general. To complement the GMS, Thailand, which is located at the strategic intersection of the mainland of Southeast Asian region, has initiated the Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy (ACMECS) in 2003 in order to bridge development gaps with bordering countries—Cambodia, Lao PDR, Myanmar and Vietnam (CLMV) by promoting integrated cross-border development based on Border Economic Zone (BEZ) concept (Ministry of Foreign Affairs of Thailand, 2008). The GMS spatially adopts a corridor development approach with a total of nine transborder economic corridors so as to spearhead cross-border regional development linking both intra-GMS and South Asian and East Asian regions (ADB, 2007). Out of nine, six GMS corridors are trans-Thai territory (Map 1.1). Importantly, it strengthens the locational advantage of cross-border regions towards emerging production and trade zones. This sort of BEZ was pioneered by Maquiladora or export manufacturing sector, which have been developed to promote employment along the 2,000 mile-long Mexico and the United States border since 1965 (Weiler and Zerlentes, 2003).



Map 1.1 GMS Corridors Network. Source: Asian Development Bank, 2007. GMS Transport Sector Strategy, Coast to Coast and Mountain to Sea: Towards Integrated Mekong Transport Systems.

In the Asian region, this concept is proliferating during recent decades. Such zones have been implemented, that is, between Guangdong province of China and Hong Kong; between Indonesia and Singapore; between Johor Bahru state of Malaysia and Singapore and between North Korea and South Korea. Other existing BEZs along the GMS corridors are between China and Myanmar; between China and Vietnam; between Vietnam and Cambodia and between Vietnam and Lao PDR. A few BEZs are under planning and evolution process between North Korea and China, China and Russia, and India and

Pakistan. Likewise, Thailand has selected few cross-border regions to be advocated and strengthened as BEZs. This approach is believed to help distribute growth to the backward border regions in Thailand in order to significantly bridge both chronic interregional inequalities, in which the Northeastern region has long been a backward region followed by Northern region and intra-regional differences. It is also considered as a useful means for possibly sharing benefits with counterpart cities in neighboring countries particularly in the Greater Mekong Sub-region (GMS).

Nevertheless, the advancement of physical connectivity in the form of economic corridors coupled with a range of facilitations on trade, investment and people's mobility in the GMS, in particular, have dynamically opened up room to advance border economic zones in Thailand. The striking substantiation has been the robust cross-border trade flows between Thailand and neighboring countries since the last decade, which consumers in neighboring countries can gain a wider variety of access to cheaper and quality goods from Thailand. The trading patterns are becoming quite diverse depending on their comparative advantages, division of labor and specialization of production. With the increasing trend of international trade of Thailand, the intra-ASEAN trade and cross-border trade are also gradually rising though the proportion of their share is low. Cumulative formal cross-border trade during 2008–2016 accounted for 277.50 billion US\$ reaching a significant level with average of 27.15 percent of share to intra-ASEAN trade. This reflects the convergent effects of bilateral and regional trade agreements and regional trade facilitation initiatives. Similarly, the share of cross-border trade to Thailand's aggregate international trade with the world significantly rose from 1.02 percent in 1996 to 7.01 percent in 2016. In 2013, cross-border trade was equivalent at 8.53 percent of Gross Domestic Product. Cross-border trade growth may somehow contribute to regional development of both urban and rural people including the poor along border regions between Thailand and neighboring countries can also benefit from trade, as well as accessing a variety of products. This will result in better quality of life. However, cross-border traded goods are mainly produced in Bangkok, the national capital city, and its vicinity like the eastern region and regional growth centers. At present, Thai border cities and towns play a distribution role. This cross-border trade has mainly transacted through 71 border points which play important roles, either as collection or distribution nodes. The locations of these border check points appear in Map 1.2.

Above all, the trend of aggregate cross-border trade tends to be growing, while the share of aggregate international trade is likely to be declining, which corresponds to the greater physical connectivity and

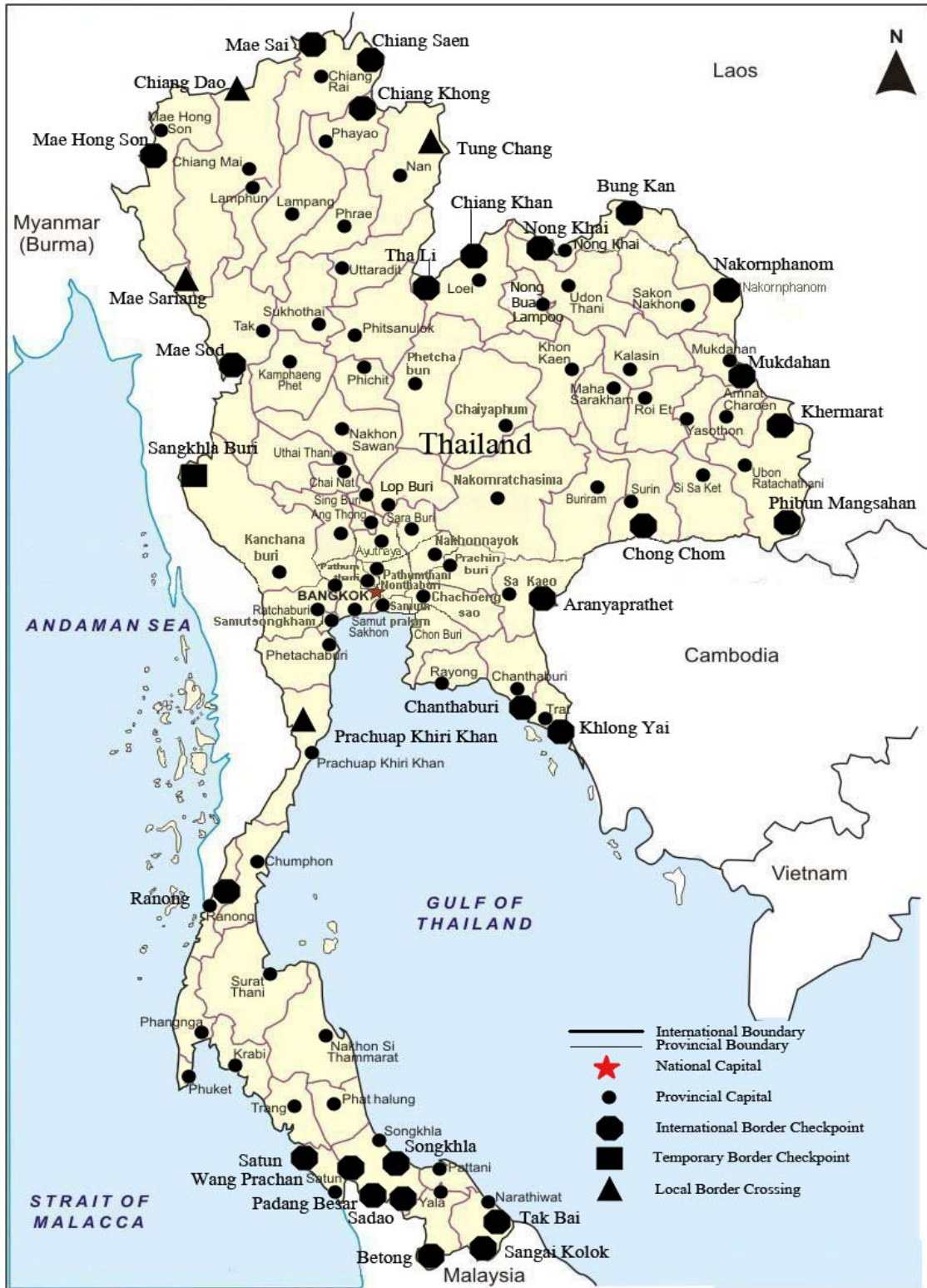
accessibility in the GMS. Thailand alone seems likely to constantly secure favorable balance of cross-border trade with less developed neighboring countries, particularly, Cambodia and Lao PDR. It is clearly justified that these border nodes in Thailand have been playing crucial roles not only to facilitate cross-border trade and tourism but also to offer opportunity to perform as border production platforms for goods and services, which are in vast demands in either immediate or nearby neighboring countries. Such industrial productions at the borders could be endowed with locational cost advantages, particularly labor and access to supply networks in neighboring countries. Therefore, it is still a challenge for Thailand to find ways of using border economic zone as a means to not only bridge interregional and intra-regional disparities in Thailand, but also to promote spillover effects towards cross-border regional development in the GMS in order to ultimately strengthen regional cooperation and integration with these less advanced neighboring countries. As the concept of special border economic zone has long been discussed in Thailand with once slow progress, it raises question how Thailand could move forward particularly on advancing policy supports to translate development of special border economic zone concept into reality.

## 2. Research Questions

There are three interlinked research questions. They are as follows.

- a. What are the evolutionary process of policies and policy gaps for promoting development of special border economic zones in Thailand?
- b. What are the basic benefits that local Thai border cities gain from regional economic integration particularly under the Greater Mekong Sub-region Development Cooperation and ASEAN?
- c. What are the possible contributions of special border economic zones for promoting local and regional development in Thailand?





Map 1.2 Locations of border checkpoints in Thailand Source: The Customs Department, Thailand. Remarks: Temporary Border Checkpoint opens in accordance with special official permission. Local Border Crossing opens for humanitarian reasons and for retail trade. Song Khla and Chantaburi are international checkpoints.

### 3. Objectives

The broad objective of this research is to analyze the policies in place, which are influencing and conducive for development of special border economic zones. It also seeks to recognize the policy gaps and recommend for bridging and catalyzing the process further.

Specifically the attempt has been made to analyze the background and contents of policies with identification of policy gaps; to explore the benefits that local Thai border cities reap from participating regional economic integration; and to present the progress of implementation of special border economic zone policies in Thailand; finally to suggest strategies for catalyzing development of special border economic zones with focus on local and regional development in Thailand.

### 4. Research Methods

This study is a qualitative research, primarily based on secondary data and information. Secondary data sources are mainly obtained from relevant articles, books, government reports and departmental documents. It is supplemented with primary sources through non-participant observation of economic activities at strategic cross-border regions comprising local cross-border trading, shopping, people and labor movement, border industrial development and local border livelihoods. This research has mainly analyzed policies regarding development of special border economic zones in Thailand. It is then complemented with content analysis utilizing various sources of literature and non-participant observation.

### 5. Theoretical Framework and Advancement of Cross-Border Economic Zones/Regions

This section presents a comprehensive overview of the theoretical and empirical developments in related branch of literature. Classical international trade notion known as comparative advantage is grounded by David Ricardo in 1817. He states that other things being equal a country tends to specialize in and exports those commodities of which it has maximum comparative cost advantage. Similarly, the country's imports will be of goods having relatively less comparative cost advantage (Sumitr and Worabuntoon 2004). Since then international trade model has been evolving over time influencing by increasing complex factors and technological changes, which gave rise to the arrival of neo-classical international trade theories. Among others, Tinbergen (1962) rationalizes the gravity model that bilateral trade between any two countries is positively related to their economic sizes and negatively related to the relative trade costs between them. Ohlin (1993) proposes resources and

trade theory, in which trade occurs from the differences of resources between two countries. He states that a country will export goods that use its abundant factors intensively, and import goods that use its scarce factors intensively. In the two-factor case, he states a capital-abundant country will export the capital-intensive good, while the labor-abundant country will export the labor-intensive good. Krugman (1980) conceives home market effect, which is the tendency for large countries to be net exporters of goods with high transport costs and strong scale economies. Hanson and Xiang (2004) conduct empirical research on the home market effect and bilateral trade patterns. They find industries with very high transport costs it is national market size that determines national exports. For industries with moderately high transport costs, it is neighborhood market size that matters. In this case, national market size plus market size in nearby countries determine national exports. To deepen insight on trade for development, Krugman, Obstfeld and Melitz (2010) suggest a trade model on specific factors and income distribution focusing on 3 factors namely labour, capital and territory. They state a country having capital abundance and less land tends to produce more manufactured products, while a country with territory abundance tends to produce more food. Products and services to be traded obtain from industries, which uses different factors and resources in the production enhancing income distribution. These international trade theories play fundamental role in framing policies for development of special border economic zones.

Economic globalization has driven growing interdependence between countries shaping development in various levels. At global scale, there is existence of uneven global patterns of economic and social development. Wallerstein (1974) classifies the world into areas and nations ranging from core states, semi-peripheral and peripheral areas, so called world system theory, which is applicable to hierarchically spatial levels. Globalization steers regional economic integration into six stages namely preferential trading area, free-trade area, customs union, common market, economic and monetary union and complete economic integration (Carbaugh 2009). Globalization also affects national development, which is stimulated by emerging new international division of labor in the regional production networks coordinates by transnational companies (Yeung 2001). Regionalization propels cross-border development. Perkmann and Sum (2002) terms cross border region (CBR) is a territorial unit that comprises contiguous sub-national units from two or more nation-states. Jessop (2002, 25-49) describes that there are at least 9 ways, in which CBRs have emerged. There are two broad classifications of CBRs. Martinez (1994) cited by Yang (2006) categorizes four paradigms of cross-border interactions, namely alienated borderlands, co-existent



borderlands, interdependent borderlands and integrated borderlands. While Krätke (2002, 125-147) discerns three types of cross-border cooperation based on different geographical scales of cross-border linkages between regional economies. These are Type A: long-distance international cooperation; Type B: supra-regional structured cooperation; and Type C: regionally integrated cooperation.

Massey (1984) conceives the spatial division of labor theory, which is a functional division between regions within an industry. She identifies 3 types of companies consistent to their approach to utilize the different spatial structure between regions. These are: (1) Locationally concentrated spatial structure-the company trades only in one region, localizes its activities in this area, which means it fails to utilize regional differences; (2) Cloning spatial structures - it is identified by the company trading in several regions with the head office located in metropolitan or core area while other branch offices are located in the periphery regions. Branch offices are not connected much and the plants are linked to other companies in the regions (e.g., subcontractors); and (3) Part-process spatial structure - branch offices are much less vulnerable. This system is based on branch offices producing only a part of the product and companies locate their branch offices in regions corresponding to the requirements of production.

Several studies conceive borders from a spatial perspective, which are derived from international trade, location and central place theories. For instance, Alegria (1989) as cited by Peña (2005) categorizes two central premises that determine the inter-urban hierarchy of border space. (1) The origin, destination and intensity of the flows (capital, goods and labor) are the key to differentiate the interaction of simultaneous processes in one space-national, transborder and transnational. (2) The geographical adjacency of structural differences (price, quality of goods and choices, etc.) intensifies transborder processes. Krugman and Livas (1992) differentiate between dynamic and static comparative advantages of regions. Dynamic advantages are those variables that differ across regions and that are directly related to productivity such as human capital and physical capital. Static advantages are those attributes that are fixed and unique to a specific region such as access to the sea or being located at the border. Hanson (1996) supports that static locational advantages lower transport costs. Therefore, borders and ports are natural sites to locate production and natural centers for international trade. Sassen (2001) argues that globalization has produced a worldwide urban hierarchy system, which is a complex network of production. Consequently, its hierarchy of cities responds to international system of urban hierarchy rather than a national urban system. This implies that in regions or cities

where international trade plays a key role such as border region, the urban hierarchy of these cities responds to external factors than internal ones. Sassen (2001) deliberates that there are also tendencies towards specialization among different cities within a country.

Concerning dynamic internal borders, Houtum (2000) found three different approaches of European economic and regional geographical border studies, which comprise flows and barriers, cross-border cooperation, and people. Brunet Jailley (2005) conceptualizes the theory of borderland studies. He suggests four equally important analytical lens including (1) Market forces and trade flows-flows of goods, people and investments span the border and borderland; (2) Policy activities of multiple levels of government on adjacent borders - multilevel governance spans the border to link Type 1 (local, regional, provincial, state and central governments) and Type 2 (task specific public and private sector organizations); (3) Local cross-border political clout-active local civic and political organizations and individuals initiate and expand local level relations, local policy network, local policy communities, symbolic regime and local cross-border institutions. All span the border and borderland; and (4) Local cross-border culture-sense of belonging, common language or ethnic, religious, and socio-economic background span the border and borderland.

Greater cross-border economic integration in many regions in the world has led the field of border economics to expand rapidly (Fullerton 2003). Some of the areas, being investigated, include population, business cycle transmission, exchange rates, industrial development, labor markets and natural resources. In practice, border industrialization program is primarily referred to the aforementioned Maquiladoras. Several researches commented on impressive economic advantages as it were key economic driver and attractor of workforce. As a result, interdependence between Mexico and the United States has intensified rapidly through local and regional cross-border trade, which has concertedly helped fuel the growth of binational urban economies (Scott 2002, 191-211). Nevertheless, there was resulted certain disadvantages in terms of social, environmental and institutional impacts (Brannon et al. 1994). Though development of special border zones in Asia is proliferating, there is yet limited literature concerning policy analysis for development of special border economic zones both in Thailand and elsewhere. As a result, this research intends to fill up this gap.

## 6. Policy Analysis of Development of Special Border Economic Zones in Thailand

It includes evolution and detailed policy analysis of special border economic zone development policies, as well as policy gaps.

### *6.1 Evolution of Special Border Economic Zone Development Policies in Thailand*

Thailand adopts 5-year national development plan to guide development paths. Over 54 years of national development planning, spatial development policies are continually evolving in line with national and sectoral development progress, which can be classified into 4 distinct periods. Each period is characterized by specific spatial development advancement. The first period (1961-1966) focuses on developing key infrastructure projects as backbone for national development, as well as attracting private investments. The second period (1967-1981) emphasizes on promoting regional and rural development including creating jobs and income distribution to peripheral regions. The third period (1982-2001) adopts Area Approach planning for identifying development programs and projects by promoting regional development, which concentrates on fostering regional growth centers and the Eastern Seaboard Development Program. It also focuses on urban, rural and specific areas development. The fourth period (2002-2015) recently shifts towards upholding rural-urban relations and development of special border economic zones (SBEZs) along the Greater Mekong Economic Corridors in order to grasp potential of proliferating regional cooperation and integration programs particularly for the Ayeyawady-Chao Phraya-Mekong Economic Cooperation Strategy (ACMECS), the Greater Mekong Sub-region Economic Cooperation Program, and the ASEAN Economic Community as integral part of the ASEAN Community.

To materialize the concept of SBEZ, its ultimate goals are not only to reduce both inter-regional and intra-regional disparities, but also to create production bases along border areas, as well as coping with border labor shortage. It also aims to minimize impacts of continuing influx of illegal immigrant labor and low quality agricultural produce from neighboring countries into Thailand. Yet, progress has been gradually made because this concept is truly new for Thailand. As a result, different efforts have been made in various governments. Chronologically, the Thaksin Administration initially announced to promote the first SBEZs in both Chiang Rai and Tak provinces since 2003. However, it encountered severe resistance from both local authorities and general public who were aware of being profoundly displaced from their local administration function by new local authorities under the

proposed special border economic zone law. This subsequently generated wide criticism on pros and cons of the SBEZ within Thai society. Coupled with political discontinuity, the initiative to implement these two pilot SBEZs was consequently sluggish for almost 8 years.

In line with the ASEAN Trade Facilitation Framework and the ASEAN Economic Community Blueprint 2025, the Abhisit Administration reapproved on 19 October 2010 to develop Maesod district in Tak province as a pilot special border economic zone. On 22 March 2011, a total budget of 14.04 million Baht was then allocated to carry out a research for the formulation of development plan of Maesod Special Border Economic Zone. In 2013, the Yingluck Administration renewed support on the scheme by setting up a mechanism so called Special Border Economic Zone Development Policy Board. Subsequently, a strategic plan for promoting special border economic zones has been formulated in 2014 covering 5 border regions across the country. This consists of: (1) Northern border region comprising of Maesai, Chaingmaen and Chaingkhong districts in Chiang Rai province and Tak province; (2) Northeastern border region consisting of Mukdahan, Nakhon Phanom and Nongkhai provinces; (3) Eastern border region representing Sakaeo and Trad provinces; (4) Western border region comprising of Kanchanaburi province; and (5) Southern border region including Sadao district of Songkhla province and Narathiwat province. Presently, the Prayuth Administration promptly carries on hastening the implementation process of these SBEZs. There are several direct and indirect policies that influence the special border economic zones development in Thailand.

## *6.2 Policy Analysis for Upholding Development of Special Border Economic Zones*

SBEZ policies in Thailand are currently advancing towards rapid implementation of pilot locations. The Prayuth Government has firmly committed in formulating favorably integrated policies, as well as accelerating the implementation process. As a result, analysis of actual integrated policies for upholding special border economic zone development is undertaken employing qualitative analysis. It can be broadly categorized into 2 major groups of policies, which are direct and indirect policies.

### *6.2.1 Direct Policies or Explicit Policies intend to directly lay down strong foundation for supporting development of pilot SBEZs.*

Features and progresses of these integrated policies are as follows:

1) Special Border Economic Zone Development Policies: It serves as core national policy in driving SBEZ development. At present, the Prayuth Administration is keenly expediting implementation of 10 SBEZs across Thailand dividing it into two phases. It aims at attracting 20 percent more investments into these border regions, as well as being a part of preparation plan for entry into ASEAN Community by the end of 2015. Therefore, on 19 January 2015, the Prayuth Government approves five designated pilot SBEZs along with major infrastructure development plan and associated private investment incentives. The Royal Thai Government guides to realize early tangible progress by the end of 2015. Totally, it covers five border provinces in 10 districts or 36 sub-districts with a total land area of 2,932 sq. km.. These consist of:

- Tak Special Border Economic Zone covering Maesod, Pobpra and Maeramad districts of Tak province with a total land area of 1,419 sq. km.;
- Mukdahan Special Border Economic Zone comprising of Muang Mukdahan, Wanyai and Dontan districts in Mukdahan province with a total land area of 578.50 sq. km.;
- Sakaeo Special Border Economic Zone encompassing Aranyaprathet and Wattananakhon districts in Sakaeo province with a total land area of 332 sq. km.;
- Trad Special Border Economic Zone covering Klong Yai district in Trad province with a total land area of 50.20 sq. km.; and
- Song Khla Special Border Economic Zone including Sadao district in Song Khla province with a total land area of 552.30 sq. km. Recently, the Royal Thai Government has approved the second phase of SBEZs on 16 March 2015 covering 5 provinces in 13 districts or 54 sub-districts with a total land area of 3,288.05 sq. km. These are:
  - Nongkhai Special Border Economic Zone encompassing 5 districts (or a combination of 13 sub-districts) namely, Muang Nongkhai and Srakrai districts of Nongkhai province with a total land area of 473.67 sq. km.;
  - Nakhon Panom Special Border Economic Zone including 2 districts (or a combination of 13 sub-districts), namely, Muang Nakhon Panom and Tha-Uthain districts of Nakhon Panom province with total land area of 797.79 sq. km.;
  - Chiang Rai Special Border Economic Zone involving 3 districts (or a combination of 21 sub-districts) namely, Maesai, Chiangsaen and

Chiang Khong districts of Chiang Rai province with total land area of 1,523.63 sq. km.;

- Kanchanaburi Special Border Economic Zone covering Muang Kanchanaburi
- District (or a combination of 2 sub-districts) in Kanchanaburi province with a total land area of 260.79 sq. km.; and
- Narathiwat Special Border Economic Zone comprising 5 districts (or a combination of 5 sub-districts), namely, Sungai Kolok, Takbai, Wang, Yi-Ngo and Muang Narathiwat districts in Narathiwat province with a total land area of 235.17 sq. km.

The Royal Thai Government also set up a mechanism to run the SBEZs by assigning 4 main organizations to oversee implementation process comprising the Office of the National Economic and Social Development Board as a secretariat office of the National Special Border Economic Zone Development Policy Board, Office of Board of Investment, Ministry of Foreign Affairs and Ministry of Interior. Then, the Office of the National Economic and Social Development Board in cooperation with Office of Board of Investment and related agencies are tasked to coordinate in designing detailed investment targets in the pilot SBEZs so that prospective investors can propose investment projects as soon as possible. Furthermore, four different sub-committees are formed at national level which are:

- Sub-Committee on Identifying Physical Boundary of Special Border Economic Zones chaired by Ministry of Interior. Its task is to consider target provincial proposals for establishing SBEZs along with public land acquisition for further private lease. This is to solve problem on increasing land price arising from widespread local land speculation;
- Sub-Committee on Investment Incentives, Boundary and One Stop Service Center on Investment chaired by Permanent Secretary of Finance together with Office of Board of Investment, Office of Council of State, National Security Council, Department of Forestry, Office of SMEs Promotion and concerned provinces, local organizations and private sector;
- Sub-Committee on Infrastructure and Customs House comprised of 6 organizations, namely, Ministry of Transport (Department of Highways, Department of Aviation and Marine Department), Ministry of Foreign Affairs, Ministry of Agriculture and Cooperatives, Department of Customs, Office of Thailand Immigration and Industrial Estate Authority of Thailand;
- Sub-Committee on One Stop Service on Labor, Public Health and National Security consisted of 10 organizations, namely, Ministry of Foreign Affairs,



Ministry of Interior, Ministry of Public Health, Department of Employment, Department of Skill Development, Office of Thailand Immigration, Office of Social Security, Commission of Vocational Education, Industrial Federation of Thailand and Thai Chamber of Commerce.

To facilitate rapid implementation of the 5 pilot SBEZs at provincial level, a study is being done to set up a Special Border Economic Zone Administration Sub-Committee in each pilot location. The Industrial Estate Authority of Thailand has been tasked as implementing agency of the SBEZs. Moreover, the Royal Thai Government approved an infrastructure and customs house development plan of the pilot SBEZs during the year 2015-2020 with the amount of 98,571 million Baht for a total of 185 projects for specific undertakings as follows:

- Tak SBEZ - construction of the second Moei river bridge, Tak-Mae Sod highway, improvement of Mae Sod airport, new customs house and immigration offices, Mae Sod Industrial Estate and Huei Mae Sod reservoir, etc.;
- Mukdahan SBEZ – building of provincial highway, border logistics center, residential area of customs officials, Mukdahan Industrial Estate and pumping station utilizing electricity, etc.;
- Trad SBEZ - development of Klonyai Port, border logistics center, customs house and Trad Industrial Estate, etc.;
- Sakaeo SBEZ - construction of new customs house and Aranyaprathet Industrial Estate, etc.;
- Song Khla SBEZ – building of border logistics center, Song Khla Deep Seaport 2, double railway track for Padang Besar-Hat Yai route, new Sadao customs house and Song Khla Industrial Estate, etc.; and
- Nongkhai SBEZ - construction of new highway Nongkhai-Ponpisai route, new customs house and Ponswang Industrial Estate, etc.

An Act on Development of Special Economic Zones is being drafted and will take effect by 2017. In relation to urban development in the pilot SBEZs, principal city plans and design of specific border town plans along with physical zoning and provision of public utilities are being revised in response to the changing development potential and policies. It has been physically planned at 3 different levels as follows:

- Creation of provincial physical plan for border gateways linking with ASEAN Community. This level identifies potential development areas and then prepares these areas to serve as both strategic trade gateways

and SBEZs. It formulates integrated development programs for promoting both urban development and special border economic zones;

- Development of both principal provincial, urban and community plans in order to guide land use, transport and infrastructure development, which will be associated with regulations corresponding with prospective SBEZs and integrated urban development;
- Designing of specific plans of special border economic zones including detailed design of urban architecture and zoning. It likewise lays out public utilities system corresponding with principal urban plan system comprising industrial zone, agricultural warehouse, cross-border trade and new residential areas.

To counter prevalent local land speculation, on 15 May 2015, the Royal Thai Government has expropriated degraded forest and public land in the designated SBEZs for further leasing out to private investors in order to promote rapid starting up of industries and businesses. Then, the Department of Treasury has been tasked to manage the acquired land.

2) International Trade and Cross-Border Trade Policies: Cross-border trade between Thailand and CLM has been periodically affected adversely by political and diplomatic problems during periods of political differences (TDRI, 1997). After the end of the cold war, Thailand has proclaimed a policy of turning "Indochina battlefields into a marketplace" since 1988 in order to foster closer economic interdependence (Chandoevrit et al., 2005). The Royal Thai Government persistently reaffirms policies to expand regional cooperation particularly on trade at three different levels as follows (Thai Government Statements 2008, 2009):

ASEAN Level is a vital trading bloc for Thailand placing significant emphasis on utilizing full advantage of ASEAN Free Trade Area through "ASEAN Hub" policy so as to sustain trading and investment base particularly in CLMV. It is implemented by means of establishment of Thailand's distribution centers and trading firms in CLMV.

Greater Mekong Sub-region Level is very meaningful due to geopolitics of Thailand as a strategic crossroad of the GMS. As a result, Thailand has focused on fostering greater flows in order to increase volume and value of cross-border trade, as well as facilitating both intra and extra-GMS trade, investment and tourism through the implementation of Cross-Border Transport Agreement. Regional production networks are launched by relocating specific investments to neighboring countries and transit trade regime is keenly negotiated with neighboring countries (e.g., China, Lao PDR,

Myanmar and Vietnam) in order to facilitate free flow of goods to nearby neighboring countries' markets either in Southeast and South Asian, or East Asian regions.

**Bilateral Level with Particular Emphasis on Cross-Border Trade Policy:** Thailand places emphasis on common bilateral cross-border trade policies towards neighboring countries particularly on trade facilitation along major economic corridors. It correspondingly aims to improve facilities at key border checkpoints to meet international standards. The Ministry of Commerce of Thailand has set the targeted value for both cross-border trade and transit trade to reach 1.50 trillion Baht or 48,387 million US\$ by the year 2015. This plan has been implemented through 4 strategies, namely: 1) development of competitiveness of Thailand for enhancing trade value; 2) building capacity of personnel responsible for cross-border trade; 3) promoting outward investment in neighboring countries; and 4) solving urgent problem and utilization of regional trade agreements. Furthermore, local border cooperatives are collectively strengthened to actively participate in cross-border trade of agricultural produce aiming to help minimize the impact of illegal influx of low quality agricultural produce from bordering countries into Thailand.

3) **Customs Facilitation Policy:** Thailand has already signed an Agreement to Establish and Implement the ASEAN Single Window (NSW) since 2005 in order to facilitate greater flow of international trade between ASEAN member countries. Within this agreement, ASEAN member countries concurred to implement the ASEAN Single Window Pilot Project consisting of linkages of Certificate of Origin under ASEAN Trade in Goods Agreement (ATIGA Form D) and ASEAN Customs Declaration Document. In line with this agreement, the Royal Thai Customs Department has fully executed e-Customs through the National Single Window since 2008. As of 15 September 2014, it can electronically link data on licenses and certificates via the NSW with a total of 21 relevant organizations. The Royal Thai Customs Department has likewise collaborated with licensing and certifying organizations to set up database on commodity codes that required to apply for licenses and certificates, and can be accessible online.

4) **Border Investment and Industrial Development Policies:** Pertaining to investment policy, the Board of Investment (BOI) recently revealed the Seven-Year Investment Promotion Strategies (2015-2021) built on both activities and merit-based incentives. It also includes investment promotion policy particularly for investment in special border economic zones, which is equivalent to maximum incentives provided to the southern border provinces. Applications must be submitted from 1 January 2015 to 31 December 2017.

Detailed investment promotion can be classified into 2 different types of incentives as follows:

(1) General Industries: In case general activities are eligible for investment promotion, projects shall receive the following incentives:

- 3 additional years of corporate income tax (CIT) exemption;
- In cases where projects are already granted an 8-year corporate income tax exemption, an additional 5-year 50 percent CIT exemption shall be granted instead;
- Double deductions from the costs of transportation, electricity and water supply;
- Additional 25 percent deduction on the cost of installation or construction of facilities;
- Exemption from import duty for machinery;
- Exemption from import duty on raw materials and necessary components to be produced for exports for 5 years;
- Other non-tax incentives; and
- Permission for employing unskilled immigrant labor.

(2) Specific Target Industries: In case of specific target activities for SBEZs as specified by the Special Border Economic Zone Development Policy Board, projects shall receive the following incentives:

- 8-year corporate income tax exemption and an additional 5-year 50 percent reduction of corporate income tax.
- Double tax deductions from the costs of transportation, electricity and water supply for 30 years;
- Additional 25 percent tax deduction for the cost of installation or construction of facilities in addition to normal depreciation costs;
- Exemption from import duty for machinery;
- A 5-year exemption from import duty for raw materials and necessary components
  - to be produced for exports;
- Other non-tax incentives; and
- Permission for employing unskilled immigrant labor.

As an alternative to the BOI’s tax breaks, new investors could also choose incentives granted by the Ministry of Finance under “Thailand-Plus-One” scheme, which would allow a reduction in corporate tax from 20 percent to 10 percent for 10 years. “Thailand-Plus-One” would then supplement

SBEZs investment projects, so that Thailand could forge greater relations with neighboring countries. This means any ASEAN investor can invest in the SBEZs to receive privileges from Thailand plus the bordering countries such as Myanmar, Lao PDR, Cambodia and Malaysia. Thailand-Plus-One is a strategic business model initiated by Japanese corporations in 2012 to encourage investors to maintain their main operations in Thailand while diversifying supporting productions in the supply chain to neighboring countries in order to gain benefits from comparative advantages and regional production networks. Tak and Sakaeo SBEZs are pioneer areas in Thailand that foster linkages with Myanmar and Cambodia, respectively.

Furthermore, a One Stop Service Center for Investment is to be set up in pilot provincial halls. Concerning new local investors who do not hold BOI approval, they will not only be entitled to reduction of corporate tax from 20 percent to 10 percent for 10 years, but they will also gain access to soft loan at maximum credit limit of 20 million Baht provided by the Government Saving Banks and warranted by Thai Credit Guarantee Corporation. This will play important role for fast track implementation of SBEZs plan. In addition, the Department of Customs has provided additional investment incentives for establishment in both free zone and bonded warehouse as follows:

- Exemption from import tax for machinery;
- Exemption from import tax for raw materials to be manufactured for export;
- Exemption from export tax;
- Exemption from disposal tax for materials;
- Exemption from value-added tax for raw materials to be manufactured for export;
- Exemption from value-added tax for import and export commodities; and
- Unlimited time for storage of goods in free zone, whereas, storage of goods in bonded warehouse is allowed only for maximum of 2 years.

In relation to prospective industries in the pilot SBEZs, the Board of Investment prioritizes specific target productions consisting of 13 major industries covering 61 business activities as follows:

- Agro-industry, fishery and related businesses;
- Manufacturing of ceramics product;
- Manufacturing of textile, clothing and leather;
- Manufacturing of furniture;
- Manufacturing of gems and jewelry;

- Manufacturing of medical devices;
- Manufacturing of automotive, machinery and parts;
- Manufacturing of electronics and electrical appliances;
- Manufacturing of plastics;
- Pharmaceuticals production;
- Logistics businesses;
- Industrial zones or industrial estates; and
- Businesses that support tourism.

Regarding specific target industry in the 5 pilot SBEZs, the Board of Investment has announced eligible industries and businesses as follows:

- Tak Special Border Economic Zone consists of agro-industry, textile and apparel, wood and wood furniture, and gems and jewelry. It will link with Myawaddy Border Economic Zone in Kayin State of Myanmar;
- Mukdahan Special Border Economic Zone comprises electronics, warehouse, wholesale, logistics and tourism. It will connect with Savan Seno Special Border Economic Zone in Savannakhet province of Lao PDR;
- Sakaeo Special Border Economic Zone entails retail and wholesale, agro-processed industry, warehouse and logistics. It will link with Poipet O'neang Special Border Economic Zone in Banteay Meanchey province of Cambodia;
- Trad Special Border Economic Zone involves eco-tourism, duty free cross-border trade, multi-modal transport, warehouse and logistics. It will connect with Koh Kong Special Economic Zone in Koh Kong province of Cambodia; and
- Song Khla Special Border Economic Zone consists of extended area of an industrial estate for export, natural rubber processing industry, seafood and halal food. It will cooperate with heavy industrial zone, rubber and halal industry in bordering Kedah state of Malaysia.

As of December 8, 2017, there were 47 private investment projects that sought approval from the Board of Investment with cumulative capital amount of 8,801 million Baht in 8 Special Border Economic Zones comprising of Sakaeo, Tak, Trad, Song Khla, Mukdahan, Nongkhai, Chiang Rai and Kanchanaburi. Out of these, there were 25 projects amounting to 3,669.90 million Baht to be specifically invested in Tak Special Border Economic Zone. These new investments may likely contribute to rural and regional



development in terms of industrial processing and local backward linkages for enhancing regional specialization, as well as strengthening integration in the form of cross-border out-sourcing.

5) Labor, Public Health and National Security Policies: Relax cross-border movement of immigrant labor within specified SBEZs is currently under implementation. Agreements between Thailand and Cambodia and between Thailand and Myanmar on Using Border Passes for Requesting Work Permits at the specified SBEZs have been put in place. The border passes will be valid for 30 days. Meanwhile, negotiations of such agreement between Thailand and Lao PDR are in progress. One Stop Service Centers for immigrant labor have been set up at the pilot SBEZs. Its function is to facilitate permission of immigrant labor entering the country along with arrangement of medical check-up, medical insurance and labor protection. Besides these, it will also formulate a skill development plan to support both Thai nationals residing along the border areas and immigrant labor working within the SBEZs in response to the training needs of private sector. Provision of services on public health, education and public safety are in the planning stage. Concerning national security, urgent matters which should be taken into account include border demarcation, monitoring of immigrant labor and illegal immigrant, natural resources management, and preparation of knowledgeable border officials and necessary supporting equipments, etc.

6) National and Cross-Border Transport and Logistics Policies: Additional national railways linking Bangkok with key border provinces are being planned. The major routes to be jointly invested with Japan are between Bangkok and Chiang Mai province and between Tak province and Mukdahan province. In addition, railways linking with neighboring countries are being studied, either between Kanchanaburi province and Bangkok; Bangkok-Chacheongsao province-Aranyaprathet district of Sakaeo province and Bangkok-Chacheongsao province-Lamchabang Deep Seaport. Likewise, other major dual track routes, both between Bangkok and Kangkoi (in Saraburi province) and between Kangkoi and Maptaphut Deep Seaport, are under planning process. Also, high-speed rails both between Bangkok and Nakhon Ratchasima province and between Nakhon Ratchasima province and Nongkhai province are under planning process. Furthermore, improvement of cross-border transports networks (e.g., international highways, Mekong river bridges and river ports and logistics systems) linking with neighboring countries is being done. This can facilitate transportation services, as well as reducing logistics costs. In addition, this utilizes both GMS and ASEAN connectivity towards promoting new production platforms with special emphasis on development of provinces and clustering provinces along major

economic corridors. Moreover, it supports wider transnational connectivity both within ASEAN and Asian Highway Networks.

*6.2.2 Indirect Policies or Implicit Policies aim to indirectly sustain development of SBEZs.*

These include:

1) **Tourism and Visa Policies:** Thailand is strategically positioned as tourism gateway to Asia. Thailand also implements regional tourism cooperation schemes both under GMS and ACMECS. ACMECS single visa is an important instrument in facilitating greater people mobility between Thailand and bordering countries. It is a good illustration of south-south development cooperation. As a result, implementation of a pilot ACMECS single visa between Thailand and Cambodia has been made effective since 16 December 2010.

2) **International Relations, Regional Cooperation, and Official Development Assistance Policies:** Pertaining to international relations policy, Thailand fosters closer bilateral relations with neighboring countries. It is implemented in the form of cooperation at all levels ranging from public, private, people and media sectors. This will strengthen better mutual understanding, which will lead to intensify several aspects of cooperation, particularly under sub-regional cooperation and ASEAN. Likewise, building public understanding on border problem and impact of global change on Thailand will be promoted. Furthermore, official development assistances from Thailand towards neighboring countries focus on socio-economic development, regional economic integration, human resources development and capacity building in the form of exchange of best practices in various areas ranging from public health, education, agriculture and poverty alleviation, etc. As the stages of development between Thailand and Cambodia, Lao and Myanmar are starkly different, the Office of Neighboring Countries Economic Development Cooperation Agency (NEDA) of Thailand has been established since 2005 aiming to foster development cooperation with bordering countries. The NEDA continuously extends financial and technical assistances, as well as supporting infrastructure development in neighboring countries based on bilateral and regional cooperation programs (e.g., ACMECS, GMS and ASEAN). As an emerging donor country, during 2005-2013, Thailand has extended grant to CLM with a total of 283.94 US\$ in order to develop cross-border rail links, inter-provincial roads and airports for enhancing sub-regional transport integration and multimodal linkages (NEDA, 2013). Similarly, Thailand will extend technical assistance to Myanmar on understanding rules and regulations of the World Trade Organization.

### 6.3 Policy Gaps

It is apparent that the Royal Thai Government has formulated comprehensive and integrated SBEZs development policies, which can lead to generate tangible result upon implementation. However, there still exists certain restrictive labor policy, which would affect operations of the SBEZs. As labor cooperation is one of the major components of the SBEZs, the Royal Thai Government created a policy to relax cross-border movement of immigrant labor within specified SBEZs. It is understood that the ultimate goal is to allow daily cross-border movement of migrant labor. But in fact, it has gone a lengthy and complex process to implement this policy. Negotiations on such practices vary from country to country. However, there is little document that clearly states the allowable daily movement of immigrant labor. This slow process could partly affect private investment and free flow of labor. In addition, there is non-existent of policy relating to cross-border cooperation and management of SBEZs linking with bordering countries, which may help foster integrated development of borderlands.

## 7. Conclusion

Over 54 years of national development planning, spatial development policies are continually evolving in line with national and sectoral development progress. Currently, it is under the fourth period (2002-2017), shifting towards upholding rural-urban relations and development of special border economic zones along the GMS Corridors Network to take advantage of the ASEAN Community. Development of SBEZs in Thailand is intermittent due to political discontinuity. The Thaksin Administration initially announced to promote the first SBEZs in both Chiang Rai and Tak provinces since 2003. However, it encountered severe resistance from both local authorities and general public who are aware of being profoundly displaced from their local administration function by the new local authorities under the proposed SBEZ law. Subsequently, the initiative to implement these two pilot SBEZs are consequently sluggish for almost 8 years. Then, in 2010, the Abhisit Administration reapproved to develop Maesod district in Tak province as a pilot special border economic zone. In 2013, the Yingluck Administration renewed support for the scheme by setting up a national policy mechanism. Subsequently, a strategic plan for promoting special border economic zones has been formulated in 2014 covering 5 border regions across the country. Presently, the Prayuth Administration promptly carries on hastening the

implementation process of these 10 SBEZs through favorably integrated development policies. These are: (1) Direct policies consisting of special border economic zone development policies, international trade and cross-border trade policies, customs facilitation policy, border investment and industrial development policies, labor, public health and national security policies, national and cross-border transport and logistics policies; and (2) Indirect policies including tourism and visa policies and international relations, regional cooperation and official development assistance policies. These integrated policies to some extent attracted keen interest of private investors to make real investments in the designated SBEZs. Nevertheless, there are some policy gaps on movement of labor and cooperation with bordering countries, and also a gap exists on cross-border management of SBEZs, which need to be aligned to ensure effective implementation of the SBEZs.

According to the above analysis of existing and ongoing policies, committed political substantiation, national and regional level policies and strategies are vital for development of special border economic zones. It is also apparent that it has taken decades to gradually evolve from general regional development policies towards currently integrated special border economic zone development policies, which not only catalyzes and boosts the dynamic local and regional development but also fosters cross-border regional development with bordering countries. The towns and central places within border economic zones have played focal contact points of interaction for storage, transport, transshipment, and transfer between the countries. The regions are yet to take the full advantages of the SBEZs due to few policy gaps. However the process and outcomes will be more prominent in coming years under the framework of ASEAN-One Community despite having inter-competition between the countries and trade imbalance. Overall, the SBEZs have extended benefits to local communities while strengthening regional development.

## 8. Recommendations

The special border economic zone development policies are evolving and practiced as well for rapid translation into reality. Nevertheless, there are certain issues need to be addressed in order to sustain and promote special border economic zones. These are:

- Adopt the border economic zone concept as strategy for both promoting regional economic development within Thailand, as well as fostering regional production networks of Thailand with bordering

cities along economic corridors in order to fully integrate with the ASEAN Community and global economy.

- Integrate the implementation of border economic zones with national security policies and programs in order to advance towards integrated borderlands development between Thailand and bordering countries.
- Relocate less competitive industries which require labor-intensive production to particular border economic zones, so that it can gain advantages of cross-border cooperation, international and spatial division of labor between Thailand and bordering countries.
- Promote the use of Thai Baht as key currency for cross-border trade transactions between Thailand and bordering countries. Furthermore, internationalize the Thai Baht currency across the Greater Mekong Sub-region to help facilitate cross-border payment.
- Set up an international institutional mechanism for administering integrated cross-border economic zones based on the concept of “Two Countries-One Region”. It should then define clear physical boundary of the integrated cross-border economic zones between Thailand and bordering countries. Within this region, cross-border movements of goods, capital, people and vehicle could freely flow.
- An array of aid for trade programs through the Ministry of Foreign Affairs should also be extended to bordering countries consisting of Cambodia, Lao PDR and Myanmar, in order to address common border development and management issues.
- Cross-border region institutions should be fostered in order to coordinate local cross-border interactions.
- Allow daily cross-border movement of migrant labor from bordering countries to work in the special border economic zones.

The above recommendations are vital to facilitate, and speed up the process of border economic zones’ development, intensification, and distribution of potential benefits over space, time and among the population engaged in the border economic zone system directly and indirectly. This illustration may stimulate other groups of countries to follow and implement in their own ways for regional growth and development while minimizing sometimes-unnecessary global completion.

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