The Role of Special Economic Zones in Improving Effectiveness of GMS Economic Corridors

Mr. Aekapol Chongvilaivan
Country Economist
Philippines Country Office

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Scope of Presentation

- History of SEZs in GMS
- Case study: Tak SEZ (Thailand)
- Effectiveness of SEZs
- Harnessing SEZs for border development
- Policy recommendations

Vietnam has the largest number of SEZs in GMS, aside from China

Countries	Total number	Private ownership
Cambodia	14	100%
Lao PDR	2	n/a
Myanmar	3	n/a
PRC	1,515	12%
Thailand	110	84%
Vietnam	411	89%

Note: The definitions of SEZs varies by countries and may includes industrial parks, enterprise zones (EZ), export processing zones (EPZ), border economic zones (BEZ), cross-border special economic zones (CBEZ); PRC includes non-GMS region

Source: Authors 'calculation

Vietnam and Thailand in forefront of SEZs

Source: ADB

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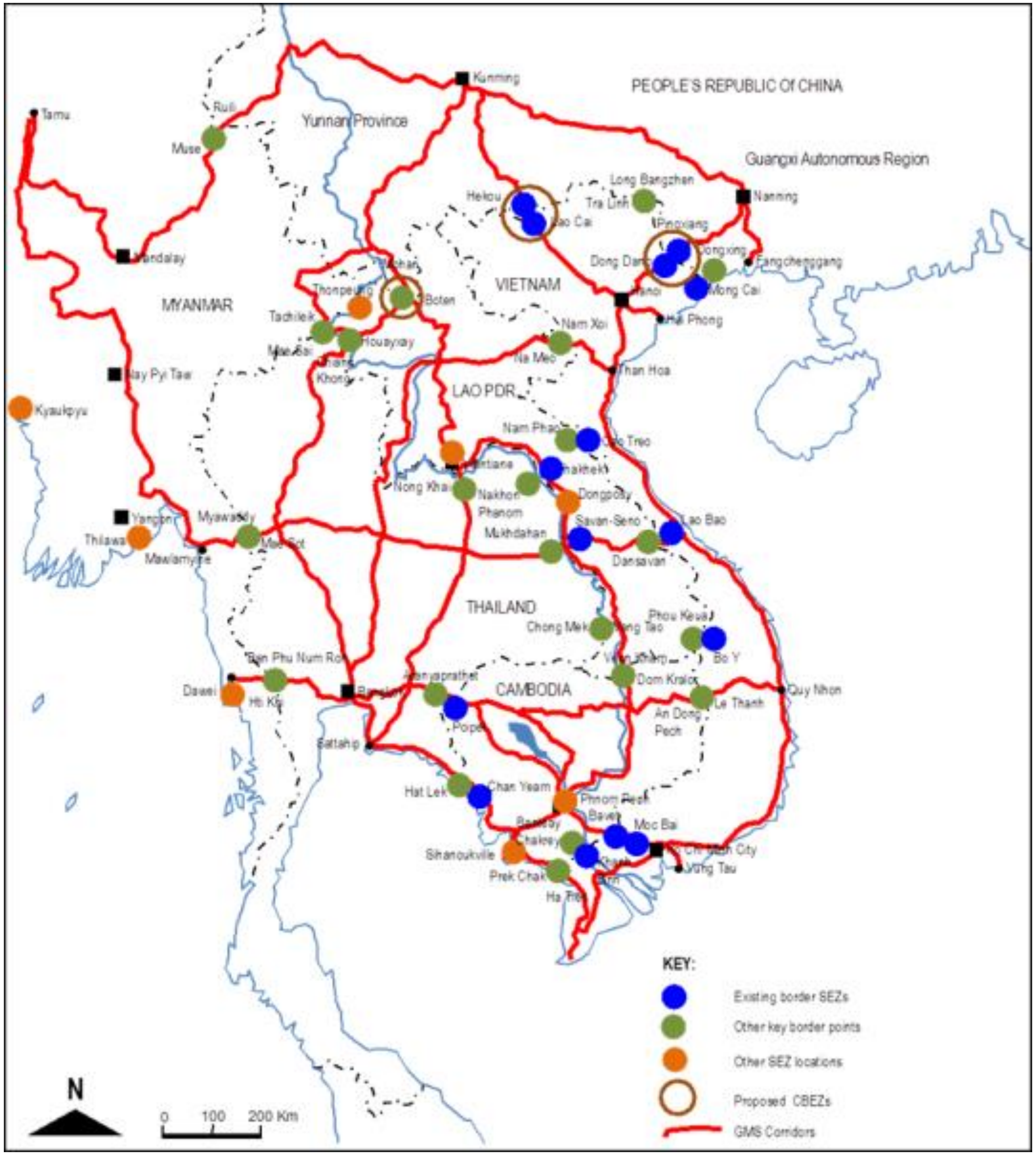
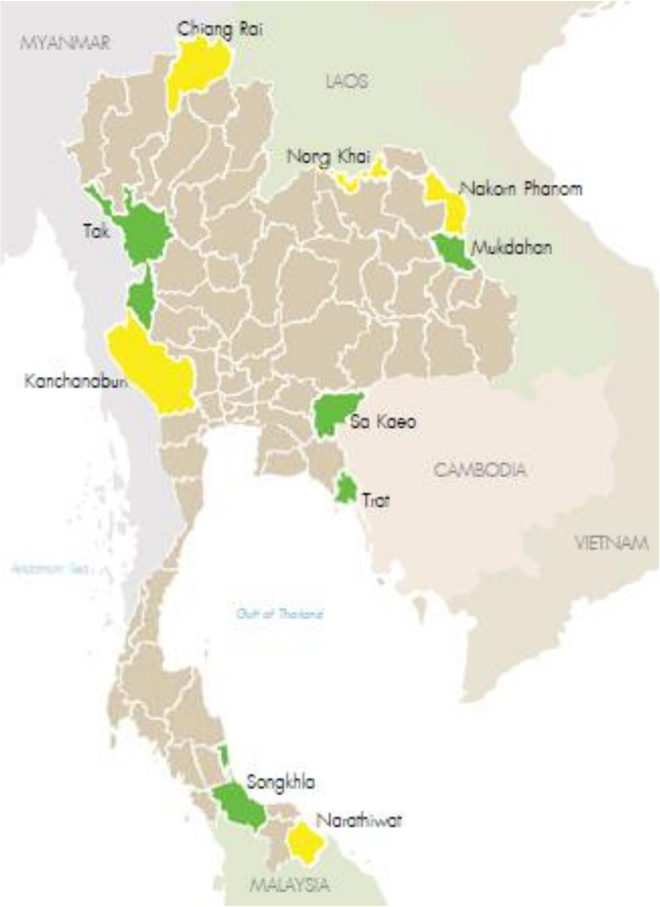
BEZs have mixed performance



Source: ADB

Thailand's SEZ plan in Border Provinces focuses on Tak

SEZs at border provinces	Area (sq. km)	Infrastructure Investment (2016, mn baht)
Tak	1,419	2,514
Mukdahan	579	1,009
Sa Kaeo	332	608
Trat	50	419
Songkhla	552	1,266
Nongkhai	474	152
Narathiwat	235	4
Chiang Rai	1,524	624
Nakhon Phanom	795	761
Kanchanaburi	552	6



Source: NESDB

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View from the Bridge between Mae Sot and Myawaddy

Source:

Key Characteristics of Mae Sot and Tak Province

- The most active border zones
- Center of **labor-intensive and agro-processing** industries
- Has **good road links** to Bangkok
- Use **migrant day-workers** and refugees
- Next to **Myawaddy** SEZ in Myanmar

Source:

Data and Methodology

- A survey of firms with **business presence in Tak**
- Conducted during **April 2016**
- Administered by O**ffice of Commercial Affairs of Tak Province**, with support from **ADB**
- Face-to-face interviews with managers
- Sample size of 100 firms, regionally representative

Source:

Survey Questionnaire

- Firm characteristics
  - Sectors, products, primary markets
  - Ownership, supply chains
  - Employment, skill, origins, wage
- Preference toward SEZ
- Capital and land use
- Infrastructure assessment

Source:

Key characteristics of firms in Tak

- Majorly domestically-owned
- Primary market is domestic
- Are parts of GVC
- Mostly small enterprises
- One-fifth will not invest without IP/SEZ, i.e. SEZ-preferred
- Limited domestic backward & forward linkages
- Mainly use own money or domestic banks to mobilize capital and upgrade technology

Source:

Key employment characteristics

- Binding 300-baht daily minimum wage (257 USD)
- **Large firms** hire more foreigners
- Foreigners tend to take **low-skilled jobs**

Source:

Characteristics of firms that prefer to invest in SEZ

- Firms in **manufacture, construction, and fuel and electricity** industries
  - As opposed to textile, logistics, and agriculture industries
- Firms **outside Mae Sot** and Tak SEZ
- Small firms
- Firms focus on **international markets**
- Firms that are **not part of GVC**

Source:

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Labor outlook from SEZ establishment

- Large **employment generation**
- Attract more **advanced industries**
  - But limited **skill upgrading**
- Relatively constant **foreigner** employment fraction
- Small **wage gain**, even with skill upgrading

Source:

Tak SEZ

Tak needs improvement in safety and security and consistency of government policies

Overall assessment of Business environment	Good or Very Good	Average	Poor or Very Poor
Reliability of electricity	52%	30%	18%
Water supply	54%	21%	24%
Internet connectivity	56%	30%	24%
Waste disposal	46%	30%	24%
Electrical connection	47%	29%	24%
Water connection	40%	36%	24%
Safety and security	34%	34%	22%
Consistency of government policies	34%	36%	30%

Source:

Findings from the ANZ client survey on Effectiveness of SEZ in GMS

- SEZs successfully **attract investment** into GMS
- SEZs enables **structural change**
  - e.g. Vietnam's "Train the Trainer" programs
- Vietnam has **positive spillovers** to Cambodia, Myanmar, and Laos PDR
- **Skills gap** is the most highlighted issue
- High **sunk costs** for moving into SEZs in GMS
  - Unidentified exit strategies

Source:

Harnessing SEZs for border development

- Improve **integration into GVC** through
  - Hard infrastructure e.g. bridges
  - Soft infrastructure e.g. border-crossing procedures
- SEZ practice ultimately should be standard countrywide

Source:

Maximizing gains from border SEZs and border development

- Transition to be more than processing zones
  - Educational institutions
  - Financial institutions, especially for local SMEs
- Integrate SEZ success nationwide and into GMS
- More coordination and dialogues with neighboring country governments

Source:

Policy Recommendations

1. Promote SEZs as incubators of good practice
2. Become globally competitive
3. Take advantage of complementary comparative advantages of bordering countries

1. Promote SEZs as incubators of good practice

- Support SEZs with **good infrastructure**
  - Through private firms (Thailand, Vietnam, Cambodia, Lao PDR)
  - Through state-run enterprises (PRC)

✓ **Public-private nexus**

✓ **Within-country coordination**

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2. Become globally competitive

- In the long run, being better than the host economy is insufficient
- Increase **backward linkage**
    - Improve domestic capacity and entrepreneurship
- Minimize cost of doing business and border crossing
- Upgrade skills and human capital

✓ **Strengthen domestic capacity**

✓ **Education and training**

3. Take advantage of complementary advantages of bordering countries

- Simplify border crossing and costs of trading
- Develop **intra-country connectivity**
    - Instead of linking SEZs to the nearest port

✓ **Inter-country coordination**

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For further information:
achongvilaivan@adb.org