

# Role of Special Economic Zones in Developing GMS Economic Corridors

AFDI

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# Outline of Presentation

- Part I – ADB RCI Strategy and GMS Overview
- Part II – SEZ/BEZ Theory and Practice in GMS
- Part III – ADB Support to BEZ: Case of Guangxi Project

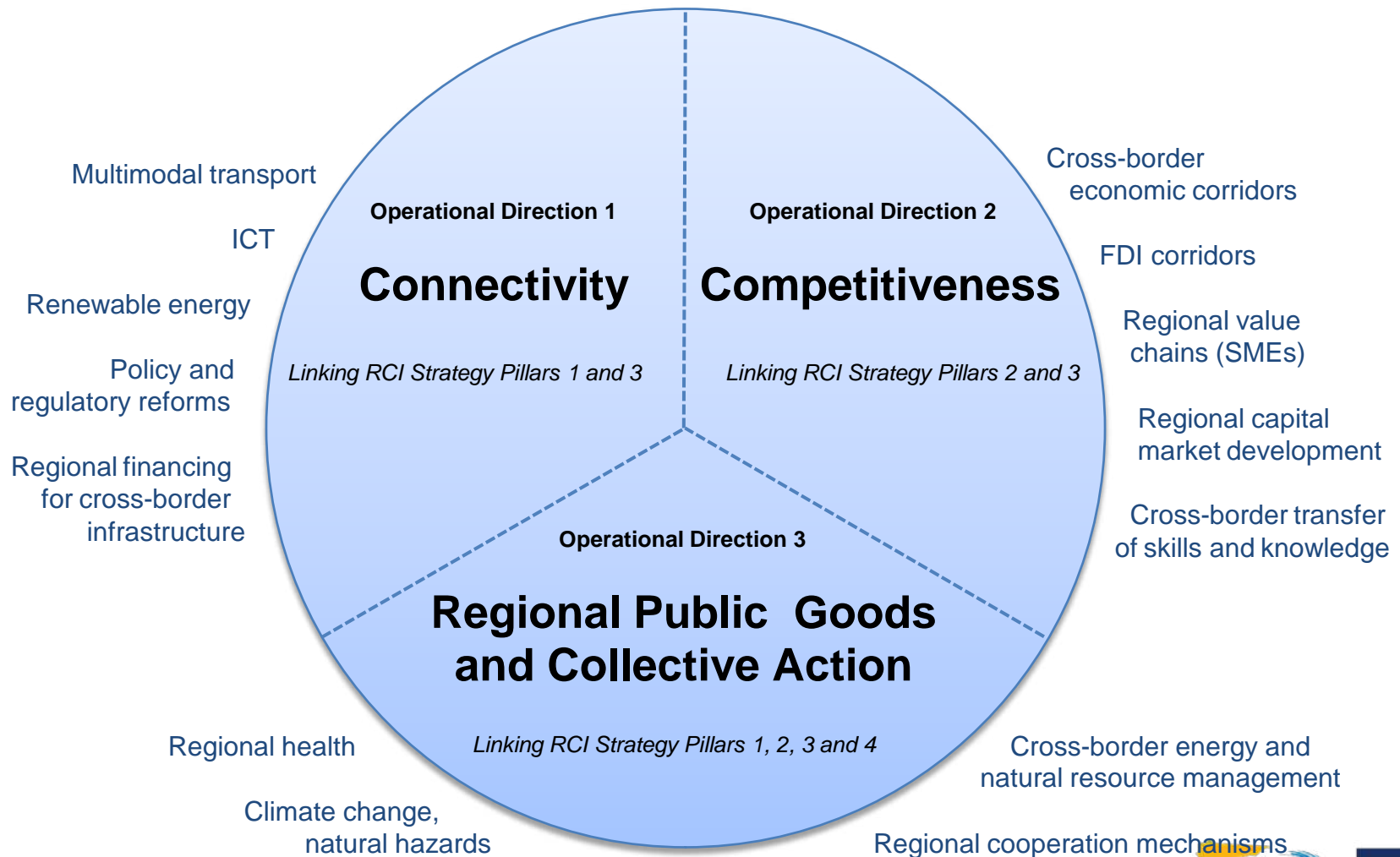
**Part I:**

# **ADB RCI Strategy and GMS Overview**

# ADB's Role in RCI

- RCI mandated by ADB Charter
- Roles of ADB
  - financing
  - knowledge
  - capacity building
  - honest broker
- Strategy 2020 and mid-term review
  - 30% target by 2020
  - New operational directions

# RCI Strategy and Operational Directions



# Overview of GMS

- 6-country partnership since 1992
- GMS 3C strategy
  - enhancing Connectivity
  - improving Competitiveness
  - promoting a greater sense of Community
- 9+1 Priority Sectors
- Economic corridor approach

# Economic Corridors and SEZs

- From transport to economic corridors
- Key – to promote economic activities along corridors
- Bottlenecks and constraints at borders
  - Poor infrastructure
  - Different laws and procedures
- SEZs/BEZs as an instrument



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**Part II:**

# **SEZ/BEZ Theory and Practice in GMS**

# Special Economic Zones

## Definition

SEZs as “clearly defined geographically, with a single management or administration and separate customs area (often duty free), where streamlined business procedures are applied, and where physically located firms qualify for more liberal and effective rules than those in the national territory (covering, for example, investment conditions, international trade and customs, tariffs, and taxation)”.

-(ADB 2014)

SEZs as “demarcated geographic areas contained within a country’s national boundaries where the rules of business are different from those that prevail in the national territory... whereby the zone is given a business environment that is intended to be more liberal from a policy perspective and more effective from an administrative perspective than that of the national territory”.

-(World Bank 2011)



# Varieties of SEZs

- In different forms
  - Free zones
  - Free trade zones
  - Export processing zones
  - Free ports
  - Trade and economic cooperation zones
  - Economic technological development areas...
- Enclave type (most common)
- Integrated type (as in PRC, VIE)

# Ownership Characteristics

- **Public (common in 1970s-1990s)**
  - governments taking responsibility for planning financing, defining and administering regulations, offering incentives, working with investors, managing real estate, etc
- **Private (since late 1990s)**
  - own, develop, and operate
  - 65% by 2010 in developing economies (e.g. 90% in VIE)
- **PPP-based**

# Evolution of SEZ Development

- **First generation – enclave type zones**
  - Generating employment and foreign exchange
  - Export oriented and labor intensive
  - Insulated from rest of the economy
- **Second generation – strengthened linkage with domestic economy**
  - Greater spill-overs (e.g. technology transfer, skill accumulation, innovation)
  - Forming clusters and realizing agglomeration
  - Participating in GVCs
- **Third generation – generating nationwide impact through reforms**

# SEZs/BEZs in GMS

- Long history in GMS
  - Earlier starters: THA, PRC, VIE
  - New comers: CAM, LAO, MYA (since early 2000s)
- Mixed experience so far
  - PRC, THA and VIE regarded as relatively more successful
  - CAM, LAO and MYA learning and catching up
- BEZs gaining new momentum in recent years (since 2010)

# Types of SEZs in GMS

	Total no.	Private %	Public %	By linkage to domestic economy		
				Enclaves	GVC links	Border
<b>Cambodia</b>	14*	100	0	✓		✓
<b>Lao PDR</b>	2	na	na	na	na	na
<b>Myanmar</b>	3*	na	na	✓		✓
<b>PRC</b>	1,515*	12	88	✓	✓	✓
<b>Thailand</b>	110	84	16	✓	✓	✓
<b>Viet Nam</b>	411	89	11	✓	✓	✓

Source: ADB (2015: 71).

Notes: na = not available in the source; \* = includes public-private partnerships; PRC = all of the PRC, not just the GMS.

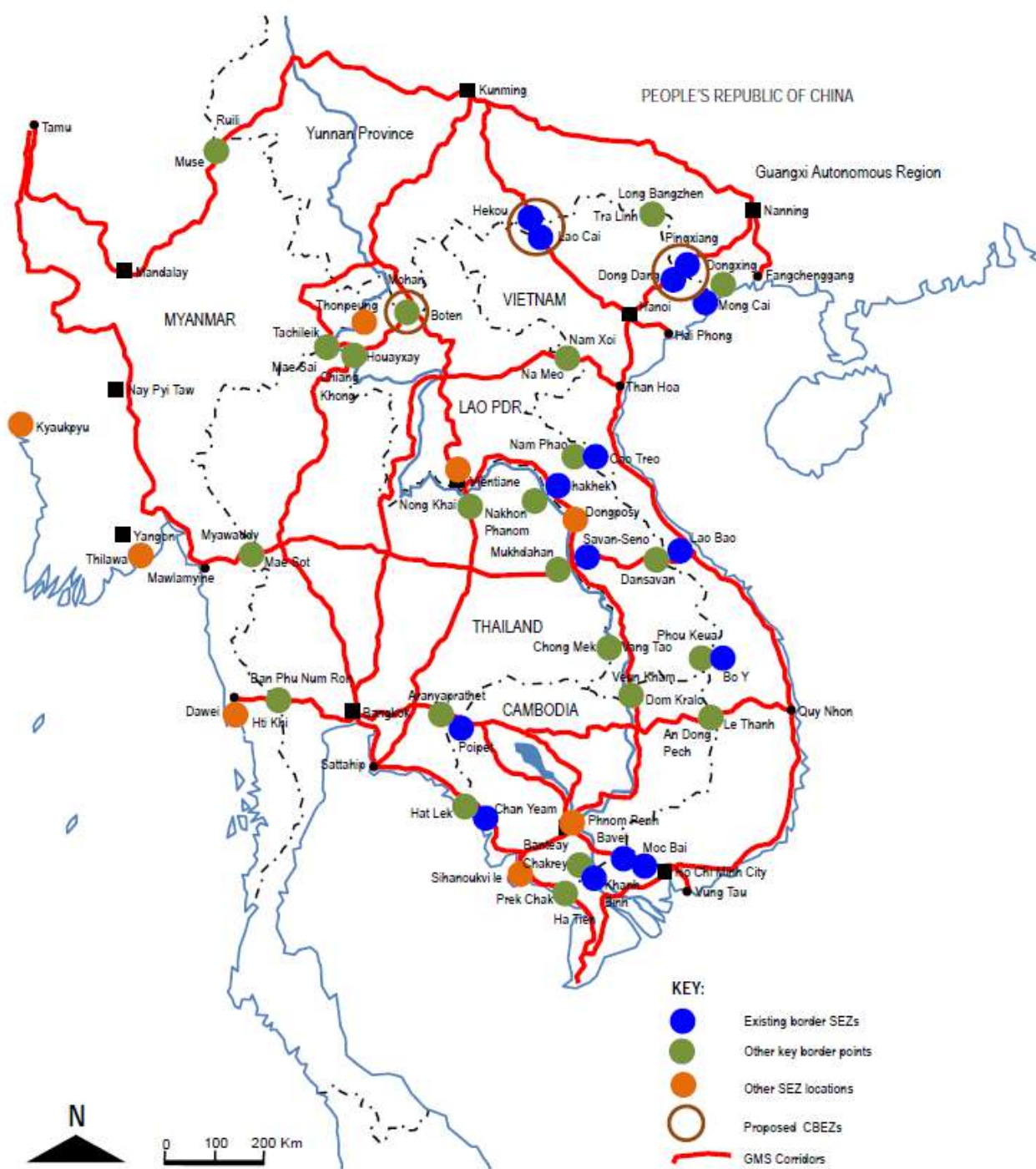
# BEZs on GMS Corridors

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



# BEZs on GMS Corridors

Corridor	Border Special Economic Zones	
North-South economic corridor	Chiang Kong (Thailand)	Houaysai (Lao PDR)
North-South economic corridor	Tachileik (Myanmar)	Mae Sai (Thailand)
Southern economic corridor	Thadeua (Lao PDR)	Nong Khai (Thailand)
Southern economic corridor	Dom Kralor (Cambodia)	Khong Phapeng (Lao PDR)
None	Vang Tao (Lao PDR)	Chong Mek (Thailand)
None	Pak Nhai (Cambodia)	Pleiku (Viet Nam)



# Key Success Factors and Recommendations

- SEZs as experimental reform centers for demonstration and replication
- Infrastructure and connectivity
- Business-friendly services for trade and investment
- Financing, particularly for SMEs
- Skills development (both managerial and job skills)
- Cross-border coordination, not competition

**Part III:**

**Case of ADB Support to BEZ-  
Guangxi RCI Promotion  
Investment Program**

# Strategic Context



- GMS economic corridor development
- PRC-Vietnam cooperation initiatives
- RCI: opening up PRC's border areas
- RCI in PRC CPS
- Guangxi: constraints and untapped potential

# Multitranche Financing Facility



**Impact:** Greater economic integration

**Outcome:** RCI opportunities realized

**5 Interlinked Outputs:** SME; financial services; e-commerce; BEZ development; connectivity

**3 Tranches** (\$450 million OCR and Regional set-aside)

**Why MFF?:** long term commitment; flexibility; phased funding; policy dialogue; private sector participation

# Key Features of MFF



- Country ownership and demand-driven
- Focusing on the promotion of cross-border economic activities to benefit people in border areas of PRC and VIE
- Cross-border synergy
- One ADB Approach

# ADB's Value Added



- Honest broker for cross-border coordination
- Effectively supporting “horizontal cooperation” within PRC
- RCI knowledge and capacity building
  - Trade facilitation
  - Institutional strengthening
- Demonstration and replication (for GMS NSEC and other PRC provinces)



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# Thank you

