

JAPAN INTERNATIONAL COOPERATION AGENCY (JICA)

STATE PLANNING COMMITTEE
LAO PEOPLE'S DEMOCRATIC REPUBLIC

**THE STUDY ON
SPECIAL ECONOMIC ZONE DEVELOPMENT
IN BORDER AREA (SAVANNAKHET PROVINCE)
IN LAO PEOPLE'S DEMOCRATIC REPUBLIC**

SUMMARY

February 2001

KRI International Corp.
Nippon Koei Co., Ltd.

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JAPAN INTERNATIONAL COOPERATION AGENCY (JICA)

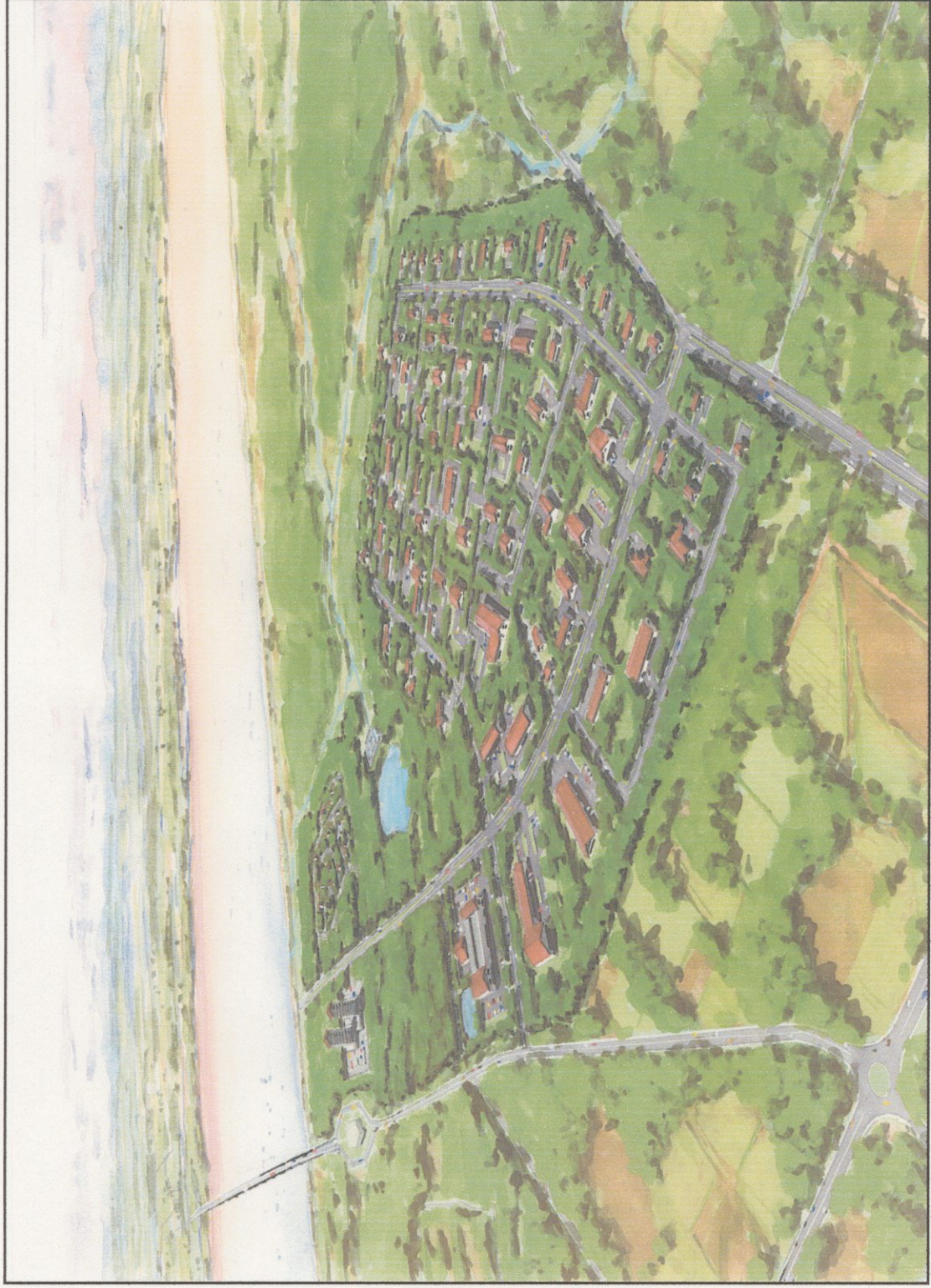
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Savannakhet Special Economic Zone (SEZ)

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SUMMARY

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I. INTRODUCTION

Economic reforms in Lao PDR started in 1986 when the New Economic Mechanism (NEM) was adopted and steps were taken towards a market-oriented economy. Under NEM, the Lao government promoted development of the private sectors, deregulating price and production controls. Since then, the Lao economy had attained steady growth under the prudent economic policies. However, after the Asian economic and financial crises in 1997, the Lao economy was deteriorated with high inflation and devaluation of the national currency and foreign direct investments (FDIs), which flourished in 1992-1996, have been stagnated.

The framework of development of the Greater Mekong Sub-region (GMS), on the other hand, was mapped out by ADB and six Mekong riparian countries. Located in the center of GMS, Lao PDR has been integrated into various development programs proposed for GMS. One of the spearheaded programs is the East-West corridor, connecting Da Nang in Vietnam and Mawlamyine in Myanmar via Savannakhet in Lao PDR. Cooperation among the GMS countries has been accelerated, particularly since Lao PDR joined ASEAN in 1997.

A concept for development of Special Economic Zones (SEZs) was brought forward by the Lao government for development of the border areas with China, Thailand, and Vietnam. The concept was, however, rather vague without clear definition on functions and roles of SEZs. Since Savannakhet province, located between Thailand and Vietnam, was designated as a priority area for SEZ development and since the government of Japan has been actively involved in construction finance for the East-West corridor via Savannakhet, the Lao government requested the government of Japan to study how SEZ can be developed in Savannakhet province.

The Study on SEZ in Savannakhet started in July 2000 with the objectives to formulate a development plan inclusive of (i) policy and concept of SEZ as a trigger for economic development, (ii) preliminary physical plan of SEZ, and (iii) institutional framework building plan for development and management of SEZ.

II. LAO ECONOMY AND INDUSTRY: AN OVERVIEW

Lao Economy

Since introduction of NEM, a market economy has been gradually introduced by applying various economic reforms. Up to the year 1997, the Lao economy attained a steady growth with a GDP growth rate of 7 to 8% per annum.

Table S-1 Key Economic Indicators

	1994	1995	1996	1997	1998	1999
Real GDP Growth (%)	8.1	7.1	6.9	6.9	4.0	7.3
CPI Change (%)	6.8	19.6	13.0	27.5	91.0	144.6
Budget Balance (% of GDP)	0.4	1.4	2.8	1.8	3.0	na
Current Account Balance (% of GDP)	-17.1	-11.5	-16.4	-16.1	-10.0	-9.9
Debt Service Ratio (%)	3.3	5.7	5.3	8.9	8.4	na
Exchange Rate (Kip per US\$)	719.0	925.0	954.0	2135.0	4274.0	7059.0
GDP Share by Industrial Origin (%)	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture	57.6	55.7	53.3	53.3	52.6	52.0
Industry	18.1	19.2	21.1	21.2	22.0	22.0
Manufacturing	(12.9)	(14.3)	(15.9)	(16.0)	(16.7)	(16.9)
Services	24.3	25.1	25.5	25.5	25.4	25.2

Sources: IMF, 'Recent Economic Developments January 2000', EIU, and NSC

The Lao economy has experienced a notable slow-down since the Asian economic crisis. Besides, the fiscal balance has been constantly deficit-driven, though tax revenue was improved in 1998-1999 due to strengthening of tax administration targeting for SMEs. The economy is still in a transitional period to the market economy with a certain government intervention (e.g., quota system).

Lao Industry

Agriculture is the most important economic sector of Lao PDR, accounting for nearly 52% of GDP. Agriculture is predominately subsistence agriculture, and processing of agricultural products has not been well developed yet.

The industry sector enjoyed double-digit GDP growth in 1993-1996. Major industries have been put into operation by FDIs. Unfortunately, however FDIs, have been sharply decreased since the Asian economic crisis. Although the "Industrial and Handicraft Development Plan 2001-2005" prepared by the Ministry of Industry and Handicrafts expects an annual industrial growth rate over 10%, much more efforts would be required to attain such a high growth rate.

The Lao industry sector has a handicap that domestic markets are quite small and development of import substitution industry is rather difficult. Besides, there is a shortage in skilled labor force. For Lao PDR, therefore, it is difficult to follow the patterns of industrial development in other ASEAN countries where most

industries are initiated with labor-intensive manufacturing. Capital and technologies have not been accumulated yet in Lao PDR.

Trades

Lao PDR suffers chronically from a trade deficit. The total imports often reach as much as double the total exports. The main export earners are wood products, garments, electricity and coffee, while Lao PDR imports a wide variety of goods ranging from capital goods to consumer goods. Trade partners are mainly Thailand and Vietnam. Most products are exported at a low value added in Lao PDR.

Needs for SEZs

From the viewpoint of the national economy and industrial development, establishment of SEZ in Lao PDR is needed for the following reasons:

- (i) The Lao economy is still in a transitional period. SEZs are required to make it practical that the thorough market-oriented economy prevails without any governmental intervention.
- (ii) The Lao industry requires to enhance value added in local manufacturing activities. The manufacturing industries can be strategically promoted in SEZs by giving incentives attractive for manufacturers.
- (iii) Since capital and technology are not yet accumulated, the Lao industry requires FDIs to be strategically promoted in SEZs.
- (iv) Trades and commodity flows should not be transit with no value added in Lao PDR. Some values should be added through processing at SEZs.
- (v) The service sector should be promoted along with the industry of SEZ. Promotion of the service sector is related to movement of commodities and people.

III. REGIONAL SETTINGS

Savannakhet People

Savannakhet province has a total population of about 670,000. The economically active population (EAP), estimated to be about 342,000 at present, will reach around 494,000 in the year 2010. Currently, about 90% of EAP (or about 300,000 persons) are engaged in agriculture. Even if the agriculture sector GDP grows at the rate of about 4% per annum, the agriculture sector will absorb an additional employment of 127,000 persons.

Urban population in Savannakhet province account for 14% of total population or about 102,000 persons. By the year 2010, the urban population would increase at the rate of 3.5%, and it would reach around 171,000 in 2010, or an increase by 69,000 persons. Further, it is reported, though unofficial as it is, that about 20,000 persons are temporarily out-immigrated to Thailand.

It is clear from this that employment opportunities are to be created through accelerated development of industry and services in Savannakhet.

Savannakhet Economy

GDP in Savannakhet was 208 billion kip in 1998. The agricultural sector accounted for 54%, and the industry sector for 10%. Contribution of the service sector (30%) was significant, compared with the national average (25%).

There are about 1,850 factories, employing about 7,200 workers as of 1999. Majority of factories (96%) are small enterprises employing less than 9 workers. The major industries in Savannakhet are (i) food, beverage and tobacco, (ii) garment, and (iii) sawmills. These three subsectors employ about 74% of total industrial employment in Savannakhet.

FDIs in Savannakhet recorded a total of 22 projects in 1990-2000, with the total investment amounted to about US\$33 million. FDI in the industrial sector was predominant, followed by the service sector.

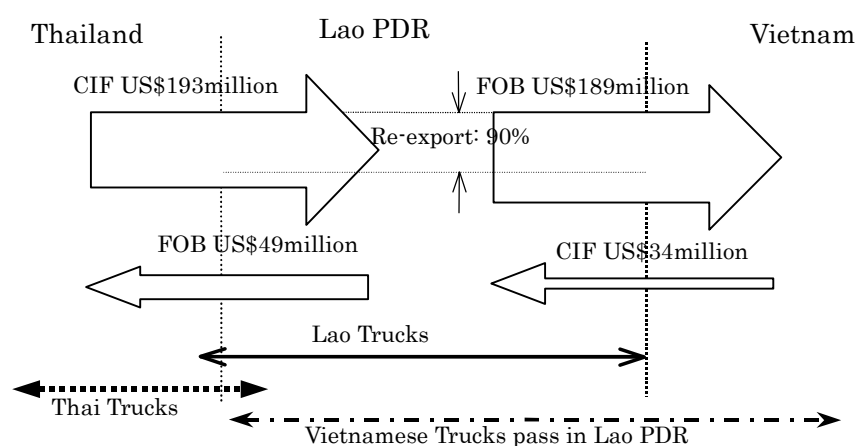
Table S-2 Foreign Direct Investment in Savannakhet Province (1990-2000)

Category	Nos.	Invested Amount (US\$Million)	Invested Countries
Agro-Based Industry	3	0.6	Taiwan, Thailand
Tobacco	1	1.5	China
Apparel	4	13.1	France, Thailand, Japan
Machinery (Incl. Electronics)	5	8.2	Thailand, South Korea, China
Mining	1	5.0	Australia
Construction	2	0.9	China, Vietnam
Hotel	3	4.4	China, Finland, Vietnam
Services	2	4.6	Singapore, China
Total	22	38.3	

Source: Department of Planning, Savannakhet Province

Transport and Commodity Flows

The Savannakhet economy is characterized, in a sense, by its trade patterns. Total value of exports in Savannakhet was US\$ 238 million in 1998-1999, of which nearly 92% (US\$ 218 million) was transit goods. The export of domestic goods was limited to US\$ 20 million.



Source: Savannakhet Province

Fig. S-1 Trade Structure in Savannakhet

The trade pattern as noted above is mainly attributable to the fact that the East-West corridor runs through Savannakhet. The current and future prospect of the commodity flow is shown below.

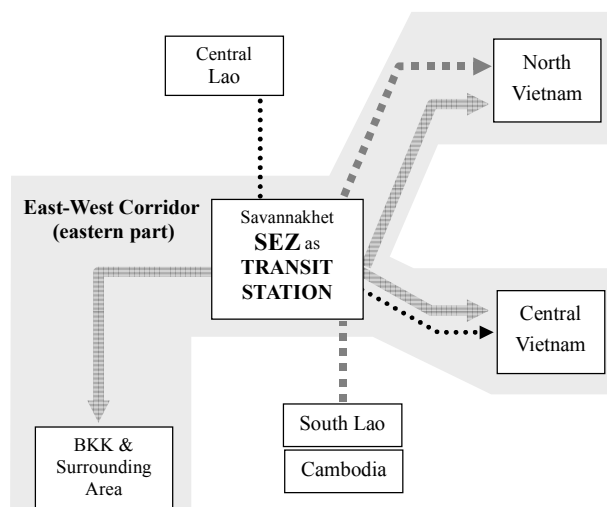


Fig. S-2 Role of Savannakhet in East-West Corridor

Opportunities for Savannakhet

From the viewpoint of physical and economic conditions, it can be concluded that Savannakhet province has the following opportunities:

- (i) **Rich forestry resources:**
Savannakhet province is rich in forestry resources, and has potential to attain higher value added in the wood and wooden product industry.
- (ii) **Abundant land and water resources:**
There extends a vast land for agricultural development and resultant development in the agro-based industry. The region has also abundant water resources along the tributaries of the Mekong River.
- (iii) **Direct access to Thailand through the new Mekong bridge**
There are many examples that economic activities in the less developed areas are enhanced by directly connecting to the advanced area. The New Mekong Bridge will create business opportunities for all the economic sectors by connecting directly to Thailand.
- (iv) **Shorter time-distance to Central Vietnam:**
Route 9 when improved will shorten the time-distance between Savannakhet and central Vietnam. It will bring about an expansion of markets.
- (v) **Junction of the north-south axis and east-west axis:**
In addition to the east-west connection, Savannakhet locates at the junction of the east-west corridor and the north-south axis in GMS. Such a location of

Savannakhet will provide various business opportunities

(vi) Dual directions to North and Central Vietnam from Thailand:

Savannakhet will develop multiple routes from Thailand to north/central Vietnam.

Development Constraints

On the other hands, Savannakhet province faces some constraints for developments. These constraints include:

(i) Limited population and labor supply:

Savannakhet province has a low population density, and supply of readily available labor is limited. It has disadvantage to attract large-scale labor-intensive industries to Savannakhet.

(ii) Lack of skilled workers:

The limited industrial accumulation in Savannakhet causes limited supply of skilled labor.

(iii) Weakness in transportation industry:

Transporter is a major player in the free trade regime. Though the role of Savannakhet as its logistic center will increase after completion of the New Mekong Bridge and improvement of Route 9, the weakness of transporters in Savannakhet will cause such a big business opportunity to be lost.

(iv) Limitation in telecommunications:

Telecommunications in Lao PDR remains at the infant stage. Between Vientiane and Savannakhet, the capacity of the telecommunications line is quite limited.

(v) Weakness in marketing:

Due to remoteness from the world markets, Savannakhet province has had limitation in marketing. Raw materials produced in Savannakhet have been processed more in Thailand and Vietnam.

Justification of SEZ

Through review of the current situation, opportunities and constraints of Savannakhet province, it may be concluded that development of SEZ in Savannakhet could be justified for the following reasons:

(i) Savannakhet is located along the East-West corridor (route 9) and its junction with the North-South axis (route 13). Current and future commodity flows along these routes are substantial. SEZ located along the routes will give

chances for processing of goods and development of services related to the commodity flows.

- (ii) The resource-based industry can be developed in Savannakhet. SEZ will give chances for local enterprises for investment, as well as for FDIs, as far as incentives for investment are granted.
- (iii) Promotion of FDIs is of paramount importance for development of manufacturing industry and service industry. SEZ is to be developed to attract FDIs to overcome less accumulated capital and technology in Savannakhet.
- (iv) Development of SEZ and the related services will create job opportunities and training opportunities for the out-migrated persons and urban population, as well as for underemployed workers in the agricultural sector.
- (v) Unless SEZ is developed in Savannakhet, commodities along the East-West corridor would pass by without any positive impact on the Savannakhet economy.
- (vi) Once SEZ is developed, managerial skills would be transferred and knowledge would be spilled over to domestic entrepreneurs, forming a basis for self-development in the region.

IV. PERSPECTIVES FOR SEZ

Types of SEZ

SEZ is generally defined to be a specific zone or area where the different economic principles, taxation systems, FDI treatment and other procedures are applied for promotion of FDIs, exports and inflow of technologies, and consequently increase in employment and development of national economics. There are six types of SEZ in the world, i.e.,

- (i) Free Transit Zones (TZ)
- (ii) Free Ports (Free Zones)
- (iii) Free Trade Zones (FTZ)
- (iv) Export Processing Zones (EPZ)
- (v) Economic Special Zones (ESZ)
- (vi) Import Processing Zones (IPZ)

Among these types of SEZ, Export Progressing Zones (EPZs) are commonly developer in Asia countries. However, EPZs are developed to have some other functions. For instance, EPZs in Thailand have been modified to cover trade and services in addition to export processing, and the Philippines SPZs are developed not only for the industrial sector but also for the services, tourism and either sectors. A development process of the Asian EPZ in illustrated below.

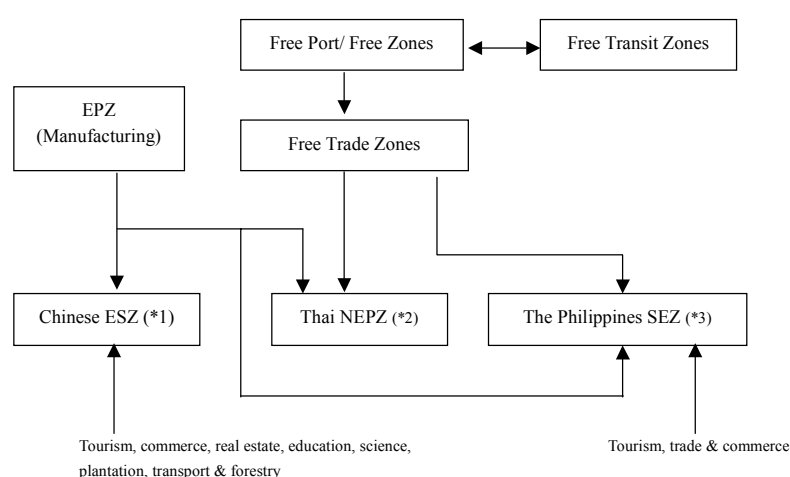


Fig. S-3 Transition of SEZ in Asia

It is concluded and recommended that SEZ in Savannakhet be designed to have multiple functions, without limiting to EPZs.

Keys for SEZ Operation

Asian experiences in SEZ operation give us valuable lessons. Key factors that lead SEZ to successful operation in China, Thailand, and the Philippines are summarized below.

- Definite selection of policy target
- FDI friendly policies
- Consistency and flexibility in FDI policies
- Social and political stability
- Adoption of integrated functions of SEZ concept
- Area, town or province-wise development concept
- Autonomous operation of SEZ
- Opening of national economy (liberalization of domestic market. Less protection of domestic firms)
- Appropriate and sufficient investment incentives
- Assurance of freer use of foreign exchange
- Existence of an inflow entrance for FDI (e.g., Hong Kong for China)
- Supply of fast-learning and skilled workers and higher grade engineers
- Relatively cheaper labors
- Strong commercial functions
- Locations suitable for logistics with sufficient transport infrastructure
- Readiness and appropriateness of infrastructure

Keys for Investment Promotion

For development of SEZ, FDIs play a leading role. The questionnaire survey in Thailand and Vietnam, however, indicates that the investment environment in Savannakhet faces the following difficulties:

- (i) General investment environment, including economic condition is less favorable;
- (ii) Potential investors' knowledge on Lao PDR is limited;
- (iii) Human resources are insufficient, quantitatively and qualitatively;
- (iv) Infrastructure such as road, power and telecommunications is yet insufficient;
- (v) Promotional activities and institutional setting for investment promotion are yet insufficient.

To break through these difficulties, SEZ in Savannakhet is required to take the following measures for FDI promotion:

- (i) Strategic public information activities on Lao PDR in general and the investment environment procedures, through Internet and diplomatic

missions abroad by making full use of the planned “East-West Economic Corridor”;

- (ii) Upgrading or re-organizing investment promotional institution for more effective FDI attraction;
- (iii) Strategic promotional activities, targeting specific industrial sectors and specific regions/countries;
- (iv) Efforts to promote human resources development, including education and training;
- (v) Generous fiscal incentives and for SEZ, e.g. duty free and tax holiday;
- (vi) One-stop services for investors;
- (vii) Special treatment for employment in SEZ and good living conditions for expatriates.

Investment Incentives

To cope with the other Asian SEZ and to attract FDIs, it is expected that SEZ in Savannakhet would offer the following fiscal incentives:

Tax holidays:	3-8 years
Corporate tax:	10-15%
Personal income tax:	5%
Tax exemption:	Turnover tax
	Utilization tax
	Import-Export duties

V. BASIC PLAN FOR SAVANNAKHET SEZ

Objectives

It is proposed that development of SEZ in Savannakhet be planned to have the following objectives:

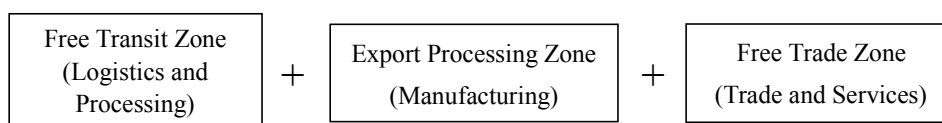
Objectives of SEZ in Savannakhet

- To innovate such strategic sectors as logistics, manufacturing, trade and commerce, and service industry, in order to set up the functions as a regional center in Indochina Peninsula
- To increase employment and raise standards of living in the region
- To absorb new skills and expertise to upgrade industrial and commercial activities by introducing internationally common practices of business, market conception and sense of quality of goods and services
- To create linkage between SEZ and local enterprises to raise their standard

Combined Types of SEZ

As recommended previously, SEZ in Savannakhet will better be designed as a multiple function type SEZ. In view of the new transport network and prospective commodity flow via Savannakhet, it is envisaged that the proposed SEZ has the functions for “free transit zone” and “free trade zone”. Additionally, SEZ can incorporate the EPZ function mainly for the resource-based processing industry. Thus, the principal functions to be combined into SEZ in Savannakhet are as follows:

Basic Concept of Savannakhet SEZ



Proposed Functions

It is proposed that SEZ in Savannakhet be designed to have five functions as follows:

1) Logistics and Processing

- Goods imported from third countries or delivered from other part of the country will be unloaded, stored in warehouse, or processed for resale, distribution or re-export;

- Cargo terminal with loading and unloading facilities;
- Rental factories for packaging, labeling and sorting of materials and final products;
- Freezing and low temperature warehouses

2) Manufacturing

Recommended Products in Processing Zone

- | |
|---|
| <ul style="list-style-type: none">• Wood processing: Furniture (Assembled, makeup and semi-products), interior parts, parquet, flooring and exterior parts and gardening purpose pallet• Agro-processing: Coffee, pickles (radish, cabbage and Chinese cabbage), cooking oil (including bottling and labeling)• Garments and footwear• Electronic components• Handicraft: Lao cotton and silk (Natural dyestuff, hand-spinning and hand-weaving), rattan furniture, bamboo products |
|---|

3) Trade and commerce: Free market place

- Retail of duty-free goods at DFS
- Wholesale of the imported goods for re-export
- Wholesale of handicraft, incense woods, gemstones or other Lao-made goods
- Trade agents should be invited for export and re-export promotion
- Various offices, exhibition hall and conference and seminar rooms

4) Amenity (Tourism and service industries)

- Hotels for business use and for tourists together with convention facilities

5) Supporting functions

- Administration center
- Marketing center
- Property development and utility supply
- Financial services
- Training

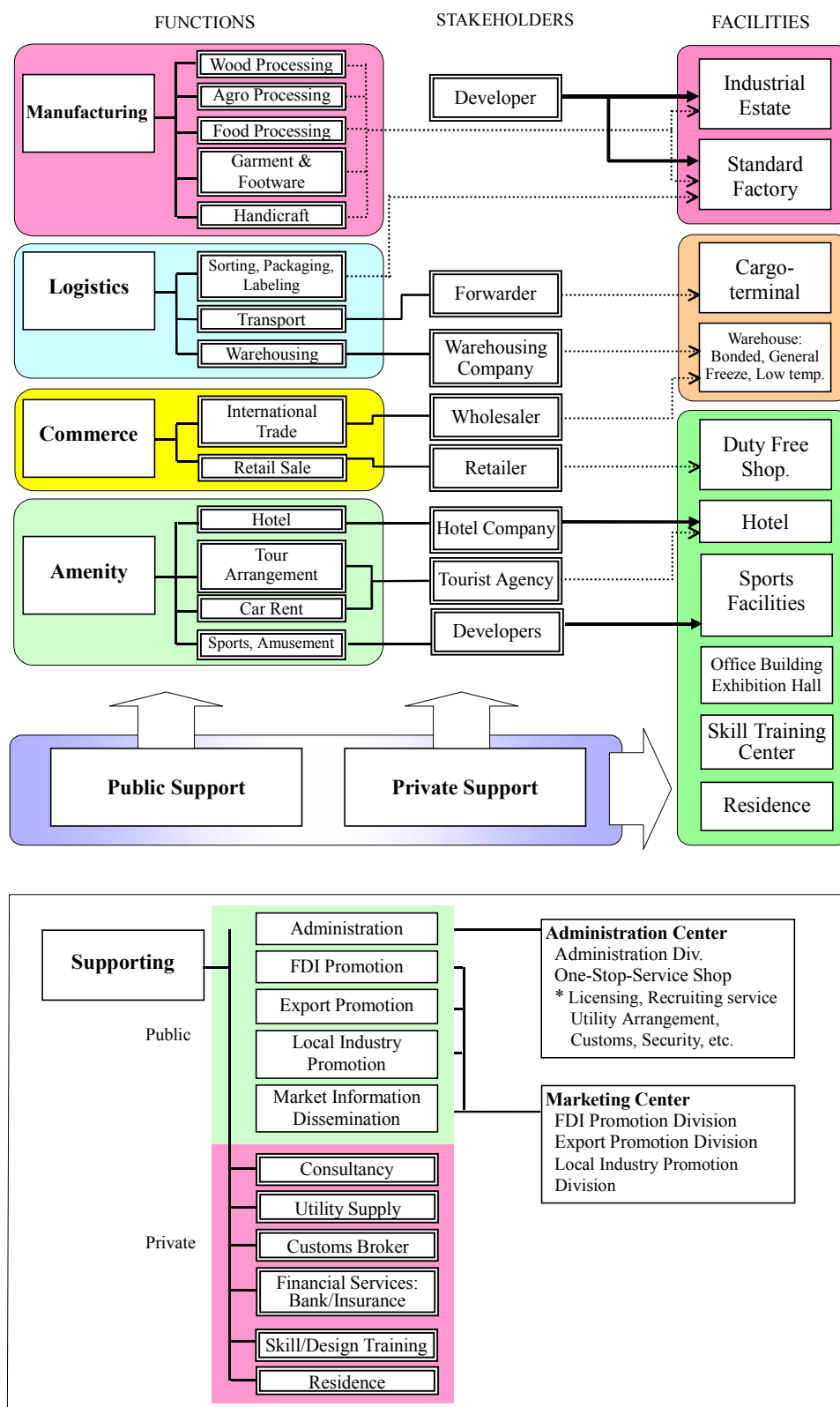


Fig. S-4 Conceptual Functions of Savannakhet SEZ

VI. LOCATION OF SAVANNAKHET SEZ

Alternative Sites

Though the field survey, four alternative locations of SEZ have been identified as follows:

Site A: Northern part of access road to the New Mekong Bridge

Site B: Land currently used for warehouses near Xeno

Site C: Xaibouly Industrial Estate

Site D: Densavahn Free Trade Zone

Each alternative site has been evaluated from the view point of social conditions (population nearby and economic activities) and technical conditions (accessibility, foundation, topography, available utilities, and environmental impacts), as summarized below.

Table S-3 Characteristics of Candidates Sites

Functions Requirements	Conditions of Sites				Evaluation of Sites			
	Site A	Site B	Site C	Site D	Site A	Site B	Site C	Site D
Social Factor								
Population	97,328	68,759	47,012	38,246	5	3	1	1
Economic act.	The largest city in the province	2 nd largest city in the province	None	Small town	5	3	1	1
Technical Factor								
Accessibility	0 km	25 km (Junction of Route 9 & Route 13)	45 km	260 km	5	5	1	3
Geology	N-value 10 – 30	No data	No data	No data	5	3	3	3
Topography	7 % slope	Undulating land	Undulating land	Flat land along Xepon river	3	1	1	3
Electricity	Insufficient capacity of electric generation				3	3	3	3
Water Supply	Mekong river	Ground water	Mekong river	Xepon river	3	1	3	3
Telecomm.	Insufficient capacity of 34 Mbps microwave				3	3	1	1
Environ. Impact	Housing area around the site	District school in front of the site	Deep forest	Deep forest	Large	Neutral	Neutral	Neutral

Note: The number of population is the district population. Site A: Khanthabouly, Site B: Outhoumphone, Site C: Xaibouly, and Site D: Xepon

From these ratings, it is recommended that site A and Site B be selected for further studies.

Development Options

With the selected Site A and Site B, the following development options are conceived:

Option-A : All SEZ functions are located in Site A

Option-B1 : Both site A and Site B are developed.

In this case site A will have the function for manufacturing, trade/commence, and amenity while Site B will have the function for logistics/processing.

Further, the belt along the route 9 (2.5 km in width on both side of the route) from the New Mekong Bridge to the junction of routes 9 and 13 is also designated as SEZ.

Option-B2 : Both Site A and Site B are developed, as one case of Option-B1.

An area within the radius of 30 km from the New Mekong Bridge is also designated as SEZ.

Through the comparative study, it is recommended that Option-B1 be selected for development of SEZ in Savannakhet. The proposed SEZ area is illustrated below.

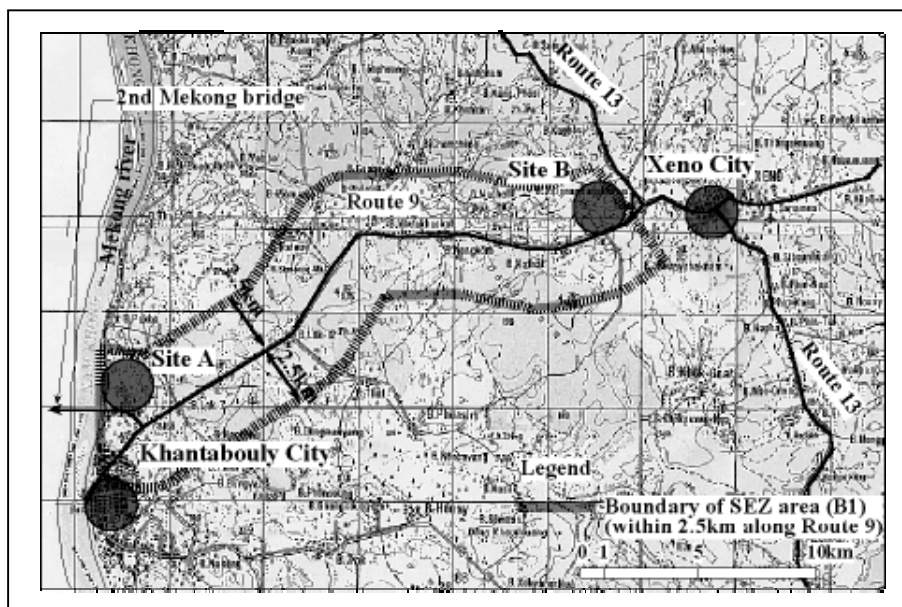


Fig. S-5 Proposed Area of Special Economic Zone (Option B1)

Site A and Site B will be properly designed and developed. While, the factories or enterprises located in the belt along route 9 can apply for SEZ status and they can enjoy incentives offered to SEZ enterprises.

Layout of Site A

A layout of SEZ development of Site A is proposed as shown below. As the 1st stage, SEZ at Site A has a total area of 57 ha (including an industrial area of 17 ha). At the ultimate stage, Site A can be expanded up to 300 ha (including an industrial area of 100 ha).

Table S-4 Land Use of Site A

Land Use	1 st stage		Midterm stage		Ultimate stage		Total		Note
	Ha	%	Ha	%	Ha	%	ha	%	
Industrial Area	17.1	29.9	-	-	90.5	65.3	107.6	35.2	Including standard factories
Hotel Area	11.4	20.0	-	-	-	-	11.4	3.7	Including DFS and service apartment
Golf Course	-	-	101.9	92.7	-	-	101.9	33.4	
Marketing Center Area	9.2	16.1	-	-	-	-	9.2	17.1	Including AC, WS, TC and exhibition
Residential Area	-	-	-	-	17.7	12.8	17.7	5.8	Including detached house and bungalows
Subtotal	37.7	66.0	101.9	92.7	108.2	78.1	247.8	81.1	
Road	10.8	18.9	1.7	1.6	19.1	13.8	31.6	10.4	
WTP	-	-	-	-	1.3	0.9	1.3	0.4	
STP	-	-	0.7	0.6	-	-	0.7	0.2	
Green Area	7.5	13.9	-	-	9.9	7.2	17.4	5.7	Including pedestrian way and park
Regulation Pond	1.1	2.1	5.6	5.1	-	-	6.7	2.2	
Sub Total	19.4	34.0	8.0	7.3	30.3	21.9	57.7	18.9	
Total	57.1	100	109.9	100.0	138.5	100.0	305.5	100.0	

Note: DFS - Duty Free Shop, AC - Administration Center, WS – Wholesale, TC – Training Center

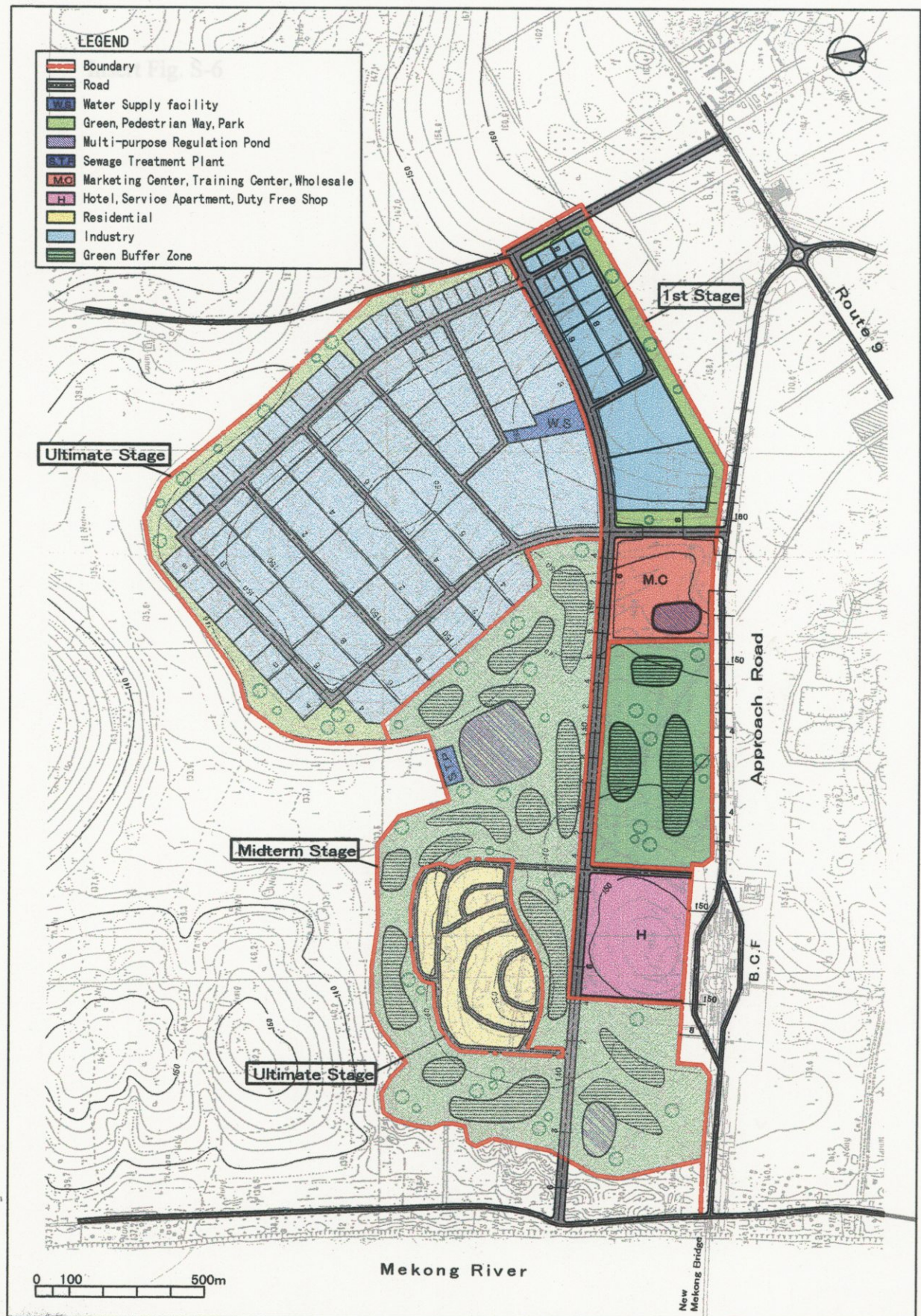


Figure S-6 Land Use Plan at Site A

Layout of Site B

A layout of SEZ development at Site B (mainly for logistic/processing functions) is proposed as shown below.

Table S-5 Land Use at Site B

Land Use	Phase 1		Phase 2		Total		Note
	ha	%	ha	%	ha	%	
Industrial Area	1.1	18.1	5.4	42.2	6.5	34.4	for sorting, packaging, labeling
Cargo Terminal	1.2	19.7	0.8	6.2	2.0	10.6	including custom office
Bonded Warehouse	1.9	31.0	1.4	11.0	3.3	17.5	
Administration Office	0.5	8.2	-	-	0.5	2.6	
Sub Total	4.7	77.0	7.6	59.4	12.3	65.1	
Road	0.9	14.8	2.6	20.3	3.5	18.5	
WTP	0.2	3.3	-	-	0.2	1.0	
Green Area	0.1	1.6	2.2	17.2	2.3	12.2	including pedestrian way, park
Regulation Pond	0.2	3.3	0.4	3.1	0.6	3.2	
Subtotal	1.4	23.0	5.2	40.6	6.6	34.9	
Total	6.1	100.0	12.8	100.0	18.9	100.0	

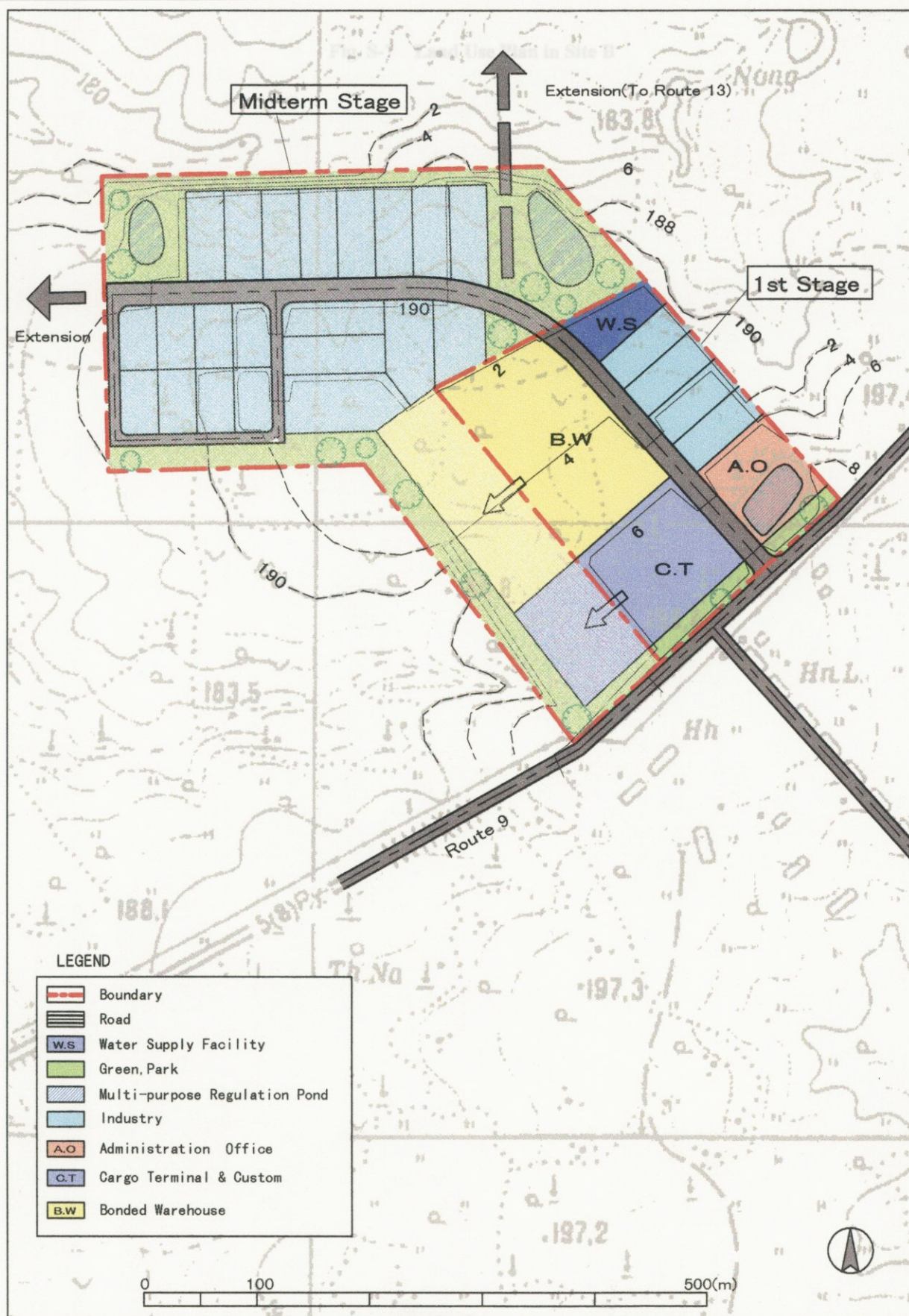


Figure S-7 Land Use Plan at Site B

Tentative Schedule for Implementation

Provisionally, it is proposed that Site A and Site B be developed in accordance with the schedule shown below.

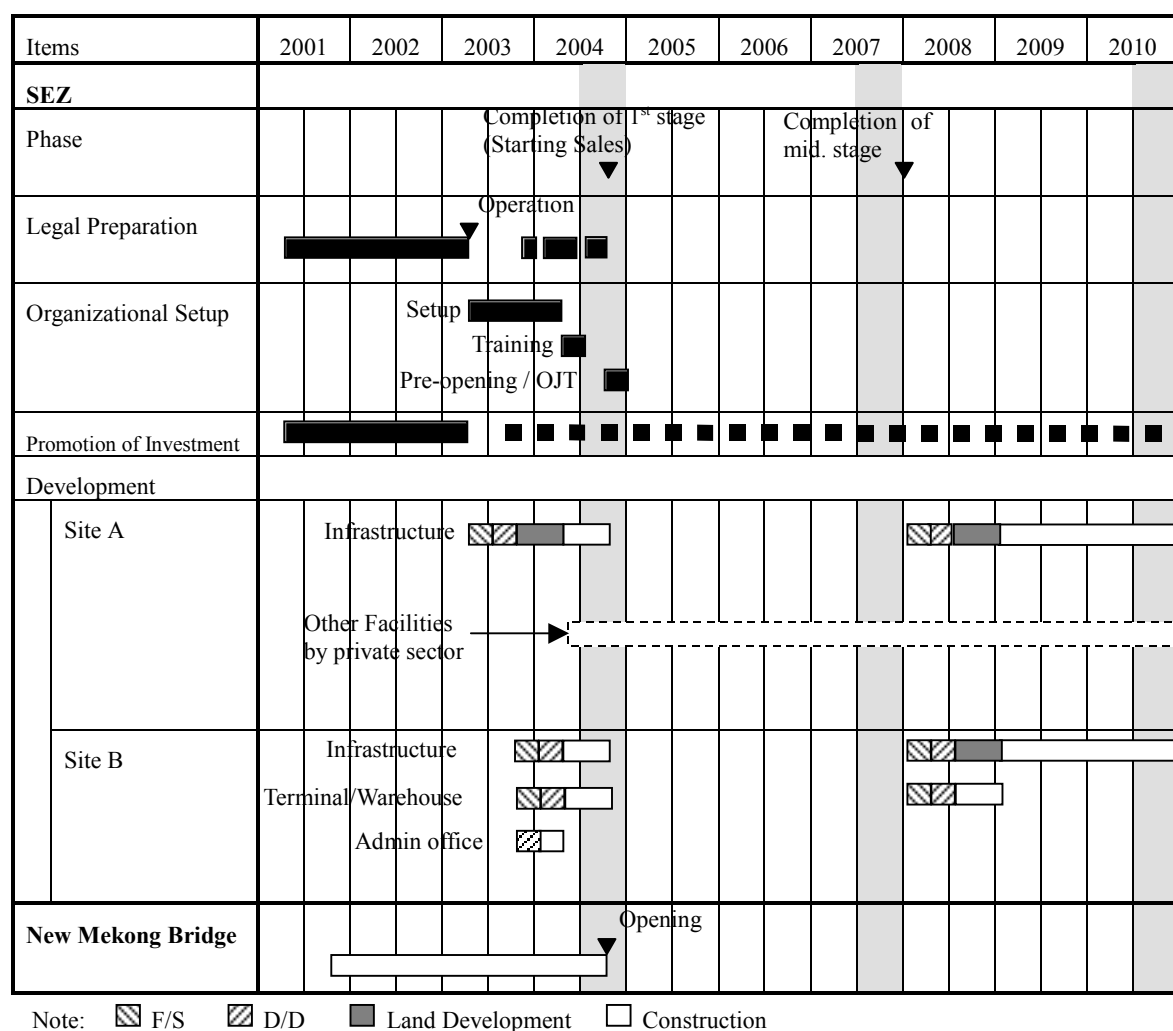


Fig. S-8 Implementation Schedule

Estimated Cost

It is estimated that the construction of the 1st stage development at Site A and Site B will require the investment as follows.

Table S-6 Estimated Cost

		(US\$)	
Items		Site A	Site B
1.	Land Acquisition	1,615,600	0
2.1	Construction work		
	a) Clearing and grubbing	54,202	664
	b) Cut	2,617,020	87,234
	c) Fill	1,940,400	83,160
	d) Disposal of Unsuitable Materials	72,800	
2.2	Road		
	a) Main Road	975,685	
	b) Sub Road	219,569	74,912
	c) Collector Road	67,290	0
2.3	Drainage		
	a) Regulation Pond	405,545	0
	b) Drainage Canal	892,068	88,293
2.4	Water Supply		
	a) Reservoir	47,837	4,079
	b) Pipeline	63,515	2,790
	c) Water Treatment Plant	0	13,247
2.5	Sewerage		
	a) Pipeline	113,820	
	b) Sewage Treatment Plant	0	
2.6	Electric Facility	565,166	265,383
2.7	Telecommunication Facility	920,370	168,000
2.8	Green & Park	300,000	4,000
2.9	Engineering Service Cost	1,110,634	95,011
2.10	Sub Total	10,365,920	886,773
2.11	Physical Contingency	1,036,592	88,677
2.12	Total	11,402,512	975,450
	Total	13,018,112	975,450

Development Impacts

Although it is premature to estimate the economic impacts of SEZ development in Savannakhet, a trial estimate has been made on the number of employment, output and value added at the ultimate stage of SEZ development of Site A as shown below.

Table S-7 Estimate of Economic Impact of SEZ Development (Manufacturing) in 2010

Composition of Manufacturing in Savannakhet SEZ	Total	Wood processing	Food processing	Garment	Electronic	Packaging
Employment	14,000	1,200	5,200	5,000	1,500	1,100
Value added (kip mil.)	416,057	3,024	360,667	32,875	348	19,143
Output (Kip mil.)	1,087,001	33,600	530,392	136,979	3,164	382,866

VII. INSTITUTIONAL ARRANGEMENTS

(1) Legal and Regulatory Arrangements

It is necessary that a new legal mechanism be established to direct Savannakhet economy more towards a market-oriented economy and to provide more FDI friendly environment. To this end, a new law on SEZ be enacted. The proposed provisions of the draft of SEZ law are presented below:

Proposed Provisions of New SEZ Law

- The SEZ is a selected area with highly developed or which have the potential to be developed into industrial, tourist or recreational, commercial, servicing agro-industrial, investment and financial center.
- An SEZ shall contain all of the following: export processing zones, free trade zones, free logistics center and tourist or recreational center.
- Enterprises within the SEZ are granted preferential tax treatment and immigration laws are more lenient.
- The first SEZ is to be established within 2.5 kilometers on both sides from the Second Mekong Bridge access road and Route 9, starting from the gate of the Lao Check Point near the New Mekong Bridge to the intersection of Route 9 and 13.
- The SEZ can be developed by either private, public or the mixed of those initiatives.
- Criteria for the development of other SEZ
- The SEZ shall be developed into a decentralized, self-reliant and self-sustaining center with minimum government interventions.
- Foreign citizens or companies in whatever proportion and Lao citizens or companies may set up enterprises in the SEZ, either by themselves or in joint venture in any sector of industry.
- The SEZ shall be operated and managed as separate customs territory.
- The Lao Economic Zone Authority (LEZA), an independent public corporation attached to the Prime Minister's Office, will be responsible for policy-making, operations and management of the SEZ.
- Fiscal incentives such as tax holidays of 3-8 years, profit tax reduction to 10-15%, exemption of turnover tax, utilization tax, minimum tax, import and export duties, reduction of personal income tax to 5%. Other fees and charges may be reduced for the SEZ enterprises.
- Minimum investment is required to be qualified as SEZ enterprises: US\$100,000 or more for foreign companies and US\$50,000 or more for domestic companies.
- The SEZ shall be given an offshore status in order to make the foreign currency control freer.
- Free remittance of after tax profits

- Land leasing of minimum 30 years and maximum 75 years for foreign investment, minimum 30 years and maximum 50 years for domestic investors and transparent leasing rates.
- Establishment of One Stop Shop Center for facilitating investment license, export/import licenses and other permits necessary for business activities
- Set-up of Labor Relations Center for assisting the mediating labor disputes
- Master Employment Contract for unifying the working conditions in the SEZ enterprises
- Freer use of foreign workers up to 25% of total workforce
- 100% deduction of the value of training expense incurred by the SEZ enterprises for developing skills or managerial abilities of Lao citizens from the taxable income.

SEZ Management

A new and independent organization should be set up for implementation of the planned SEZ, namely SEZ Authority (or Lao Economic Zone Authority: LEZA). LEZA will be equipped with the one-stop-service.

Experiences in other countries also show that provision of full autonomy reduce red tape and contribute to efficient and prompt operation. It is proposed that the SEZ Authority or LEZA be empowered with full autonomy for development and management of SEZ.

Lao Economic Zone Authority (LEZA)

The government's role through the SEZ Authority (LEZA) will be concentrated to setting up of legal framework. Some public agencies will be responsible for development of infrastructure necessary for the SEZ, (e.g., access road, supply of electricity and water, and telecommunications). Responsibility of LEZA, public organization and the private sector is shown below.

Table S-8 Implementation arrangement for Savannakhet SEZ

	Legal Framework	Adm. and Management	Construction	Operation Maintenance
Industrial Processing	Government	LEZA	Private	Private
Logistics	Government	LEZA	Private	Private
Commerce	Government	LEZA	Private	Private
Amenity	Government	Private	Private	Private
Supporting	Government	LEZA	Private	LEZA

Organization of LEZA

It is proposed that LEZA be organized as shown bellows.

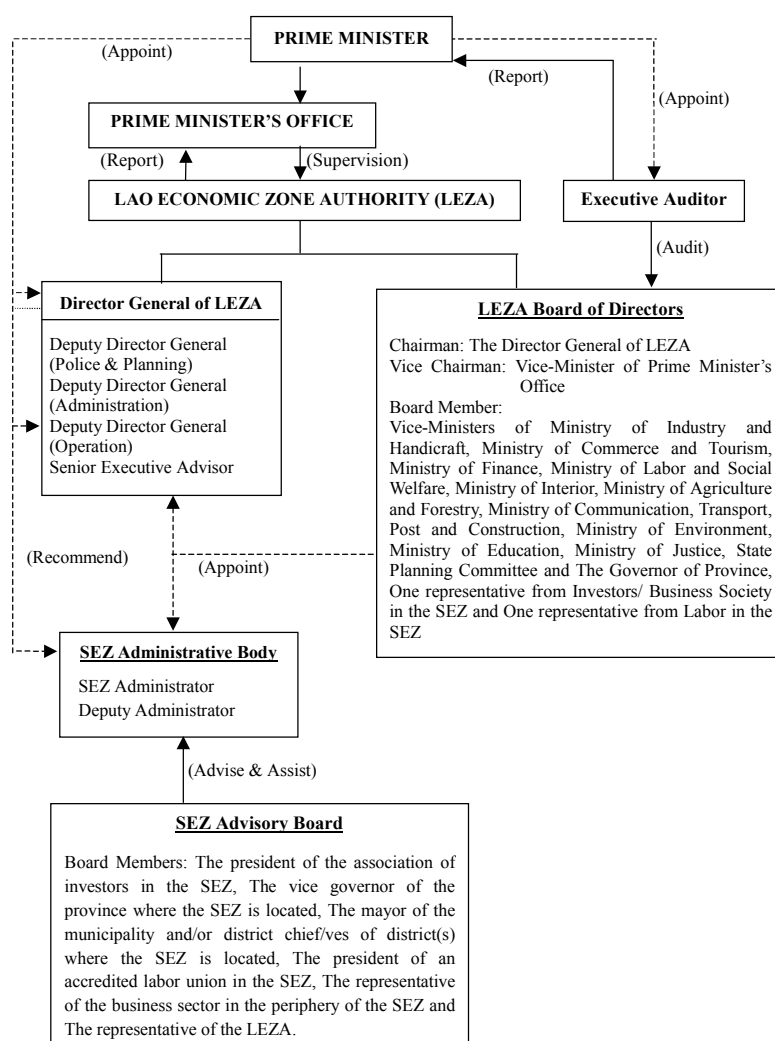


Fig. S-9 Organization of the LEZA

VIII. ACTION REQUIRED FOR IMPLEMENTATION

Actions required for implementation of Savannakhet SEZ is presented below.

Establishment for Savannakhet SEZ Development Committee (Secretariat)

The new organization named Lao Economic Zone Authority (LEZA) is proposed as an implementing body under the control of the Prime Minister's Office. The first thing to do is to set up a secretariat consists of the related government organizations. The Savannakhet SEZ Development Committee shall be responsible for overall planning of SEZ preparation.

Preparation of Legal Base for Savannakhet SEZ

In order to establish a SEZ in Lao PDR, enactment of the SEZ Law is required. It requires careful examination of the laws and decrees. The review shall be made under the leadership of the Ministry of Justice taking into consideration the concordance with the prevailing laws and decrees. In addition to the drafting of SEZ Law, rules and regulations for the SEZ shall be prepared. The SEZ Law and its rules and regulations shall be periodically reviewed to incorporate the SEZ into the national economy.

Promotion of Investment

Potential investors' knowledge on Lao PDR is limited, and it is indispensable to inform the potential investors of Savannakhet SEZ. SEZ Development Committee shall prepare well-planned investment activities. Incentives offered and potential resources at the SEZ shall be made open. Leaflet on SEZ and the web site of the Savannakhet SEZ shall be prepared.

Coordination of SEZ Development Efforts

Appropriate set-up of LEZA and legal framework, and good management of SEZ are indispensable for its success. Once SEZ is established and in operation, Savannakhet SEZ shall constitute an integral part of an economic reform and liberalization program. It is recommended that an external advisor be assigned to advise on improvement of the environment for FDIs, and promotion of FDIs, as well as establishment of legal framework and promotion of Savannakhet SEZ.