

# SEZ, Cluster and Economic Corridors in the Mekong Region

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# Presentation Topics

- 1. SEZs of Countries in the Mekong Region
- 2. SEZs and Industrial Clusters
- 3. SEZs and Economic Corridors
- 4. SEZs in Each Country and Case Studies
- 5. Summary

# **SEZs of Countries in the Mekong Region**

# SEZ Rules in Five Mekong Countries

Country	Rule on Area	Incentives	Related Law and Regulation
Cambodia	Area $\geq$ 50 ha Has to be fenced	One Stop Service, Bonded Customs Clearance	Sub-Decree No. 148 on the Establishment and Management of the Special Economic Zone, Dec. 29, 2005
Laos	Area $\geq$ 1,000 ha	Own Incentive Policy	Law on Investment Promotion, No.2 2009, Jul. 8, 2009
Myanmar	Sufficient Land Area (400-25,000 ha), have Inter- national Gates	Tax holidays • 5 years (FDI Law) $\rightarrow$ • 5-7 years exemption + 5 years reduction	Special Economic Zone Law, No. 1, 2014, Jan. 23, 2014
Thailand		Tax holidays (8 years exemption + 5 year reduction), One Stop Service, Employment of Migrant Workers	National Committee on Special Economic Zone Development (NC- SEZ)
Vietnam	Area $\geq$ 10,000ha	Financial Support for Provinces, Bonded Customs Clearance	Decree No. 29 on Industrial Parks, Export Processing Zones and Economic Zones, Mar. 14, 2008

# Total Areas

Country	Type	Average	Standard Deviation	Coefficient of Variation	Number of Samples
Cambodia	With tenants	356	486	1.4	10
	No tenants	246	435	1.8	14
	All	292	450	1.5	24
Laos	Specific EZ	1,202	1,567	1.3	8
	Special EZ	1,977	1,447	0.7	2
	All	1,357	1,500	1.1	10
Myanmar	SEZ	9,267	13,662	1.5	3
	BTZ	175	35	0.2	2
	All	5,630	10,869	1.9	5
Thailand	SEZ Phase 1	58,640	51,154	0.9	5
Vietnam	Economic zone	31,009	37,817	1.2	14
	Border Gate EZ	42,094	48,905	1.2	16
	All	36,921	43,701	1.2	30

**Source:** Calculated by the author in available of data on total areas of SEZs..

# Differences by Country

- **Locations of SEZ**

- 1) CLM Countries: metropolitans, ports or borderlands

→ Higher motivation to stimulate industrialization by connecting to the production networks and global value chain (GVC)

- 2) Vietnam: coastal areas except metropolitans and borderlands

- 3) Thailand: Only borderlands

→ Higher motivation to reduce domestic development gaps and stimulate under-developed areas (Bangkok, Hanoi and HCMC have already received a lot of investment and do not need higher incentives)

- **Major Players**

- 1) Cambodia: all the developers are private and they apply to the government

- 2) Laos: government, JV with government & private and pure private

- 3) Myanmar: designated by the government and government & private operate

- 4) Thailand: designated by the government and provinces call for investors

- 5) Vietnam: each province applies for her own SEZ, the Central government designates and the SEZ calls for investors

→ In case of rural areas, private sectors do not have incentives to develop

# **SEZ and Industrial Clusters**

# Favorable Conditions by Industry

- **Garment:** lower wage and abundant labor-force are important
- **Electronics and precision:** products are small and high-value-added, logistics cost is not so important, thus it is available for **metropolitans in inland areas** and also for large cities with better access to ports and airports; better access to airports and well-paved road with less vibration are necessary
- **Bulky electrics:** refrigerators and washing machines need to be assembled in a factory close to metropolitans with consumers
- **Automobiles:** agglomeration of tiers of parts and components industries and better access to metropolitans and ports
- **Chemicals and steels:** coastal areas with deep sea port and abundant electricity are needed except the cases that oil field or iron mines

# Industries Suitable for Inland Areas

- **Market-oriented industries**

Weight/Volume of raw materials  $<$  W./V. of products

ex) Automobile, refrigerator, beer

- **Raw-materials-oriented industries**

W./V. of raw materials  $>$  W./V. of products

ex) Cement, natural rubber



Advantageous in raw-materials-oriented industries

# Possible Raw Materials

- **Food crop and its processing**

1) Rice,                    2) Cassava,                    3) Maize,                    4) Sugarcane,  
5) Coffee bean, 6) Cashew nuts, 7) Pepper, 8) Soy beans,  
9) Fruits,                    10) Peanuts

- **Non-food crop and its processing**

1) Rubber, 2) Eucalyptus, 3) Logs, 4) Mulberry, 5) Bamboo

- **Live stock and fishery products**

- **Mining resources**

1) Cement, 2) Iron ore, 3) Limestone, 4) Bauxite, 5) Gold,  
6) Coal, 7) Marble, 8) Granite, 9) Nickel

- **Electricity**

# **SEZs and Economic Corridors**

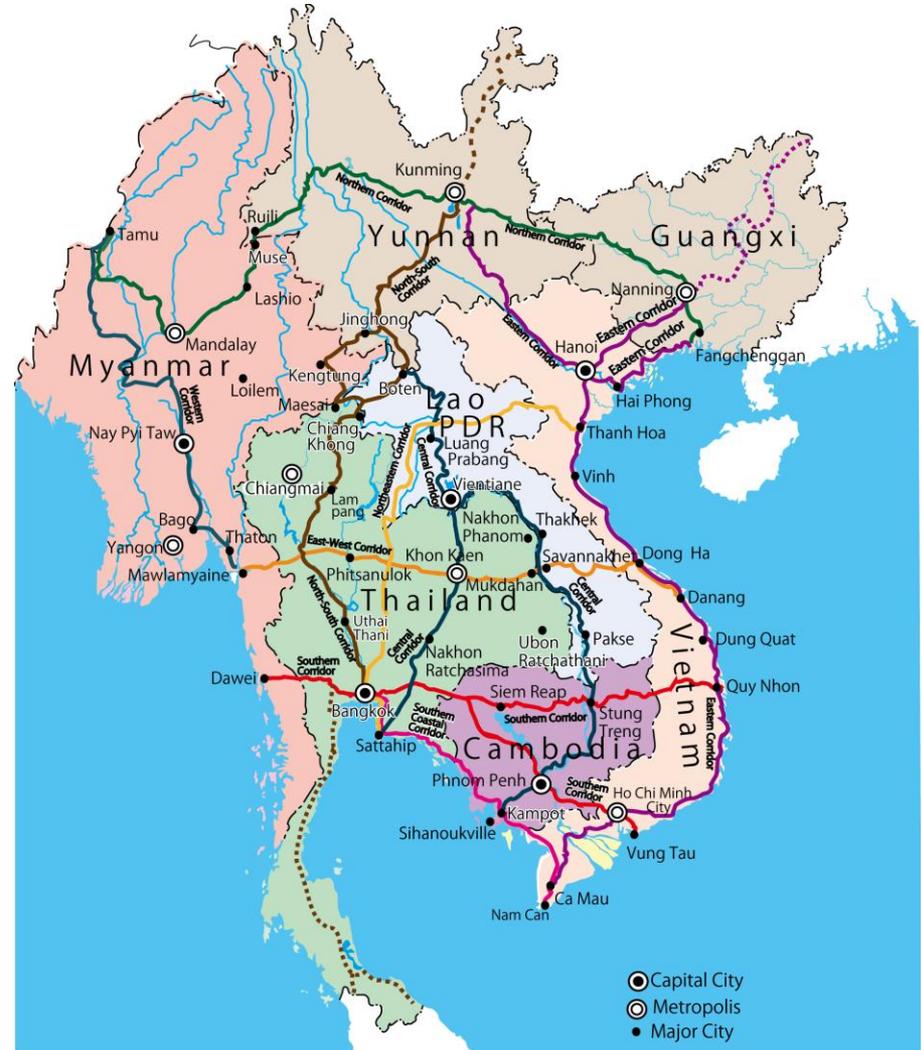
# Economic Corridors

## Three Economic Corridors



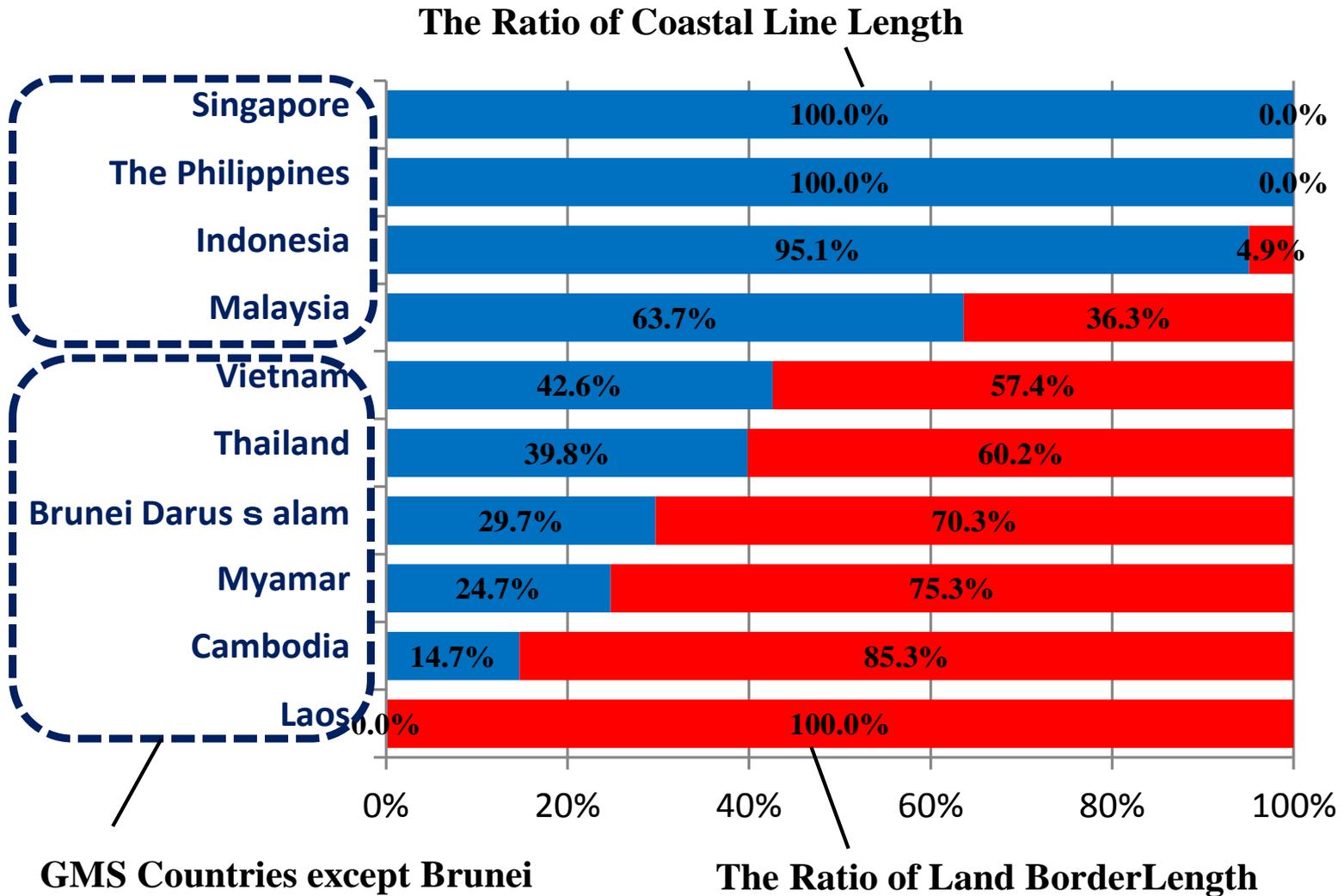
Source: Created by the author in accordance with ADB website in the past.

## New Corridors



Source: Created by the author in accordance with ADB website in the past.

# Why Are CBTIs Are So important ?



Source: Created by the presenter in accordance with the website of CIA.

# Importance of Border Economic Zones

- Advantages of Lower Income Countries
    - ➔ Lower wage of labor
    - ➔ Generalize system of preferential tax
  - Advantages of Higher Income Countries
    - ➔ Better Electricity Infrastructure
    - ➔ Better Transport Infrastructure
  - Supporting Soft Policies
    - ➔ One Stop Service
    - ➔ Bonded cross-border customs clearance
    - ➔ Working visas of both countries for foreign managers
- Can Enjoy Both Advantages

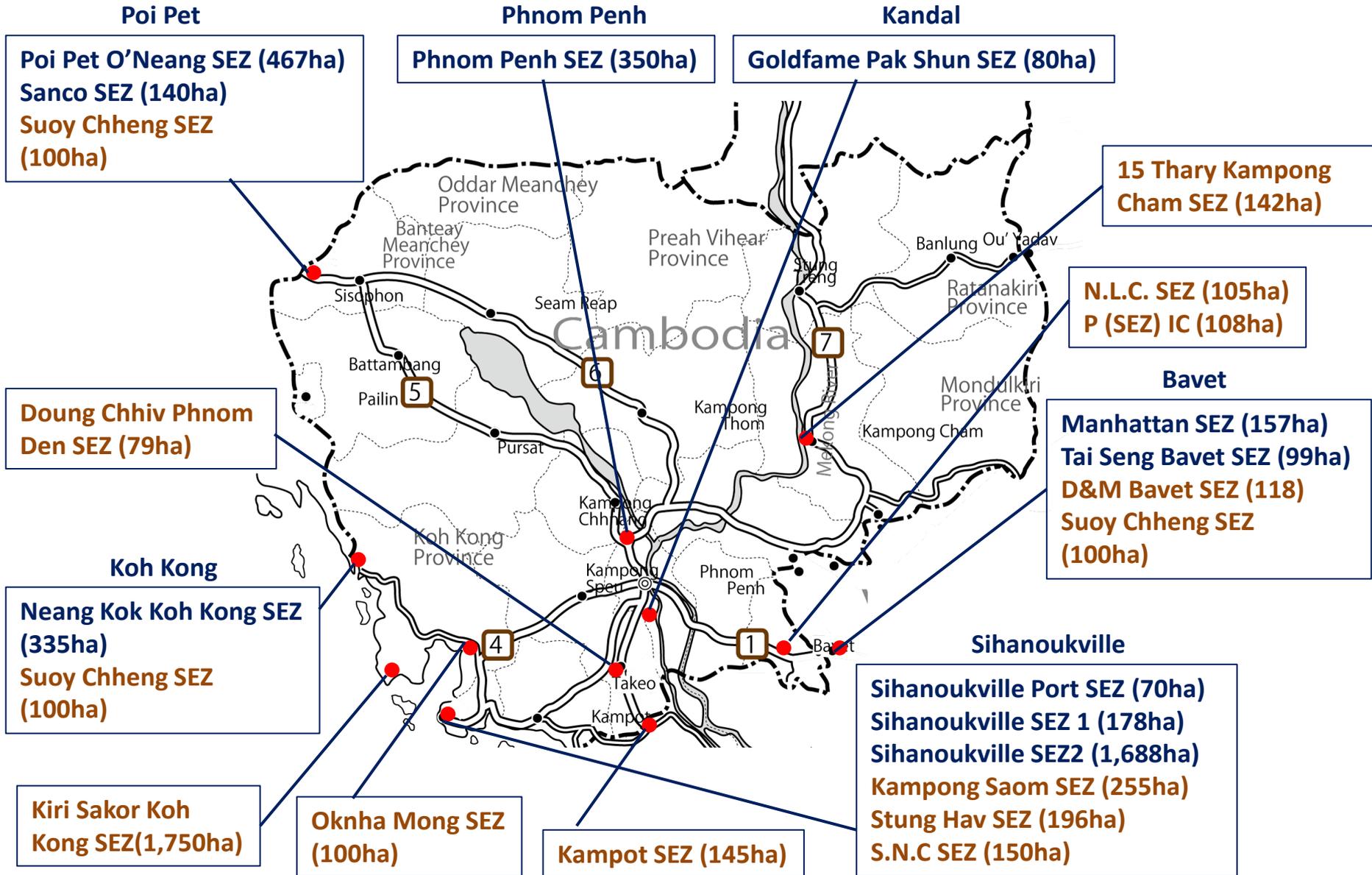


These policies are effective for remote areas along corridors

# **SEZs in Each Country and Case Studies**

# SEZ in Cambodia

**Dark Blue: With tenants**  
**Brown: No tenants**



# A Case Study of Phnom Penh SEZ

- **Location**

To Phnom Penh: 17 km

To Airport: 8km

To Phnom Penh Port: 44km

To Sihanoukville Port: 204km

- **Gateways for Exports**

1) PP – (road) --> HCMC --> the U.S.

2) PP – (Mekong) --> HCMC --> the U.S.

3) PP – (road ) --> Sihanoukville –  
(ship) --> Singapore --> the U.S.

- **History**

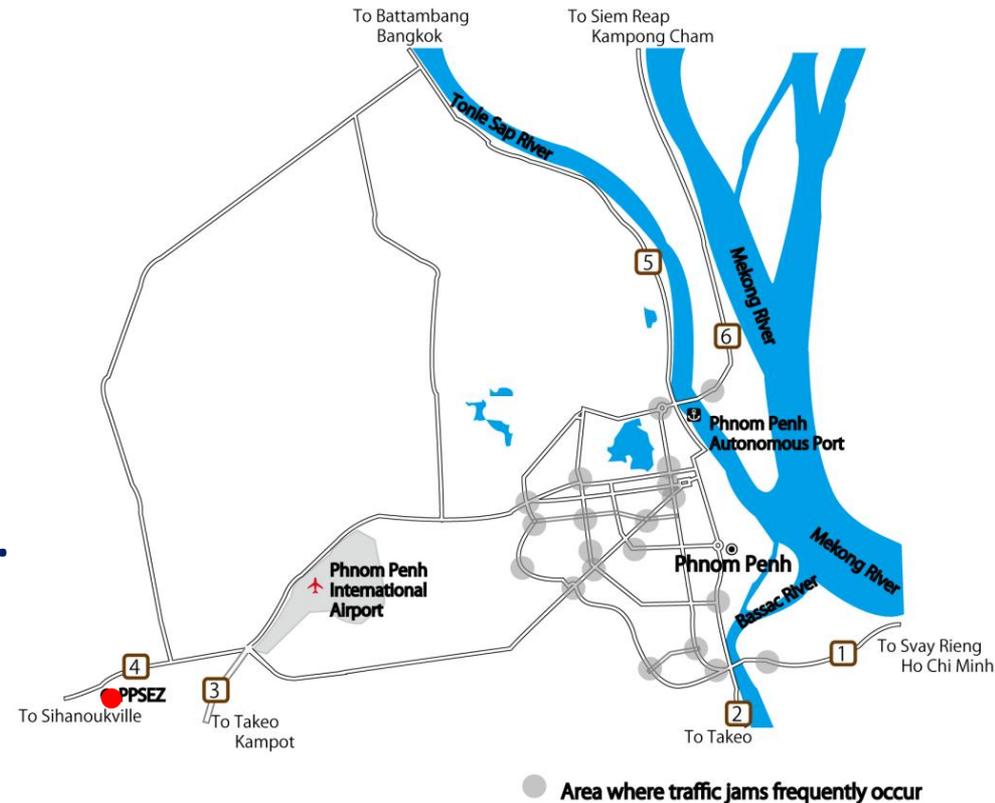
2006 Established

2008 The 1st tenant joined (shoes)

2009 Three tenants

2013 38 tenants in operation

24 tenants (prepare or U.C.)



Source: Created by the author.

# A Case Study of Phnom Penh SEZ

- **Successful Reasons**

- 1) Improvement of Access to Bangkok (Thailand + 1 investments)
- 2) Increase of wage in China in 2010
- 3) One-stop service (bonded customs)
- 4) GSP for LDC is applied for US, EU and Japan
- 5) Backup of electricity (stable)
- 6) Waste water treatment

- **Challenges**

- 1) Higher electricity price (US\$ 0.193)
- 2) PP Traffic jam has become serious
- 3) Minimum wage hike (US\$ 125)

- **Evaluation**

Regarding reasons for investment, 87% was lower wage. Minimum wage hike is fatal, but the average evaluation score on labor cost was 3.24 (1-5) in 2014 (Umezaki, 2015).



September 11 in 2009



February 15 in 2015

# A Case Study of SEZs in Babet

- **Location**

To Phnom Penh: 165 km

To Ho Chi Minh City: 75km

- **Gateways for Exports**

1) Tan Son Nhat Airport (70km)

2) Cat Lai Port (5km)

3) Cai Mep Port (130km)

- **History**

2006 Manhattan SEZ start operation

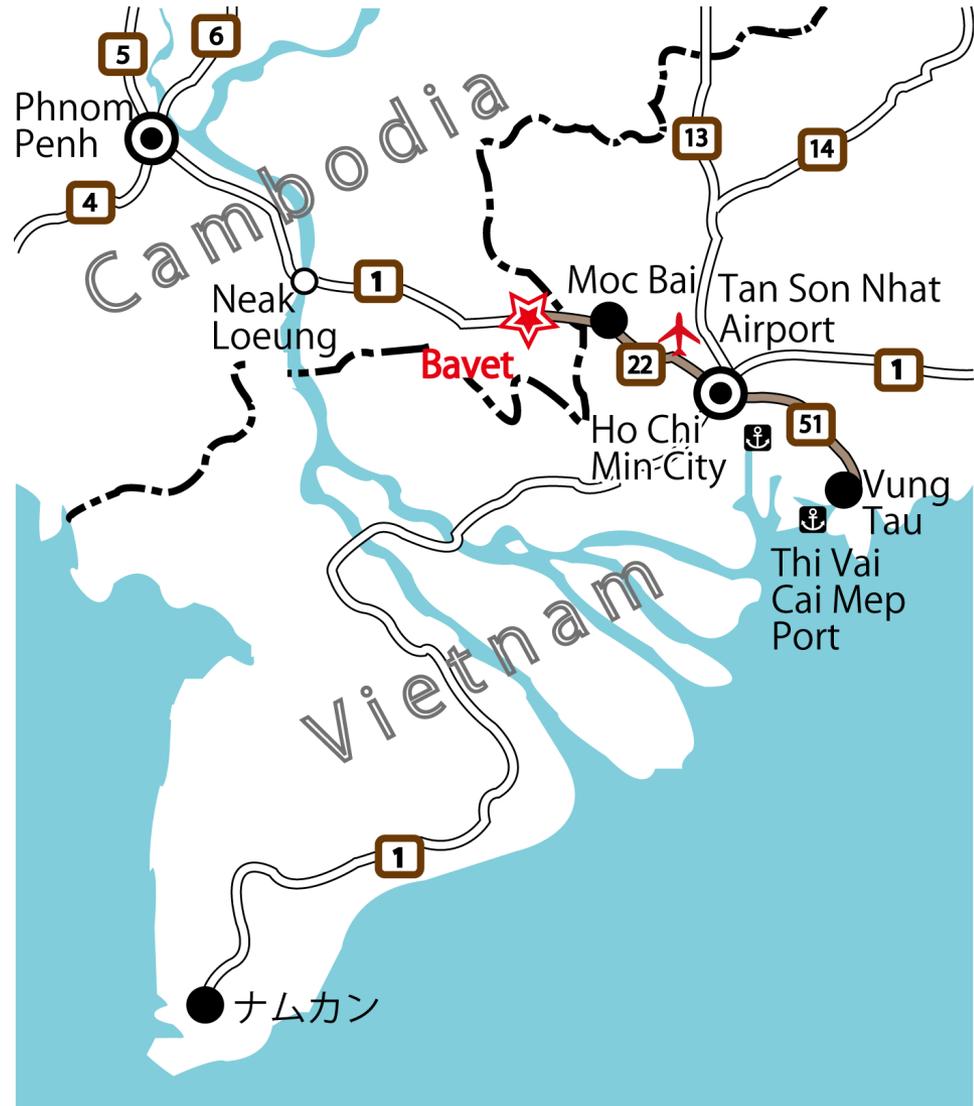
2008 Tai Seng Babet SEZ also Started

2012- Labor issues were worsened

<Number of tenants>

Manhattan: 20 tenants (as of 2012)

Tai Seng Babet: 23 tenants (as of 2013)



Source: Created by the author.

# A Case Study of SEZs in Babet

- **Successful Reasons**

- 1) Better access to Ho Chi Minh City
- 2) GSP for LDC is applied for US, EU and Japan
- 3) Lower electricity price than PP  
Bavet \$ 0.125, Phnom Penh: \$ 0.193
- 4) Bonded customs clearance
- 5) Double Visa for foreign staffs
- 6) Customs clearance

- **Challenges**

- 1) Serious labor problem
- 2) Higher wage than in Phnom Penh
- 3) Serious black-outs
- 4) No waste-water treatment

- **Evaluation**

With double advantages of LDC and MIC, many firms invested in Bavet, but Bavet could not absorb the increased firms



A glove factory in Bavet, Nov. 8, 2013



Bavet border gate, Nov. 8, 2013

# A Case Study of Phnom Penh SEZ

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- 3) One-stop service
- 4) GSP for LDC is applied for US, EU and Japan
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- **Challenges**

- 1) Higher electricity price (US\$ 0.20)
- 2) PP Traffic jam has become serious
- 3) Minimum wage hike (US\$ 125)

- **Evaluation**

Regarding reasons for investment, 87% was lower wage. Minimum wage hike is fatal, but the average evaluation score on labor cost was 3.24 (1-5) in 2014 (Umezaki, 2015).



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February 15 in 2015

# Special and Specific Economic Zones in Laos

**Boten Beautiful Land Specific Economic Zone (1,640 ha)**

**Golden Triangle Special Economic Zone (3,000 ha)**

- 1) Vientiane Industrial and Trade Area (110 ha, VITA Park)
- 2) Saysetha Development Zone (1,000 ha)
- 3) Thatluang Lake Specific Economic Zone (365 ha)
- 4) Longthanh-Vientiane Specific Economic Zone (558 ha)
- 5) Dongphosy Specific Economic Zone (54 ha)

- 1) Phoukhyo Specific Economic Zone (4,850 ha)
- 2) Thakhek Specific Economic zone (1,035 ha)

**Savan-Seno Special Economic Zone (954 ha)**



**Laos**

Source: <http://www.laoembassy.com/>

# A Case Study of Savan-Seno SEZ

- **Location & Gateway**

To Bangkok: 662 km

To Laemchabang: 720km

To Danang: 508km

To Vientiane: 477km

- **Project Sites**

Site A (305ha) Tourism & Trade, 4

Site B (20ha) Logistics, 8

Site B1 (353ha) Industry & Trade, 37

Site C (234ha) Industry & Trade, 3

Site D (108ha) Residence, 3

(underlined number : number of approvals as of September, 2014)

- **History**

2002 Prime Minister Decree

2006 2<sup>nd</sup> Friendship Mekong Bridge

2008 Savan Park was established

2013 Savan-Japan Industrial Park (MoU)



Source: Created by the author.



2<sup>nd</sup> Friendship Bridge, September 7 in 2008

# A Case Study of Phnom Penh SEZ

- **Successful Reasons**

- 1) 2<sup>nd</sup> Mekong Friendship Bridge (2006)
- 2) Similarity of Thai & Lao languages
- 3) The best tax exemption incentives
  - ex) 10 years if export 70% of products
- 4) 12 years of land lease price discount if lease 30-75 years
- 5) Less red-tape (directly supported by Prime ministers)

- **Challenges**

- 1) High Logistics cost (40 ft container) to Yokohama: \$830(sea) + \$1,830(land)
- 2) Minimum wage hike (\$ 112)
- 3) Discipline of labor has to be trained

- **Evaluation**

Investment climates are highly evaluated in a survey in CLM (Umezaki 2015)

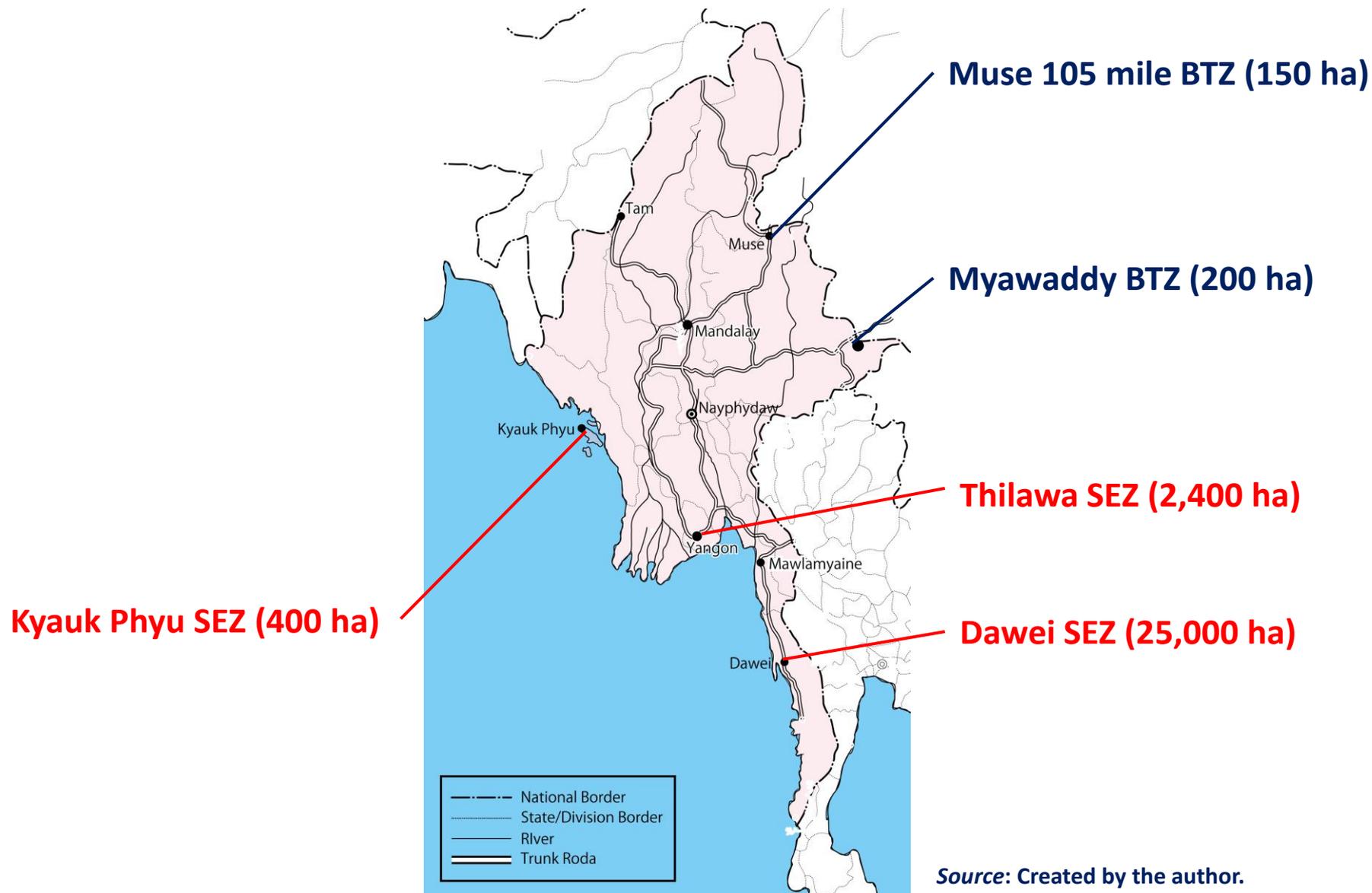


September 1 in 2010

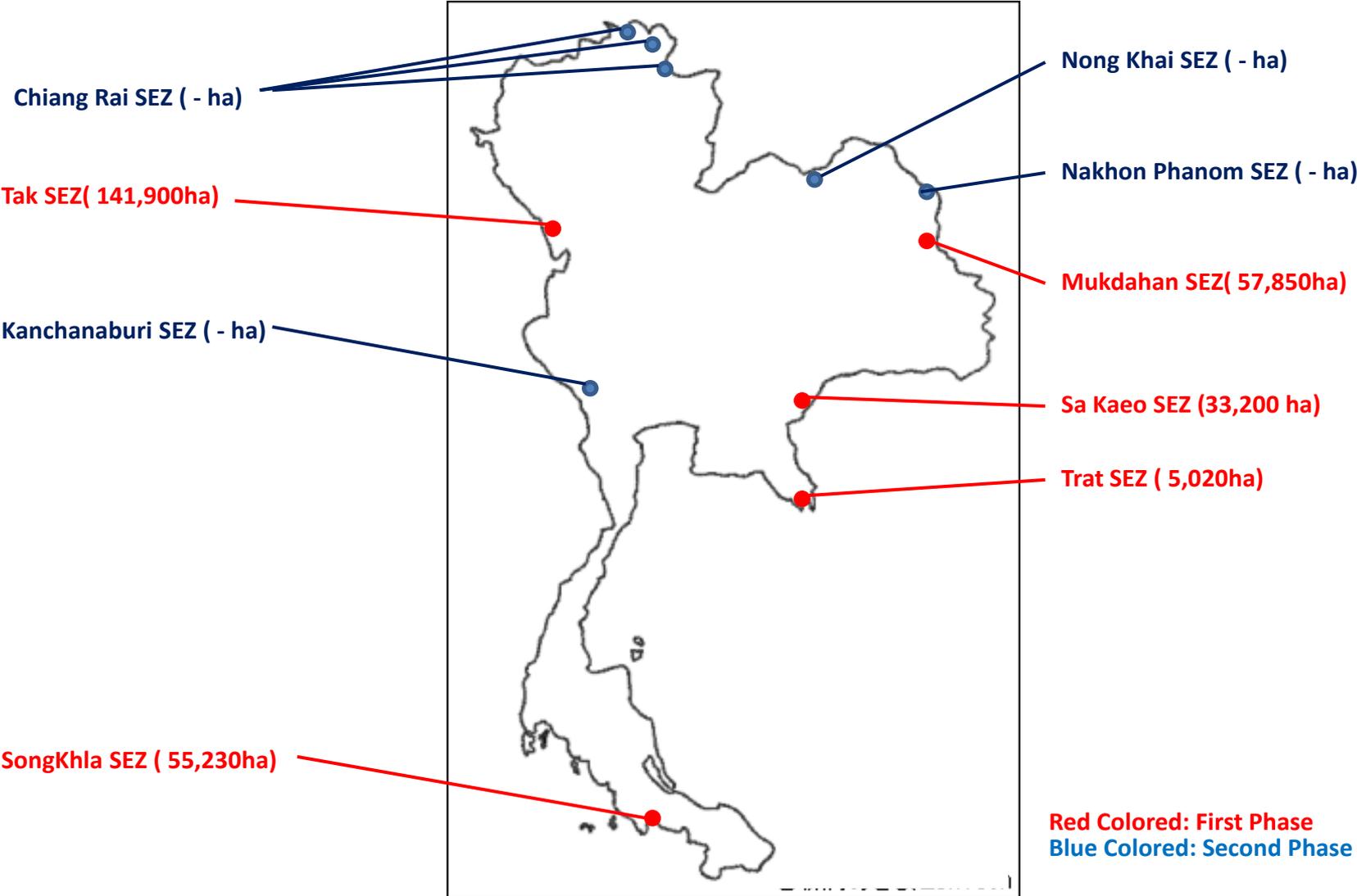


September 2 in 2015

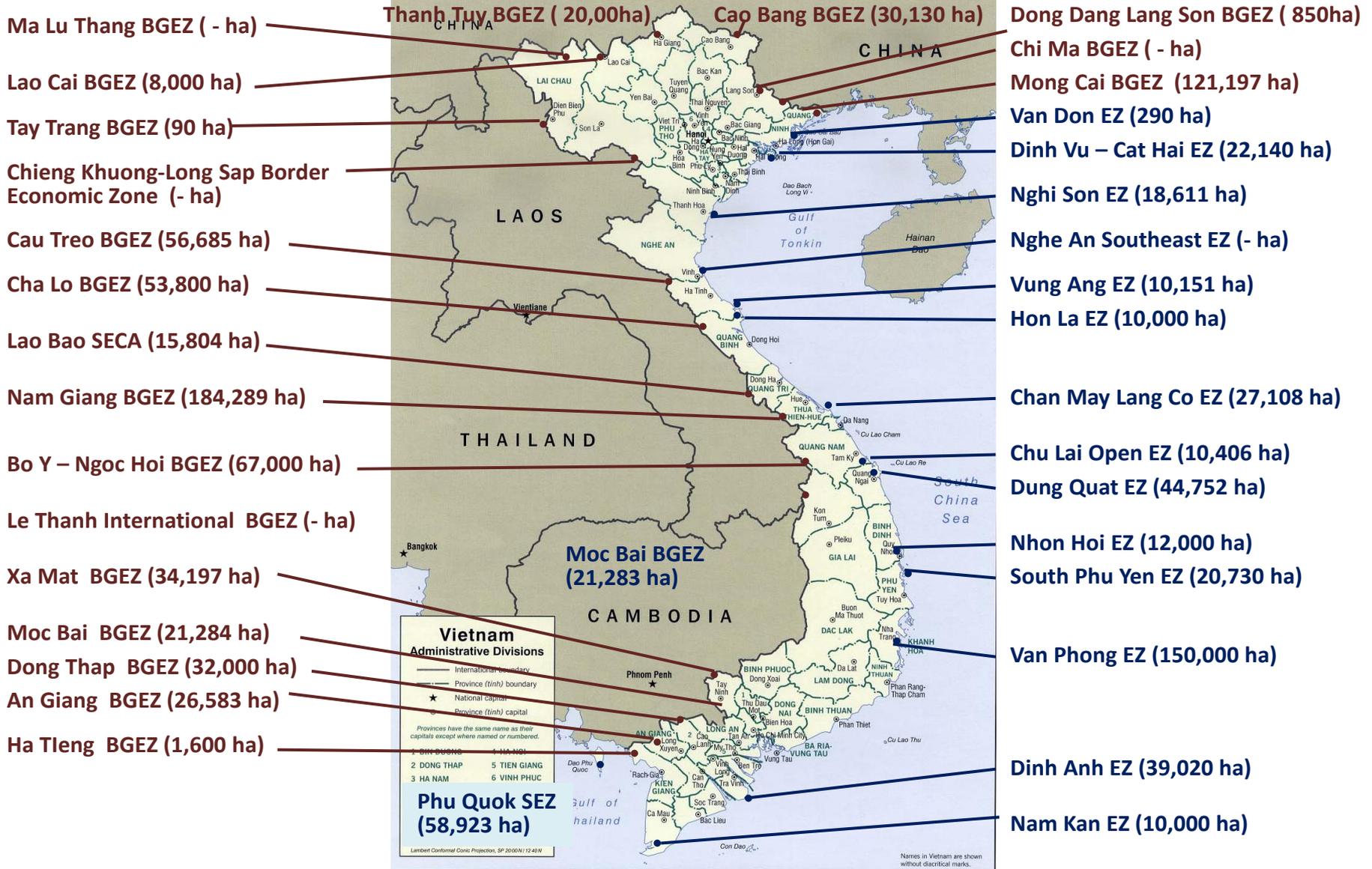
# SEZ and Border Trade Zone in Myanmar



# SEZ in Thailand



# (Bordet Gate) Economic Zones in Vietnam



Source : University of Texas (<http://www.lib.utexas.edu/>).

# A Case Study of Dung Quat EZ

- **Location**

**From Hanoi: 860km**

**From HCMC: 860km**

- **History**

**The project was started to utilize oil of Bach Ho Oil Field (offshore in south).**

**1994 The US lifted economic sanctions**

**Investment hike in Hanoi & in HCMC**

**The government decided move the site from Van Phong to Dung Quat**

**2005 Started construction of refinery**

**Upgraded from industrial zone to EZ**

**2006 Shipping yard started operation**

**2009 Oil refinery started operation**

**Doosan Vina Heavy Industries**

- **Evaluation**

**(1) A Synonym of Inefficiency**

**a) transport oil from the South to the Central (why not built in the South)**

**b) in addition to transport cost, construction cost became larger**

**(2) A Role of Reducing Domestic Gap**

**a) In addition to oil refinery, large companies invested in Dung Quat**

**b) Vietnam Singapore Industrial Park (VSIP) decided to build IZ at Quang Ngai close to Dung Quat**

- **EZs in General**

**(1) So many ports along the coast because each province request to build her own port**

**(2) Coordination is necessary**

# Major Industries in SEZ by Country

- **Types of Major Industries**

- 1) **Cambodia:** each SEZ shall have a production area and may have free trade area, service area, residential area and tourist area (Article 1, Sub-Dec 148)
- 2) **Laos:** The major industries of Savan-Seno SEZ , VITA Park and Saysetha Development Zone are manufacturing, that of Golden Triangle SEZ is casino and tourism, and those of other SEZs in Vietiane are hotel, tourism, high-class residences, golf course, shopping centers and/or international school.
- 3) **Myanmar:** as well as Cambodia, the major industry is export-oriented manufacturing and services supportive for manufacturing
- 4) **Thailand:** agriculture, fishery, ceramic products, textiles, garments, leather, furniture, jewelry, medical instruments, automobile, machinery, electronics, electric, plastics, medicines, logistics, industrial estates and tourism.
- 5) **Economic Zones in Vietnam:** provinces have choices;
  - a) develop heavy industries like steel, refinery and petrochemical industries
  - b) fishery, hotel, tourism and light industries which do not affect environment
- 6) **BGEZ in Vietnam:** duty-free shop, bonded warehouse, residence, hotel and manufacturing

# Summary

- **Characteristics of SEZ are different depending on countries**
- **CLM countries tend to develop SEZ in Metropolitans**
- **Vietnam and Thailand tend to develop SEZ in remote areas**
- **Major players are different depending on countries**  
**(private sector, central government and provincial government)**
- **Appropriate locations and conditions are different depending on industries**
- **For inland areas, precision & electronics industries are possible near metropolitans; processing raw materials are also suitable**
- **Economic corridors (CBTI) gave great impacts of countries in the Mekong region and synergy effects with SEZ are very large**
- **Relative wage increase can deteriorate the competitiveness of export-processing industries in a case of LDC**
- **Regarding SEZ in border areas, it is needed to consider the capacity**
- **There are too many ports in the central part of Vietnam**

**Thank you for your attention !**

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